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

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended September 30, 2007

Commission File Number 0-15495

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

Nevada *(State or other jurisdiction of incorporation or organization)*	**85-0302351** *(I.R.S. Employer Identification No.)*
410 North 44th Street, Suite 100, Phoenix, Arizona *(Address of principal executive offices)*	**85008** *(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	Name of Each Exchange on Which Registered
Common Stock. No Par Value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ☑

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No ☑

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 o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer o Accelerated filer ☑ Non-accelerated filer o

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

The aggregate market value of common stock held by non-affiliates of the Registrant (30,705,950 shares) as of March 30, 2007, was approximately $231.2 million, based on the closing sales price per share as reported on Nasdaq on such date.

On January 11, 2008, the Registrant had outstanding 28,883,618 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Certain sections of the Company's Proxy Statement to be filed in connection with the Company's 2008 Annual Meeting of Stockholders to be held on April 17, 2008 are incorporated by herein at Part III, Items 10-14.

MESA AIR GROUP, INC.

2007 FORM 10-K REPORT
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PART I

Forward-Looking Statements

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

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

Item 1. ***Business***

General

Mesa Air Group, Inc. ("Mesa" or the "Company") is a holding company whose principal subsidiaries operate as regional air carriers providing scheduled passenger and airfreight service. As of September 30, 2007, the Company served 184 cities in 45 states, the District of Columbia, Canada, the Bahamas and Mexico and operated a fleet of 182 aircraft with approximately 1,100 daily departures.

Approximately 98% of our consolidated passenger revenues from continuing operations for the fiscal year ended September 30, 2007 were derived from operations associated with code-share agreements. Our subsidiaries have code-share agreements with Delta Air Lines, Inc. ("Delta"), Midwest Airlines, Inc. ("Midwest Airlines"), United Airlines, Inc. ("United Airlines" or "United") and America West Airlines, Inc. ("America West") which currently operates as US Airways and is referred to herein as "US Airways." The current US Airways is the result of a merger between America West and US Airways, Inc. ("Pre-Merger US Airways"). These code-share agreements allow use of the code-share partners' flight designator code to identify flights and fares in computer reservation systems, permit use of logos, service marks, aircraft paint schemes and uniforms similar to the code-share partner and provide coordinated schedules and joint advertising. The remaining passenger revenues from continuing operations are derived from our independent ***go!*** operations in Hawaii.

In addition to carrying passengers, we carry freight and express packages on our passenger flights and have interline small cargo freight agreements with many other carriers. We also have contracts with the U.S. Postal

Service for carriage of mail to the cities we serve and occasionally operate charter flights when our aircraft are not otherwise used for scheduled service.

Our airline operations are conducted by the following airline subsidiaries:

- Mesa Airlines, Inc. ("Mesa Airlines"), a Nevada corporation, flies regional jet and turboprop aircraft and operates as US Airways Express under code-share agreements with US Airways, as United Express under a code-share agreement with United Airlines and independently in Hawaii as ***go!*** The ***go!*** flights are "Independent Operations" and are not subject to a code-sharing agreement with a major carrier.
- Air Midwest, Inc. ("Air Midwest"), a Kansas corporation, flies Beechcraft 1900D 19-seat turboprop aircraft and operates as US Airways Express under code-share agreements with US Airways and Pre-Merger US Airways. Air Midwest's flights in Kansas City code-share with both Midwest Airlines and US Airways. Air Midwest also operates as "Mesa Airlines" in select Essential Air Service ("EAS") markets. Certain EAS markets are "Independent Operations" and are not subject to a code-sharing agreement with a major carrier. As noted below in "Discontinued Operations", the Company has committed to a plan to sell Air Midwest or certain assets thereof.
- Freedom Airlines, Inc. ("Freedom"), a Nevada corporation, flies ERJ-145 50-seat regional jet aircraft, CRJ-900 76-seat regional jet aircraft and, until the removal from service in fiscal 2007, DeHavilland 37-seat Dash-8's, and operates as Delta Connection under code-share agreements with Delta. During the second quarter of 2007, Delta exercised its right to terminate our turboprop code-sharing agreement and we subsequently removed all 12 Dash-8 aircraft from service.

Unless the context indicates otherwise, the terms "Mesa," "the Company," "we," "us," or "our," refer to Mesa Air Group, Inc. and its subsidiaries.

Discontinued Operation

In the fourth quarter of fiscal 2007, the Company committed to a plan to sell Air Midwest or certain assets. Air Midwest consists of turboprop operations, which includes our independent Mesa operations, Midwest Airlines code-share operations, and our Beechcraft 1900D turboprop code-share operations with US Airways. In connection with this decision, the Company began soliciting bids for the sale of the twenty Beechcraft 1900D aircraft in operation and began to take the necessary steps to exit the EAS markets that we serve. Within the next fiscal year, the Company expects to sell Air Midwest in its entirety or sell certain operating assets thereof, primarily the twenty Beechcraft 1900's.

Corporate Structure

Mesa is a Nevada corporation with its principal executive office in Phoenix, Arizona.

In addition to operating the airline subsidiaries listed above, we also have the following other subsidiaries:

- MPD, Inc., a Nevada corporation, doing business as Mesa Pilot Development and MPD, operates training programs for student pilots in conjunction with San Juan College in Farmington, New Mexico and Arizona State University in Tempe, Arizona.
- Regional Aircraft Services, Inc., ("RAS") a California corporation, performs aircraft component repair, certain overhaul services, and ground handling services, primarily to Mesa subsidiaries.
- MAGI Insurance, Ltd., a Barbados, West Indies based captive insurance company, was established for the purpose of obtaining more favorable aircraft liability insurance rates.
- Ritz Hotel Management Corp., a Nevada corporation, was established to facilitate the Company's acquisition and management of a Phoenix area hotel property used for crew-in-training accommodations.
- Mesa Air Group — Airline Inventory Management, LLC ("MAG-AIM"), an Arizona limited liability company, was established to purchase, distribute and manage Mesa's inventory of spare rotable and expendable parts.

- Nilchii, Inc., a Nevada corporation, was established to invest in certain airline related businesses.
- Air Midwest, LLC, a Nevada limited liability company, was formed for the purpose of a contemplated conversion of Air Midwest, Inc. from a corporation to a limited liability company. This conversion has not yet occurred.
- Mesa In-Flight, Inc., a Colorado corporation, was established to hold liquor licenses services for airline operations.
- Regional Aviation Advisors, Inc., a Nevada corporation, was established to provide aircraft financing advisory services.
- Patar, Inc., a Nevada corporation, was established to invest in certain foreign businesses.
- Ping Shan, SRL, a Barbados society with restricted liability, was established for the purpose of being a holding company of an interest in a Chinese entity that operates within the airline industry.

Aircraft in Operation

The following table sets forth our aircraft fleet (owned and leased) in operation by aircraft type and code-share service as of September 30, 2007:

	Canadair Regional Jet-200 (CRJ-200)	Canadair Regional Jet-700 (CRJ-700)	Canadair Regional Jet-900 (CRJ-900) (A)	Embraer Regional Jet-145 (ERJ-145)	Beechcraft 1900D (B)	DeHavilland Dash 8	Total
US Airways Express	13	—	38	—	16	6	73
United Express	34	20	—	—	—	10	64
Delta Connection	—	—	—	36	—	—	36
Mesa Airlines	5	—	—	—	4	—	9
Total	52	20	38	36	20	16	182

(A) One CRJ-900 aircraft delivered in fiscal 2007 began revenue service in fiscal 2008 (for Delta Connection) and therefore excluded from aircraft in operation.

(B) As previously discussed, in the fourth quarter of fiscal 2007, we committed to a plan to sell Air Midwest or certain assets thereof. The net book value of these aircraft are included within “Assets of discontinued operations” on the Consolidated Balance Sheets.

Code-Share Agreements

Our airline subsidiaries have agreements with Delta, US Airways, United Airlines and Midwest Airlines to use those carriers’ designation codes (commonly referred to as “code-share agreements”). These code-share agreements allow use of the code-share partner’s flight designator code to identify flights and fares in computer reservation systems, permit use of logos, service marks, aircraft paint schemes and uniforms similar to the code-share partner’s and provide coordinated schedules and joint advertising. Our passengers traveling on flights operated pursuant to code-share agreements receive mileage credits in the respective frequent flyer programs of our code-share partners, and credits in those programs can be used on flights operated by us.

The financial arrangement with our code-share partners involves either a revenue-guarantee or pro-rate arrangement. The US Airways (regional jet and Dash-8), Delta (regional jet) and United (regional jet and Dash-8) code-share agreements are revenue-guarantee code-share agreements. Under the terms of these code-share agreements, the major carrier controls marketing, scheduling, ticketing, pricing and seat inventories. We receive a guaranteed payment based upon a fixed minimum monthly amount plus amounts related to departures and block hours flown in addition to direct reimbursement of expenses such as fuel, landing fees and insurance. Among other advantages, revenue-guarantee arrangements reduce our exposure to fluctuations in passenger traffic and fare levels, as well as fuel prices. The US Airways and Midwest Airlines Beechcraft 1900D turboprop code-share agreements are pro-rate agreements, for which we receive an allocated portion of each passenger's fare and pay all of the costs of transporting the passenger.

The following table summarizes our available seat miles ("ASMs") flown and passenger revenue recognized under our code-share agreements and independent operations for the years ended September 30, 2007 and 2006:

	Fiscal 2007				Fiscal 2006			
	ASM's (000's)		Passenger Revenue (000's)		ASM's (000's)		Passenger Revenue (000's)	
				(In thousands)				
US Airways (Revenue-Guarantee)	4,331,579	48%	$ 576,257	44%	3,605,297	40%	$ 609,239	48%
United (Revenue-Guarantee)	3,074,054	34%	461,732	35%	2,876,008	32%	477,151	37%
Pre-Merger US Airways (Revenue- Guarantee)(1)	—	—	—	—	1,644,023	18%	58,511	5%
Delta (Revenue-Guarantee)	1,438,698	16%	249,774	19%	811,420	9%	121,315	10%
go!	152,629	2%	25,457	2%	44,308	1%	9,114	0%
Total — Continued Operations	8,996,960		$ 1,313,220		8,981,056		$ 1,275,330	
Discontinued Operations	185,557		$ 30,188		158,284		$ 32,545	

(1) During fiscal 2006, all US Airways revenue guarantee flying was assumed under one contract.

US Airways Code-Sharing Agreements

Revenue-Guarantee

As of September 30, 2007, we operated 38 CRJ-900, 13 CRJ-200, and 6 Dash-8 aircraft for US Airways under a revenue-guarantee code-share agreement. In exchange for providing flights and all other services under such agreement, we receive a fixed monthly minimum amount plus certain additional amounts based upon the number of flights flown and block hours performed during the month. US Airways also reimburses us for certain costs on an actual basis, including fuel costs, aircraft ownership and financing costs, landing fees, passenger liability, hull insurance and aircraft property taxes, all as defined in the agreement. In addition, US Airways also provides, at no cost to Mesa, certain ground handling and customer service functions, as well as airport-related facilities and gates at US Airways hubs and cities where both carriers operate. We also receive a monthly payment from US Airways based on a percentage of revenue from flights that we operate under the code-share agreement. Under the our agreement, US Airways has the right to reduce the combined CRJ fleets utilized under the code-share agreement by one aircraft in any six-month period. The Company has received notice of US Airways' intent to reduce one CRJ-200 in January 2008, one CRJ-200 in September 2008 and one CRJ-200 in January 2009 and expects to continue to receive notice on one CRJ-200 every six months. In addition, US Airways may eliminate the Dash-8 aircraft upon 180 days prior written notice. The code-share agreement terminates on June 30, 2012 unless US Airways elects to extend the contract for two years or exercises options to increase fleet size. The code-share agreement is subject to termination prior to that date in various circumstances including:

- If our flight completion factor or arrival performance in our Phoenix hub falls below certain levels for a specified period of time, subject to notice and cure rights;
- If either US Airways 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 US Airways to perform the covenants, conditions or provisions of the code-share agreement, subject to 15 days notice and cure rights;
- If we or US Airways fail to make a payment when due, subject to ten business days notice and cure rights;

- If we are required by the FAA or the U.S. Department of Transportation (“DOT”) to suspend operations and we have not resumed operations within three business days, except as a result of an emergency airworthiness directive from the FAA affecting all similarly equipped aircraft, US Airways may terminate the agreement;
- Upon a change in our ownership or control without the written approval of US Airways.

Pro-Rate

Pursuant to a turboprop code-share agreement with US Airways, we operated four Beechcraft 1900D turboprop aircraft primarily in Phoenix, Las Vegas and Salt Lake City under a pro-rate revenue-sharing arrangement as of September 30, 2007. We control scheduling, inventory and pricing. We are allocated a portion of each passenger’s fare based on a standard industry formula and are required to pay all costs of transporting the passenger. The pro-rate agreement terminates on March 31, 2012 unless US Airways elects to extend the contract for successive one-year periods. The pro-rate agreement could also be terminated prior to that termination date under similar circumstances as the revenue-guarantee agreement. In the fourth quarter of fiscal 2007, we committed to a plan to sell all or part of our Beechcraft 1900D operations and pursue the wind-down of our Air Midwest turboprop operation.

Pre-Merger US Airways Code-Sharing Agreement

Pro-Rate

Pursuant to a turboprop code-sharing agreement with Pre-Merger US Airways, we operated twelve Beechcraft 1900D turboprop aircraft under a pro-rate revenue-sharing arrangement as of September 30, 2007. We control scheduling, inventory and pricing subject to US Airways’ concurrence that such service does not adversely affect its other operations in the region. We are allocated a portion of each passenger’s fare based on a standard industry formula and are required to pay all of the costs of transporting the passenger. Additionally, we are required to pay certain franchise, marketing and reservation fees to US Airways.

US Airways may terminate the turboprop agreement at any time for cause upon not less than five days notice under any of the following conditions:

- If we fail to utilize the aircraft as specified in the agreements;
- If we fail to comply with the trademark license provisions of the agreement;
- If we fail to perform the material terms, covenants or conditions of the code-sharing agreement; or
- Upon a change in our ownership or control without the written approval of US Airways.

The turboprop code-share agreement was scheduled to terminate in October 2006, but has been extended on its original terms, on a month-to-month basis, pending the negotiation of a new agreement with US Airways. In the fourth quarter of fiscal 2007, we committed to a plan to sell all or part of its Beechcraft 1900D operations and pursue the wind-down of our Air Midwest turboprop operation.

United Code-Sharing Agreement

As of September 30, 2007, we operated 34 CRJ-200, 20 CRJ-700 and 10 Dash-8 aircraft for United under a code-sharing arrangement. We have agreed with United to reduce the CRJ-200 fleet to 30 and to increase the CRJ-700 fleet to 22 in fiscal 2008. Additionally, the code share agreement allows us to swap up to 10 CRJ-200’s for 10 CRJ-700’s by April 30, 2010. In exchange for performing the flight services under the agreement, we receive from United a fixed monthly minimum amount, plus certain additional amounts based upon the number of flights flown and block hours performed during the month. Additionally, certain costs incurred by us in performing the flight services are “pass-through” costs, whereby United agrees to reimburse us for the actual amounts incurred for these items: aircraft ownership costs, property tax per aircraft, fuel cost, and landing fees. We also receive a profit margin based upon certain reimbursable costs under the agreement as well as our operational performance. The code-share agreement for (i) the 10 Dash-8 aircraft terminates in July 2013 unless terminated by United by giving notice six months prior to April 30, 2010, (ii) 10 50-seat CRJ-200’s terminates no later than April 30, 2010, which can be accelerated up to two years at our discretion and can be swapped to CRJ-700's for a term of up to 10 years but not beyond October 2018, (iii) 20 50-seat regional jets terminates in July 2013, but can be terminated early in April 2010, (iv) the 5 CRJ-700's delivered in fiscal 2007 (the 12 to be delivered upon the withdrawal of the 50-seat regional jets) terminates ten years from delivery date, but no later than October 31, 2018, and (v) the remaining 15 CRJ-700's terminates in three traunches between December 31, 2011 and December 31, 2013.

The code-share agreement is subject to termination prior to these dates under various circumstances including:

- If certain operational performance factors fall below a specified percentage for a specified time, subject to notice and cure rights;
- Failure by us to perform the material covenants, agreements, terms or conditions of the code-share 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;
- In the event that 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.

Delta Code-Sharing Agreement

As of September 30, 2007, we operated 36 ERJ-145 aircraft for Delta pursuant to a code-sharing agreement. Flight operations for Delta are performed by our wholly-owned subsidiary, Freedom Airlines. During the second quarter of 2007, Delta exercised its right to terminate our turboprop code-sharing agreement and we subsequently removed all 12 Dash-8 aircraft from service. Also during the second quarter, as part of Delta's bankruptcy, we reached an agreement with Delta for an amendment to and assumption of our existing code-sharing agreement ("Amended DCA"), as well as for a new code-sharing agreement ("Expansion DCA"). The Amended DCA and Expansion DCA provide that we can increase our fleet up to 36 (from 30 to 36) ERJ-145 aircraft for up to three years and 14 CRJ-900 aircraft, respectively. Under the Amended DCA, in exchange for performing the flight services and our other obligations under the agreement, we receive from Delta monthly compensation made up of a fixed monthly amount, plus certain additional amounts based upon number of block hours flown and departures during the month. Additionally, certain costs incurred by Freedom are pass-through costs, whereby Delta agrees to reimburse us for the actual amounts incurred for these items: landing fees, hull insurance, passenger liability costs, fuel costs, catering costs and property taxes. Aircraft rent/ownership expenses are also considered a pass-through cost, but are limited to a specified amount for each type of aircraft. We are eligible to receive additional compensation based upon our completion rate and on-time arrival rate each month. Further, for each semi-annual period during the term of the agreement, we are eligible to receive additional compensation from Delta based upon performance. The fixed rates payable to us by Delta under the Amended DCA have been determined through the term of such agreement and are subject to annual revision. Also, pursuant to the Amended DCA we received a general unsecured claim of $35.0 million as part of Delta's bankruptcy proceedings, which claim was in full and final satisfaction of any and all claims we may have against Delta for pre-petition debt. During the third quarter of fiscal 2007 we received 787,261 shares of Delta stock representing approximately 89% of the total award as part of the Delta bankruptcy settlement. These shares were sold in the same quarter for approximately $16.5 million. The resulting gain was deferred and is being amortized over the remainder of the Amended DCA.

The compensation structure for the Expansion DCA is similar to the structure in the Amended DCA, except that the CRJ-900 aircraft will be owned by Delta and leased to us for a nominal amount and no mark-up or incentive compensation will be paid on fuel costs above a certain level or on fuel provided by Delta. Additionally, certain major maintenance expense items (engine and airframe) will be reimbursed based on actual expenses incurred. As a result, our revenue and expenses attributable to flying the CRJ-900's will be substantially less than if we provided the aircraft.

Under the Amended DCA Delta has the right to remove eight ERJ-145 aircraft at a rate of three aircraft per month, commencing in August 2008. At the end of the term, Delta has the right to extend the agreement for additional one year successive terms on the same terms and conditions. Delta may terminate the Amended DCA at any time, with or without cause, upon twelve months prior written notice, provided such notice shall not be given prior to the earlier of (i) the sixth anniversary of the in-service date of the 30th aircraft added to the Delta Connection fleet by the Company, or (ii) November 2012. The Expansion DCA terminates on the tenth anniversary of the in-service date of the first aircraft. At the end of the term, the Expansion DCA will automatically renew for successive one-year terms on the same terms and conditions unless Delta provides us 180 days prior written notice of its intention to not renew.

The agreements may be subject to early termination under various circumstances including:

- If either Delta or we file for bankruptcy, reorganization or similar action or if either Delta or we make an assignment for benefit of creditors;
- If either Delta or we commit a material breach of the code-share agreement, subject to 30 days notice and cure rights; or
- Upon the occurrence of an event of force majeure that continues for a period of 30 or more consecutive days.

In addition, Delta may immediately terminate the agreements upon the occurrence of one or more of the following events:

- If there is a change of control of Freedom or Mesa;
- If there is a merger involving Freedom or Mesa;
- If we fail to maintain a specified completion rate with respect to the flights we operate for Delta during a specified period; or
- If our level of safety is not reasonably satisfactory to Delta.

Joint Venture Agreement in China

On December 22, 2006, our wholly-owned subsidiary, Ping Shan, entered into a joint venture agreement (the “Joint Venture Agreement”) with Shan Yue SRL (“Shan Yue”) and Shenzhen Airlines, pursuant to which the parties agreed to form Kunpeng, an equity joint venture company organized under the laws of China. Ping Shan holds a 25% share of the registered capital of Kunpeng. Additionally, Shan Yue, a Barbados Society with restricted liability, holds 24% of the registered capital of Kunpeng. Shan Yue holds 5% of the 24% interest in Kunpeng for the exclusive benefit of an unaffiliated third party. Wilmington Trust Company holds 100% of the outstanding equity of Shan Yue as trustee of Shan Yue Trust, a Delaware statutory trust. We are the sole beneficiary of Shan Yue Trust. Through Ping Shan and our beneficial interest in Shan Yue Trust, we effectively own 49% of Kunpeng. After taking into consideration the 5% interest in Kunpeng held for the exclusive benefit of an unaffiliated third party, our net ownership interest in Kunpeng is reduced to 44%. On September 28, 2007, Kunpeng commenced common carrier passenger service. As of November 30, 2007, Kunpeng operated three 50-seat CRJ 200 aircraft on regional routes between the Chinese cities Taiyuan, Tianjin, Yichang, Hohot, Nanchang, Hefei and Zhengzhou. Focus cities for future routes include Shenzhen, Beijing, Chongquig, Xiamen, Nanjing, Junming, Dalian, Shenyang, Xian, Zhengzhou and Nanning.

Under the terms of the Joint Venture Agreement, Ping Shan and Shan Yue agreed to assist Kunpeng in securing aircraft and spare part supplies from foreign suppliers and to provide high level executives for the management of Kunpeng and technical support, including pilot, maintenance and operations support and training for employees of Kunpeng. Kunpeng’s fiscal year ends on December 31st. Pursuant to the Joint Venture Agreement, Ping Shan and Shan Yue will receive 25% and 24%, respectively, of the after-tax net profit of Kunpeng, if any, at the end of the fiscal year unless Kunpeng’s board of directors determines that such profits should be reinvested. Additionally, the amount of profit available for distribution will be reduced by an amount equal to allocations to a reserve fund and expansion fund of Kunpeng and a bonus and welfare fund for Kunpeng’s employees, as determined by Kunpeng’s board of directors. No profit will be distributed unless any cumulative deficit carried forward for previous years is recovered. Kunpeng’s board consists of seven members, four of whom are appointed by Shenzhen Airlines, two are appointed by Ping Shan and one is appointed by Shan Yue.

Under the terms of the Joint Venture Agreement, Shenzhen Airlines and the Company are obligated to contribute an additional RMB 204,000,000 and RMB 196,000,000 (approximately $27.6 million and $26.5 million, respectively, at December 10, 2007) to Kunpeng in accordance with Kunpeng's operational requirements as determined by Kunpeng's board of directors, but in any event, prior to May 16, 2009. As of September 30, 2007 the Company had invested $6.5 million in the joint venture.

Fleet Plans

CRJ Program

As of September 30, 2007, we operated 110 Canadair Regional Jets (52 CRJ-200/100, 20 CRJ-700 and 38 CRJ-900's).

In January 2004, we exercised options to purchase twenty CRJ-900 aircraft (seven of which can be converted to CRJ-700 aircraft). As of September 30, 2007, we have taken delivery of thirteen CRJ-900 aircraft and five CRJ-700 aircraft. The obligation to purchase the remaining two CRJ-900's (which can be converted to CRJ-700's) was terminated in June 2007 in connection with our agreement to purchase 10 new CRJ-700 NextGen aircraft (with an option to purchase an eleventh aircraft), deliveries scheduled to begin in September 2008. In September 2007, we took delivery of one CRJ-900 aircraft, on lease from Delta, in connection with the Delta code-share agreement of March 2007. Subsequent to year end, we took delivery of one more CRJ-900 aircraft, also on lease from Delta with 12 more CRJ-900 aircraft (to be leased from Delta) scheduled for delivery through January 2009 in connection with such code-share agreement.

ERJ Program

As of September 30, 2007, we operated 36 Embraer 145 aircraft. We acquired all 36 ERJ-145s through a June 1999 agreement with Empresa Brasiliera de Aeronautica S.A. ("Embraer"). We also have options for 25 additional aircraft. In September 2006, our contract with Embraer was amended to extend the option exercise date to November 2008 for deliveries beginning in May 2009.

Beechcraft 1900D

As of September 30, 2007, we owned 34 Beechcraft 1900D aircraft and were operating 20 while leasing the remaining 14. We lease four of our Beechcraft 1900D to Gulfstream International Airlines, a regional turboprop air carrier based in Ft. Lauderdale, Florida and lease an additional ten Beechcraft 1900D aircraft to Big Sky Transportation Co., a regional turboprop carrier based in Billings, Montana ("Big Sky"). As previously discussed, we intend to sell the 20 Beechcraft 1900D aircraft that were in operation at September 30, 2007.

Dash-8

As of September 30, 2007, we had 16 Dash-8 aircraft in operation; 10 with US Airways Express and 6 with United Express. During fiscal 2007, we parked 12 Dash-8 aircraft, associated with the Delta code-share agreement. Due to higher than anticipated costs associated with our Delta Dash-8 fleet related to our JFK operations, the Company and Delta developed a joint plan to eliminate the Dash-8 fleet from the JFK operations. The agreement reached with Delta called for service to conclude by August 21, 2007. Losses are accrued as each aircraft is removed from operations for early termination penalties, lease settle up and other charges. The estimated costs associated with the parking and early termination of the lease agreements totaling approximately $11.6 million have been recorded in our Statement of Operations in fiscal 2007. Subsequent to September 30, 2007, we began to deploy regional jet aircraft to service JFK operations for Delta.

Marketing

Our flight schedules are structured to facilitate the connection of our passengers with the flights of our code-share partners at their hub airports and to maximize local and connecting service to other carriers.

Under the Delta, United and US Airways revenue-guarantee code-share agreements, market selection, pricing and yield management functions are performed by our respective partners. Prior to the decision to discontinue the Air Midwest turboprop operation as previously discussed, the market selection process for our Beechcraft 1900D turboprop operations, outside the EAS program flights, included an in-depth analysis on a route-by-route basis and was followed by a review and approval process in a joint effort with US Airways regarding the level of service and fares. For our ***go!*** operations in Hawaii, we make all decisions on market selection, pricing and yield management functions.

Under our code-share agreements, the code-share partner coordinates advertising and public relations within their respective systems. In addition, our traffic is impacted by the major airline partners' advertising programs in regions outside those served by us, with the major partners' customers becoming our customers as a result of through fares. Under pro-rate code-share arrangements, our passengers also benefit from through fare ticketing with the major airline partners and greater accessibility to our flights on computer reservation systems and in the Official Airline Guide.

Our pro-rate agreements and independent flights are promoted through, and our revenues are generally believed to benefit from newspaper and radio promotions and advertisements, promotions on our websites www.iflygo.com and www.mesa-air.com, listings in computer reservation systems, the Official Airline Guide and through direct contact with travel agencies and corporate travel departments. Our independent operations utilize SABRE, a computerized reservation system widely used by travel agents, corporate travel offices and other airlines. The reservation systems of our code-share partners are also utilized in each of our other operations through their respective code-share agreements. We also pay booking fees to owners of other computerized reservation systems based on the number of independent and pro-rate passengers booked by travel agents using such systems.

Pursuant to the Joint Venture Agreement, Kunpeng's general manager and chief deputy general manager, who are the highest officers of Kunpeng, perform all management functions, including route selection and pricing. Our Chinese partner to the Joint Venture Agreement, Shenzhen Airlines, handles all public relations, branding and marketing on behalf of Kunpeng.

Competition

The airline industry is highly competitive and volatile. Airlines compete in the areas of pricing, scheduling (frequency and timing of flights), on-time performance, type of equipment, cabin configuration, amenities provided to passengers, frequent flyer plans, and the automation of travel agent reservation systems. Further, because of the Airline Deregulation Act, airlines are currently free to set prices and establish new routes without the necessity of seeking governmental approval. At the same time, deregulation has allowed airlines to abandon unprofitable routes where the affected communities may be left without air service.

We believe that the Airline Deregulation Act facilitated our entry into scheduled air service markets and allows us to compete on the basis of service and fares, thus causing major carriers to seek out further contractual agreements with carriers like us as a way of expanding their respective networks. However, the Airline Deregulation Act makes the entry of other competitors possible, some of which may have substantial financial resources and experience, creating the potential for intense competition among regional air carriers in our markets.

Fuel

Historically, we have not experienced problems with the availability of fuel, and believe that we will be able to obtain fuel in quantities sufficient to meet our existing and anticipated future requirements at competitive prices. Standard industry contracts generally do not provide protection against fuel price increases, nor do they ensure availability of supply. However, our revenue-guarantee code-share agreements with Delta, United and US Airways (regional jet and Dash-8) allow fuel used in the performance of the agreements to be reimbursed by our code-share partner, thereby reducing our exposure to fuel price fluctuations. In fiscal 2007, approximately 97% of our fuel purchases were associated with our Delta, United and US Airways (regional jet and Dash-8) revenue-guarantee code-share agreements. A substantial increase in the price of jet fuel, to the extent our fuel costs are not reimbursed, or the lack of adequate fuel supplies in the future, could have a material adverse effect on our business, financial condition, results of operations and liquidity.

Maintenance of Aircraft and Training

All mechanics and avionics specialists employed by us have the appropriate training and experience and hold the required licenses issued by the FAA. Using a combination of FAA-certified maintenance vendors and our own personnel and facilities, we maintain our aircraft on a scheduled and "as-needed" basis. We emphasize preventive maintenance and inspect our aircraft engines and airframes as required. We also maintain an inventory of spare parts specific to the aircraft types we fly. We provide periodic in-house and outside training for our maintenance and flight personnel and also take advantage of factory training programs that are offered when acquiring new aircraft.

Insurance

We carry types and amounts of insurance customary in the regional airline industry, including coverage for public liability, passenger liability, property damage, product liability, aircraft loss or damage, baggage and cargo liability and workers' compensation.

As a result of the terrorist attacks on September 11, 2001, aviation insurers have significantly reduced the maximum amount of insurance coverage available to commercial air carriers for war-risk (terrorism) coverage, while at the same time, significantly increasing the premiums for this coverage as well as for aviation insurance in general. Given the significant increase in insurance costs, the federal government is currently providing insurance assistance under the Air Transportation Safety and System Stabilization Act. In addition, the federal government has issued war-risk coverage to U.S. air carriers that is generally renewable for 60-day periods. However, the availability of aviation insurance is not guaranteed and our inability to obtain such coverage at affordable rates may result in the grounding of our aircraft. Insurance costs are reimbursed under the terms of our revenue-guarantee code-share agreements.

Employees

As of September 30, 2007, we employed approximately 4,800 employees. Approximately 2,700 of our employees are represented by various labor organizations. Our continued success is partly dependent on our ability to continue to attract and retain qualified personnel.

Relations between air carriers and labor unions in the United States are governed by the Railway Labor Act or RLA. Under the RLA, collective bargaining agreements generally contain "amendable dates" rather than expiration dates, and the RLA requires that a carrier maintain the existing terms and conditions of employment following the amendable date through a multi-stage and usually lengthy series of bargaining processes overseen by the National Mediation Board. Mesa Airline's and Freedom Airline's flight attendants are represented by the Association of Flight Attendants ("AFA"). Both contracts covering flight attendants became amendable in June 2006 and we are in the mediated negotiations with our flight attendants. The pilots of Mesa Airlines, Freedom Airlines and Air Midwest are collectively represented under a single contract by the Air Line Pilot Association ("ALPA"). Our contract with ALPA became amendable in September 2007 and we are in the early stages of negotiation with respect to that contract.

As of November 30, 2007, Kunpeng employed approximately 120 employees. The laws of China presently require a trade union to be established if requested by any 25 or more employees, but because no such request has been received, no such trade union has been established for Kunpeng. Each of Kunpeng's employees independently entered into an employment contract with Kunpeng in accordance with Chinese Law. Kunpeng has hired pilots from outside China as well as from flight training schools in China; however, hiring and retaining qualified pilots is one of the risks that could hinder the growth of Kunpeng.

Pilot turnover at times is a significant issue among regional carriers, particularly when major carriers are hiring experienced commercial pilots away from regional carriers. We are currently experiencing higher than average turnover as a result of recent hirings by major carriers. The addition of aircraft, especially new aircraft types or transferring of aircraft between operating entities, can result in pilots upgrading between aircraft types and as a result, becoming unavailable for duty during the extensive training periods required. No assurances can be made that pilot turnover and unavailability will not continue at the present rate or be a significant problem in the future, particularly if major carriers expand their operations. Similarly, there can be no assurance that sufficient numbers of new pilots will be available to support any future growth.

No other Mesa subsidiaries are parties to any other collective bargaining agreement or union contracts.

Essential Air Service Program

The Essential Air Service ("EAS") program administered by the DOT guarantees a minimum level of air service in certain communities, predicated on predetermined guidelines set forth by Congress. Based on these guidelines, the DOT subsidizes air service to communities that might not otherwise have air service. As of September 30, 2007, we provided service to 28 such cities for an annualized subsidy of approximately $24.1 million. EAS rates are normally set for two-year contract periods for each city. In connection with the decision to sell Air Midwest or certain assets thereof, we began to take the necessary steps to exit the EAS markets that we serve and expect to be out of all EAS markets by the end of fiscal 2008.

Investment Activities

On December 22, 2006, our wholly-owned subsidiary, Ping Shan, entered into the Joint Venture Agreement with Shan Yue and Shenzhen Airlines, pursuant to which the parties formed Kunpeng, an equity joint venture company organized under the laws of the Peoples Republic of China. As of September 30, 2007, we had invested $6.5 million in capital contributions to the joint venture in accordance with the terms of the Joint Venture Agreement. Under the terms of the Joint Venture Agreement the Company committed to contribute an additional $26.5 million prior to May 16, 2009.

In fiscal 2007, we participated with a private equity fund in making an investment, through a limited liability limited partnership, in the preferred shares of a closely held emerging markets payment processing related business (the "2007 Investee"). Through our subsidiary Patar, Inc., we invested $1.3 million, which represents approximately 19.6% of the 2007 Investee's preferred stock.

In fiscal 2006, the Company participated with a private equity fund in making an investment in the common stock and notes of a closely held airline related business (the "2006 Investee"). The Company, through its subsidiary Nilchii, invested $15.0 million, which represents approximately 20% and 11.8% of the 2006 Investee's common stock and notes, respectively.

Each of these investments are being accounted for under the equity method of accounting.

Regulation

As an interstate air carrier, we are subject to the economic jurisdiction, regulation and continuing air carrier fitness requirements of the DOT. Such requirements include minimum levels of financial, managerial and regulatory fitness. The DOT is authorized to establish consumer protection regulations to prevent unfair methods of competition and deceptive practices, to prohibit certain pricing practices, to inspect a carrier's books, properties and records, and to mandate conditions of carriage. The DOT also has the power to bring proceedings for the enforcement of air carrier economic regulations, including the assessment of civil penalties, and to seek criminal sanctions.

We are subject to the jurisdiction of the FAA with respect to our aircraft maintenance and operations, including equipment, ground facilities, dispatch, communication, training, weather observation, flight personnel and other matters affecting air safety. To ensure compliance with its regulations, the FAA requires airlines to obtain an operating certificate, which is subject to suspension or revocation for cause, and provides for regular inspections. The FAA also has the power to bring proceedings for the enforcement of Federal Aviation Regulations including the assessment of civil penalties and to seek criminal sanctions.

We are subject to various federal and local laws and regulations pertaining to other issues of environmental protocol. We believe we are in compliance with all governmental laws and regulations regarding environmental protection.

We are also subject to the jurisdiction of the Federal Communications Commission with respect to the use of our radio facilities and the United States Postal Service with respect to carriage of United States mail. We believe we are in compliance with any such governmental laws and regulations.

Local governments in certain markets have adopted regulations governing various aspects of aircraft operations, including noise abatement and curfews. We believe we are in compliance with any such governmental laws and regulations.

Kunpeng is subject to the laws and regulations of China applicable to domestic commercial regional air carriers, including the regulations of the Civil Aviation Administration of China (the "CAAC"). In order to operate as a commercial carrier, Kunpeng is required to apply for various approvals and permits and is subject to the examination and inspection of the CAAC. The CAAC has the authority to establish consumer protection regulations to prevent unfair methods of competition and deceptive practices, to prohibit certain pricing practices, to inspect Kunpeng's books, properties and records, and to mandate conditions of carriage. The CAAC also has the power to bring proceedings for the enforcement of air carrier economic regulations including the assessment of civil penalties and to seek criminal sanctions.

Kunpeng is also subject to the jurisdiction of the Administration of Industry and Commerce (the "AIC") with respect to corporate document filing and general business activities. The AIC has the authority to inspect the business activities and the business records of Kunpeng and has the power to initiate proceedings for sanctions on Kunpeng's corporate activities for any violation of laws and/or regulations.

In addition, Kunpeng is subject to various national and local laws and regulations of China, including those regarding safety, security, environmental protection and noise.

Available Information

We maintain a website where additional information concerning our business can be found. The address of that website is *www.mesa-air.com. We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after we electronically file or furnish such materials to the SEC.*

Item 1A. ***Risk Factors***

The following risk factors, in addition to the information discussed elsewhere herein, should be carefully considered in evaluating us and our business:

Risks Related to Our Business

We are dependent on our agreements with our code-share partners.

We depend on relationships created by our code-share agreements. We derive a significant portion of our consolidated passenger revenues from our revenue-guarantee code-share agreements with Delta Air Lines, United Airlines and US Airways. Our code-share partners have certain rights to cancel the applicable code-share agreement upon the occurrence of certain events or the giving of appropriate notice, subject to certain conditions. No assurance can be given that one or more of our code-share partners will not serve notice at a later date of their intention to cancel our code-sharing agreement, forcing us to stop selling those routes with the applicable partner's code and potentially reducing our traffic and revenue.

Our code-share agreement with US Airways allows US Airways, subject to certain restrictions, to reduce the combined CRJ fleets utilized under the code-share agreement by one aircraft in any six-month period, of which five have been eliminated as of September 2007. US Airways has notified the Company of its intent to reduce the maximum number of CRJs in 2008. US Airways has used this provision to reduce the number of aircraft covered by the code-share agreement and we anticipate they will continue to further reduce the number of covered aircraft in accordance with the agreement. In addition, US Airways may eliminate the Dash-8 aircraft upon 180 days prior written notice.

As of September 30, 2007, we operated 36 ERJ-145 aircraft for Delta pursuant to two code-sharing agreements. Flight operations for Delta are performed by our wholly-owned subsidiary, Freedom Airlines. As part of Delta's bankruptcy, we reached an agreement with Delta for an amendment to and assumption of our existing code-sharing agreement ("Amended DCA"), as well as for a new code-sharing agreement ("Expansion DCA").

Under the Amended DCA, six ERJ-145 aircraft will remain in service for up to three years, eight ERJ-145 aircraft will be removed at a rate of three aircraft per month, commencing in August 2008, and the remaining aircraft will be removed from service in May 2017 when the agreement terminates.

Because a majority of our operating revenues from continuing operations are currently generated under revenue-guarantee code-share agreements, if any one of them is terminated, our operating revenues and net income could be materially adversely affected unless we are able to enter into satisfactory substitute arrangements or, alternatively, fly under our own flight designator code, including obtaining the airport facilities and gates necessary to do so. For the year ended September 30, 2007, our US Airways revenue-guarantee code-share agreement accounted for 44.0% of our consolidated passenger revenues, our Delta code-share agreement accounted for 19.0% of our consolidated passenger revenue and our United code-share agreement accounted for 35.1% of our consolidated passenger revenues.

If our code-share partners or other regional carriers experience events that negatively impact their financial strength or operations, our operations also may be negatively impacted.

We are directly affected by the financial and operating strength of our code-share partners. Any events that negatively impact the financial strength of our code-share partners or have a long-term effect on the use of our code-share partners by airline travelers would likely have a material adverse effect on our business, financial condition and results of operations. In the event of a decrease in the financial or operational strength of any of our code-share partners, such partner may seek to reduce, or be unable to make, the payments due to us under their code-share agreement. In addition, they may reduce utilization of our aircraft. Although there are certain monthly guaranteed payment amounts, there are no minimum levels of utilization specified in the code-share agreements. If any of our other current or future code-share partners become bankrupt, our code-share agreement with such partner may not be assumed in bankruptcy and could be terminated. This and other such events could have a material adverse effect on our business, financial condition and results of operations. In addition, any negative events that occur to other regional carriers and that affect public perception of such carriers generally could also have a material adverse effect on our business, financial condition and results of operations.

Our code-share partners may expand their direct operation of regional jets thus limiting the expansion of our relationships with them.

We depend on major airlines like Delta, United Airlines and US Airways electing to contract with us instead of purchasing and operating their own regional jets. However, these major airlines possess the resources to acquire and operate their own regional jets instead of entering into contracts with us or other regional carriers. We have no guarantee that in the future our code-share partners will choose to enter into contracts with us instead of purchasing their own regional jets or entering into relationships with competing regional airlines. A decision by Delta, United Airlines, or US Airways to phase out our contract-based code-share relationships or to enter into similar agreements with competitors could have a material adverse effect on our business, financial condition or results of operations. In addition to Mesa, our partners have similar code-share agreements with other competing regional airlines.

If the holders of our 6.25% Senior Convertible Notes Due 2023 exercise their right to require the Company to redeem their notes, our liquidity could be adversely affected or we may issue additional stock, which would dilute existing stockholders.

In June 2003, we completed the private placement of senior convertible notes due 2023 (the “Notes”), which resulted in gross proceeds of $100.1 million ($96.9 million net). The Notes were sold at an issue price of $397.27 per note and are convertible into shares of our common stock at a conversion rate of 39.727 shares per note, which equals a conversion price of $10 per share. Holders of the Notes may convert their Notes only if: (i) the sale price of our common stock exceeds 110% of the accreted conversion price for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding quarter; (ii) prior to June 16, 2018, the trading price for the notes falls below certain thresholds; (iii) the Notes have been called for redemption; or (iv) specified corporate transactions occur. The holders of the Notes may require the Company to repurchase the Notes on June 16, 2008 at a price of $397.27 per $1,000 note plus accrued and unpaid cash interest. If the holders of these Notes exercise their right to require the Company to repurchase their Notes on June 16, 2008, the Company will be required, at its election, to repurchase such Notes with cash, common stock, or a combination thereof.

As a result of prior conversions of the Notes by noteholders, at September 30, 2007, there were approximately $37.8 million in Notes outstanding. If the holders of these Notes exercise their right to require the Company to repurchase all of the Notes on June 16, 2008, the Company will be required to repurchase such Notes for approximately $37.8 million in cash, common stock, or a combination thereof. If Mesa elects to issue shares of its common stock in lieu of cash, such shares must be issued pursuant to an effective registration statement filed with the Securities and Exchange Commission. No assurance can be given that the Company will be able to timely register shares of common stock. The failure to do so would be a breach of the terms of the indenture covering the Notes. In addition, if Mesa elects to issues additional stock to meet this purchase obligation, this issuance would dilute existing stockholders.

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

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

At September 30, 2007, we had approximately 4,800 employees, approximately 2,700 of whom are members of two labor unions, including ALPA and the AFA. Our collective bargaining agreement with ALPA became amendable in September 2007 and we are in the early stages of negotiations with respect to such agreement. Our collective bargaining agreement with the AFA became amendable in June 2006 and we are in mediated negotiations. The inability to negotiate acceptable contracts with existing unions as agreements become amendable or with new unions could result in work stoppages by the affected workers, lost revenues resulting from the cancellation of flights and increased operating costs as a result of higher wages or benefits paid to union members. We cannot predict which, if any, other employee groups may seek union representation or the outcome or the terms of any future collective bargaining agreement and therefore the effect, if any, on our business, financial condition and results of operations. If negotiations with unions over collective bargaining agreements prove to be unsuccessful, following specified “cooling off” periods, the unions may initiate a work action, including a strike, which could have a material adverse effect on our business, financial condition and results of operations.

We are currently experiencing increased pilot turnover which at times is a significant issue among regional carriers when major carriers are hiring experienced commercial pilots away from regional carriers. The addition of aircraft, especially new aircraft types or transferring of aircraft between operating entities, can result in pilots upgrading between aircraft types and becoming unavailable for duty during the extensive training periods required. No assurances can be made that pilot turnover and unavailability will not be a significant problem in the future, particularly if major carriers expand their operations. Similarly, there can be no assurance that sufficient numbers of new pilots will be available to support any future growth.

Increases in our labor costs, which constitute a substantial portion of our total operating costs, will cause our earnings to decrease.

Labor costs constitute a significant percentage of our total operating costs. Under our code-share agreements, our reimbursement rates contemplate labor costs that increase on a set schedule generally tied to an increase in the consumer price index or the actual increase in the contract. We are responsible for our labor costs, and we may not be entitled to receive increased payments under our code-share agreements if our labor costs increase above the assumed costs included in the reimbursement rates. As a result, a significant increase in our labor costs above the levels assumed in our reimbursement rates could result in a material reduction in our earnings.

If new airline regulations are passed or are imposed upon our operations, we may incur increased operating costs and experience a decrease in earnings.

Laws and regulations, such as those described below, have been proposed from time to time that could significantly increase the cost of our operations by imposing additional requirements or restrictions on our operations. We cannot predict what laws and regulations will be adopted or what changes to air transportation agreements will be effected, if any, or how they will affect us, and there can be no assurance that laws or regulations currently proposed or enacted in the future will not increase our operating expenses and therefore adversely affect our financial condition and results of operations.

As an interstate air carrier, we are subject to the economic jurisdiction, regulation and continuing air carrier fitness requirements of the DOT, which include required levels of financial, managerial and regulatory fitness. The DOT is authorized to establish consumer protection regulations to prevent unfair methods of competition and deceptive practices, to prohibit certain pricing practices, to inspect a carrier's books, properties and records, to mandate conditions of carriage and to suspend an air carrier's fitness to operate. The DOT also has the power to bring proceedings for the enforcement of air carrier economic regulations, including the assessment of civil penalties, and to seek criminal sanctions.

We are also subject to the jurisdiction of the FAA with respect to our aircraft maintenance and operations, including equipment, ground facilities, dispatch, communication, training, weather observation, flight personnel and other matters affecting air safety. To ensure compliance with its regulations, the FAA requires airlines to obtain an operating certificate, which is subject to suspension or revocation for cause, and provides for regular inspections. The FAA also has the power to bring proceedings for the enforcement of Federal Aviation Regulations including the assessment of civil penalties and to seek criminal sanctions.

We incur substantial costs in maintaining our current certifications and otherwise complying with the laws, rules and regulations to which we are subject. We cannot predict whether we will be able to comply with all present and future laws, rules, regulations and certification requirements or that the cost of continued compliance will not significantly increase our costs of doing business.

The FAA has the authority to issue mandatory orders relating to, among other things, the grounding of aircraft, inspection of aircraft, installation of new safety-related items and removal and replacement of aircraft parts that have failed or may fail in the future. A decision by the FAA to ground, or require time-consuming inspections of, or maintenance on, all or any of our turboprops or regional jets, for any reason, could negatively impact our results of operations.

Recently, proposals to address congestion at certain airports or in certain airspace, particularly in the Northeast U.S., have included concepts such as "congestion pricing" or other alternatives that could impose a significant cost on the airlines operating in those airports or airspace. Furthermore, events related to extreme weather delays in late 2006 and early 2007 have caused Congress and the DOT to consider proposals related to airlines' handling of lengthy flight delays during extreme weather conditions. If adopted, these measures could have the effect of raising ticket prices, reducing revenue and increasing costs. To the extent these costs are not absorbed by our code share partners, our revenues and results of operations could similarly be materially adversely affected.

Future regulatory action concerning climate change and aircraft emissions could have a significant effect on the airline industry. For example, the European Commission is seeking to impose an emissions trading scheme applicable to all flights operating in the European Union. Although we do not operate in the European Union, future laws or regulations such as this emissions trading scheme or other U.S. or foreign governmental actions applicable to our areas of operation may adversely affect our operations and financial results.

In addition to state and federal regulation, airports and municipalities enact rules and regulations that affect our operations. From time to time, various airports throughout the country have considered limiting the use of smaller aircraft, such as Embraer or Canadair regional jets, at such airports. The imposition of any limits on the use of our regional jets at any airport at which we operate could interfere with our obligations under our code-share agreements and severely interrupt our business operations.

If additional security and safety measures regulations are adopted, we may incur increased operating costs and experience a decrease in earnings.

Congress has adopted increased safety and security measures designed to increase airline passenger security and protect against terrorist acts. Such measures have resulted in additional operating costs to the airline industry. The Aviation Safety Commission’s report recommends the adoption of further measures aimed at improving the safety and security of air travel. We cannot forecast what additional security and safety requirements may be imposed on our operations in the future or the costs or revenue impact that would be associated with complying with such requirements, although such costs and revenue impact could be significant. To the extent that the costs of complying with any additional safety and security measures are not reimbursed by our code-share partners, our results of operations could be adversely affected.

If our operating costs increase as our aircraft fleet ages and we are unable to pass along such costs, our earnings will decrease.

As our fleet of aircraft age, the cost of maintaining such aircraft, if not replaced, will likely increase. There can be no assurance that costs of maintenance, including costs to comply with aging aircraft requirements, will not materially increase in the future. Any material increase in such costs could have a material adverse effect on our business, financial condition and results of operations. Because many aircraft components are required to be replaced after specified numbers of flight hours or take-off and landing cycles, and because new aviation technology may be required to be retrofitted, the cost to maintain aging aircraft will generally exceed the cost to maintain newer aircraft. We believe that the cost to maintain our aircraft in the long-term will be consistent with industry experience for these aircraft types and ages used by comparable airlines.

We believe that our aircraft are mechanically reliable based on the percentage of scheduled flights completed and as of September 30, 2007 the average age of our fleet excluding Beechcraft 1900D’s is 5.2 years. However, there can be no assurance that such aircraft will continue to be sufficiently reliable over longer periods of time. Furthermore, any public perception that our aircraft are less than completely reliable could have a material adverse effect on our business, financial condition and results of operations.

Our fleet expansion program has required a significant increase in our leverage.

The airline business is very capital intensive and we are highly leveraged. For the year ended September 30, 2007, our debt service payments, including principal and interest, totaled $77.1 million and our aircraft lease payments totaled $239.7 million. We have significant lease obligations with respect to our aircraft and ground facilities, which aggregated approximately $2.1 billion at September 30, 2007. As of September 30, 2007, our growth strategy involves the acquisition of ten more CRJ-700 regional jets, with deliveries beginning late fiscal 2008 and 13 more CRJ-900 aircraft, being leased directly from Delta for $1.00 per month in connection with the Delta code-share agreement of March 2007, with delivery through 2009. As of September 30, 2007, we had permanently financed all aircraft delivered under the 2001 Bombardier Regional Aircraft Agreement (“BRAD”) agreement. We may utilize interim financing provided by the manufacturer and have the ability to fund up to 15 aircraft at any one time under this facility. There are no assurances that we will be able to obtain permanent financing for the ten CRJ-700 future aircraft deliveries.

There can be no assurance that our operations will generate sufficient cash flow to make such payments or that we will be able to obtain financing to acquire the additional aircraft necessary for our expansion. If we default under our loan or lease agreements, the lender/lessor has available extensive remedies, including, without limitation, repossession of the respective aircraft and, in the case of large creditors, the effective ability to exert control over how we allocate a significant portion of our revenues. Even if we are able to timely service our debt, the size of our long-term debt and lease obligations and investment requirements could negatively affect our financial condition, results of operations and the price of our common stock in many ways, including:

- increasing the cost, or limiting the availability of, additional financing for working capital, acquisitions or other purposes;

- limiting the ways in which we can use our cash generated from operations, much of which may have to be used to satisfy debt and lease obligations and investment requirements; and
- adversely affecting our ability to respond to changing business or economic conditions or continue our growth strategy.

Reduced utilization levels of our aircraft under the revenue-guarantee agreements would adversely impact our revenues and earnings.

Even though our revenue-guarantee agreements require a fixed amount per month to compensate us for our fixed costs, if our aircraft are underutilized (including taking into account the stage length and frequency of our scheduled flights) we will lose the opportunity to receive a margin on the variable costs of flights that would have been flown if our aircraft were more fully utilized.

If we incur problems with any of our third-party service providers, our operations could be adversely affected by a resulting decline in revenue or negative public perception about our services.

Our reliance upon others to provide essential services on behalf of our operations may result in the relative inability to control the efficiency and timeliness of contract services. We have entered into agreements with contractors to provide various facilities and services required for our operations, including aircraft maintenance, ground facilities, baggage handling and personnel training. It is likely that similar agreements will be entered into in any new markets we decide to serve. All of these agreements are subject to termination after notice. Any material problems with the efficiency and timeliness of contract services could have a material adverse effect on our business, financial condition and results of operations.

We are at risk of loss and adverse publicity stemming from any accident involving any of our aircraft.

If one of our aircraft were to crash or be involved in an accident, we could be exposed to significant tort liability.

There can be no assurance that the insurance we carry to cover damages arising from any future accidents will be adequate. Accidents could also result in unforeseen mechanical and maintenance costs. In addition, any accident involving an aircraft that we operate could create a public perception that our aircraft are not safe, which could result in air travelers being reluctant to fly on our aircraft. To the extent a decrease in air travelers is associated with our operations not covered by our code-share agreements, such a decrease could have a material adverse affect on our business, financial condition or results of operations.

If we become involved in any material litigation or any existing litigation is concluded in a manner adverse to us, our earnings may decline.

We are, from time to time, subject to various legal proceedings and claims, either asserted or unasserted. Any such claims, whether with or without merit, could be time-consuming and expensive to defend and could divert management's attention and resources. There can be no assurance regarding the outcome of current or future litigation.

In February 2006, Hawaiian Airlines, Inc. ("Hawaiian") filed a complaint against us in the United States Bankruptcy Court for the District of Hawaii (the "Bankruptcy Court") alleging that we had breached the terms of a Confidentiality Agreement entered into in April 2004 with the Trustee in Hawaiian's bankruptcy proceedings. Hawaiian's complaint alleged, among other things, that we breached the Confidentiality Agreement by (a) using the evaluation material in deciding to enter the Hawaiian inter-island market, and (b) failing to return or destroy any evaluation materials after being notified by Hawaiian on or about May 12, 2004 that the Company had not been selected as a potential investor for a transaction with Hawaiian. Hawaiian, in its complaint, sought unspecified damages, requested that we turn over to Hawaiian any evaluation material in our possession, custody or control, and also sought an injunction preventing our subsidiary, ***go!*** from providing inter-island transportation services in the State of Hawaii for a period of two years from the date of such injunctive relief.

On October 30, 2007, the Bankruptcy Court found that we violated the terms of the Confidentiality Agreement and awarded Hawaiian $80.0 million in damages and ordered us to pay Hawaiian’s cost of litigation, reasonable attorneys’ fees and interest. This ruling arose out of the Bankruptcy Court’s finding that our former executive vice president and Chief Financial Officer intentionally and in bad faith destroyed evidence pertinent to Hawaiian’s case against us. Mr. Murnane was terminated on November 2, 2007. While we have filed a notice of appeal to this ruling, we can give no assurance that our appeal will result in a favorable outcome for us. In November 2007, we posted a $90.0 million bond as security for the judgment amount by placing such amount with a surety acceptable to the Bankruptcy Court. If we are unable to successfully overturn this ruling or reduce the amount of damages award, we will lose some or all of the cash securing the bond.

On January 9, 2007, Aloha Airlines filed suit against Mesa Air Group in the United States District Court for the District of Hawaii. The complaint seeks damages and injunctive relief. Aloha alleges that Mesa’s inter-island air fares are below cost and that Mesa is, therefore, violating specific provisions of the Sherman Act. Aloha also alleges breach of contract and fraud by Mesa in connection with two confidentiality agreements, one in 2005 and the other in 2006.

Mesa denies any attempt at monopolization of the inter-island market and further denies any improper use of the data furnished by Aloha while Mesa was considering a bid for Aloha during its bankruptcy proceedings. The case is in its incipient stages and a tentative trial date of October 28, 2008 has been scheduled by the court.

Our business would be harmed if we lose the services of our key personnel.

Our success depends to a large extent on the continued service of our executive management team. We have employment agreements with certain executive officers, but it is possible that members of executive management may leave us. Departures by our executive officers could have a negative impact on our business, as we may not be able to find suitable management personnel to replace departing executives on a timely basis. We do not maintain key-man life insurance on any of our executive officers.

We may experience difficulty finding, training and retaining employees.

Our business is labor intensive, we require large numbers of pilots, flight attendants, maintenance technicians and other personnel. The airline industry has from time to time experienced a shortage of qualified personnel, particularly with respect to pilots and maintenance technicians. In addition, as is common with most of our competitors, we have faced considerable turnover of our employees. Regional airline pilots, flight attendants and maintenance technicians often leave to work for larger airlines, which generally offer higher salaries and better benefit programs than regional airlines are financially able to offer. Should the turnover of employees, particularly pilots and maintenance technicians, sharply increase, the result will be significantly higher training costs than otherwise would be necessary. We cannot assure you that we will be able to recruit, train and retain the qualified employees that we need to carry out our expansion plans or replace departing employees. If we are unable to hire and retain qualified employees at a reasonable cost, we may be unable to complete our expansion plans, which could have a material adverse effect on our financial condition, results of operations and the price of our common stock.

We may be unable to profitably operate our Hawaiian airline, which could negatively impact our business and operations.

In June 2006, we launched our independent inter-island Hawaiian airline operation named ***go!*** and have incurred operating losses since inception. Providing service in Hawaii will require ongoing investment of working capital by Mesa and management attention and focus.

Further, in light of the costs and risks associated with operating an independent low fare regional jet airline, we may be unable to operate the Hawaiian airline profitably, which would negatively impact our business, financial condition and results of operations.

In addition, our results under our revenue-guarantee contracts offer no meaningful guidance with respect to our future performance in running an independent airline because we have not previously operated as an independent regional jet carrier in Hawaii. We are operating under a new brand that will initially have limited market recognition. Future performance will depend on a number of factors, including our ability to:

- establish a brand that is attractive to our target customers;
- maintain adequate controls over our expenses;
- monitor and manage operational and financial risks;
- secure favorable terms with airports, suppliers and other contractors;
- maintain the safety and security of our operations;
- attract, retain and motivate qualified personnel; and
- react to responses from competitors who are more established in the Hawaiian markets.

We have experienced significant operating and cash losses in certain areas of operations which could negatively impact our business and operations.

We have experienced significant cash losses in our Air Midwest operations. In the fourth quarter of fiscal 2007 the Company committed to a plan to sell Air Midwest or certain assets thereof. There can be no assurance that we will be successful in our efforts to find a buyer for such operations or assets.

We have three equity method investments as of September 30, 2007. During fiscal 2007, we incurred significant non-cash losses related to these investments. We are not in control of the operations for these investments. Accordingly, we cannot control or predict the future impact these investment may have on our business, financial condition or results of operations.

Risks Related to Our Joint Venture in China

If we became involved in a dispute with Shenzhen Airlines related to the Joint Venture Agreement, we could experience difficulties in initiating litigation in a United States court, enforcing judgments of a United States court or bringing original actions in China.

The Joint Venture Agreement is governed by the laws of China. As a result, it may not be possible to enforce our rights under the Joint Venture Agreement through litigation in a United States court in the event of a dispute arising under the Joint Venture Agreement. Moreover, even if we were able to bring litigation in a United States court, uncertainty exists as to whether the courts of China would recognize or enforce judgments of United States courts. Additionally, although China's legal system is continually evolving, we can give no assurance that we would be able to bring an original action before a court in China, or, if we were able to do so, that a court in China would render a fair and impartial verdict.

We face significant risks if the Chinese government changes its policies, laws, regulations, tax structure or its current interpretations of its laws, rules and regulations relating to Kunpeng's operations in China.

The Joint Venture Agreement is governed by the laws of China and Kunpeng's operations are located solely in China. Consequently, Kunpeng's results of operations, financial state of affairs and future growth are, to a significant degree, subject to China's economic, political and legal development and related uncertainties. Kunpeng's operations and results could be materially affected by a number of factors, including, but not limited to:

- changes in policies by the Chinese government resulting in changes in laws or regulations or the interpretation of laws or regulations;
- confiscatory taxation;
- changes in employment restrictions;
- restrictions on imports and sources of supply;
- import duties;

- corruption;
- currency revaluation; and
- the expropriation of private enterprise.

Over the past several years, the Chinese government has pursued economic reform policies including the encouragement of private economic activities and greater economic decentralization. If the Chinese government does not continue to pursue its present policies that encourage foreign investment and operations in China, or if these policies are either not successful or are significantly altered in the future, then Kunpeng's business could be adversely affected. Kunpeng could even be subject to the risk of nationalization, which could result in the total loss of our investment in Kunpeng. Following the Chinese government's policy of privatizing many state-owned enterprises, the Chinese government has attempted to augment its revenues through increased tax collection. Continued efforts to increase tax revenues could result in increased taxation expenses being incurred by Kunpeng. Economic development may be limited as well by the imposition of austerity measures intended to reduce inflation, the inadequate development of infrastructure and the potential unavailability of adequate power and water supplies, transportation and communications. Any of these actions could have a material adverse effect on Kunpeng's business results of operations and the return we could derive from this investment.

Chinese laws and regulations governing Kunpeng's current business operations are sometimes vague and uncertain. Any changes in such Chinese laws and regulations may have a material and adverse effect on Kunpeng's business.

China's legal system is a civil law system based on written statutes, in which system decided legal cases have little value as precedents unlike the common law system prevalent in the United States. There are substantial uncertainties regarding the interpretation and application of Chinese laws and regulations, including but not limited to the laws and regulations governing Kunpeng's business, equity ownership, or the enforcement and performance of Kunpeng's arrangements with customers in the event of the imposition of statutory liens, death, bankruptcy and criminal proceedings. The Chinese government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and judicial interpretation and their lack of force as precedents, interpretation and enforcement of these laws and regulations involve significant uncertainties. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively. We cannot predict what effect the interpretation of existing or new Chinese laws or regulations may have on Kunpeng's business. If the relevant authorities find Kunpeng in violation of Chinese laws or regulations, they would have broad discretion in dealing with such a violation, including, without limitation:

- levying fines;
- revoking Kunpeng's business and other licenses;
- requiring that Kunpeng restructure its ownership or operations; and
- requiring that Kunpeng discontinue any portion or all of its business.

Controversies affecting China's trade with the United States may negatively affect our operations.

While China has been granted permanent most favored nation trade status in the United States through its entry into the World Trade Organization, controversies and trade disagreements between the United States and China may arise that have a material adverse effect upon our investment in Kunpeng.

Kunpeng's labor costs are likely to increase as a result of changes in Chinese labor laws.

The Chinese labor market recently experienced an increase in the cost of labor. Recent changes in Chinese labor laws that are effective January 1, 2008 are likely to increase costs further and impose restrictions on Kunpeng's relationship with its employees. There can be no assurance that the labor laws will not change further or that their interpretation and implementation will vary, which may have a material adverse effect upon Kunpeng's business and results of operations.

Whether Kunpeng will receive preferential tax treatment under Chinese law is currently unclear. If Kunpeng does not receive such preferential tax treatment, its profitability may be negatively impacted.

Prior to the adoption of the Chinese Enterprise Income Tax Law on March 16, 2007 (the "EIT Law"), Chinese income tax law provided that enterprises such as Kunpeng were entitled to receive an exemption from the entire central government income tax for the two years beginning with its first profitable year and receive a 50% reduced income tax in the third through fifth years. Kunpeng's business license was issued after adoption of the EIT Law. Accordingly, Chinese tax authorities may conclude that Kunpeng is not entitled to such preferential tax treatment.

The full tax exemption for the enterprise income tax expired on December 31, 2005 and the one-half reduction on the enterprise profit tax to 13.5% will expire on December 31, 2008. Regardless of whether Kunpeng is granted preferential tax treatment by China's tax authorities, after such tax holidays, Kunpeng's profits will be subject to the full tax rate of 25%, effective as of January 1, 2008 in accordance with the EIT Law passed in 2007. If Kunpeng is not granted preferential tax treatment, and in any event, after January 1, 2008, Kunpeng's tax obligations could materially impact its operations.

Under the EIT Law, a uniform tax rate of 25% has been adopted for all enterprises (including foreign-invested enterprises) and several tax incentives enjoyed by foreign-invested enterprises have been cancelled. However, for foreign-invested enterprises established before the promulgation of the EIT Law, a five-year transition period is provided during which reduced rates will apply but gradually be phased out. Since the Chinese government has not announced implementation measures for the transitional policy with regards to such preferential tax rates, we cannot reasonably estimate the financial impact of the new tax law to Kunpeng at this time. Moreover, because Kunpeng's business license was issued after promulgation of the EIT law, we can give no assurance that Chinese tax authorities will grant Kunpeng preferential tax treatment. Further, any future increase in the enterprise income tax rate applicable to Kunpeng or other adverse tax treatments would have a material adverse effect on Kunpeng's results of operations and financial condition.

Fluctuations in exchange rates of the Renminbi, or RMB, could adversely affect the value of and dividends, if any, payable on shares of Kunpeng's registered capital or otherwise impact our operations and profitability.

Since (i) Kunpeng's income and profit are mainly denominated in the Chinese Renminbi, and (ii) the payment of dividends, if any, by Kunpeng will be in Renminbi, any exchange fluctuation of the Renminbi against other foreign currencies would adversely affect the value of our equity investment in Kunpeng and dividends payable to us by Kunpeng, in foreign currency terms. For example, to the extent that we need to convert Renminbi we receive as a profit distribution from Kunpeng, if the U.S. Dollar appreciates against the Renminbi, the U.S. Dollar equivalent of the Renminbi we convert would be reduced. Conversely, if we decide to convert our U.S. Dollars into Renminbi for the purpose of making additional investment in Kunpeng and the Renminbi appreciates against the U.S. Dollar, the Renminbi equivalent of the U.S. Dollar we convert would be reduced.

As of December 10, 2007, our outstanding obligation to make additional capital contributions to Kunpeng under the Joint Venture Agreement had an aggregate fair value of approximately $26.5 million (or approximately 196,000,000 Renminibi). The potential increase in the fair value of this obligation resulting from a 10% adverse change in quoted foreign currency exchange rates would be approximately $2.65 million at December 10, 2007.

The ability of Kunpeng to make profit distributions to us may be restricted due to foreign exchange control regulations of China.

The ability of Kunpeng to make profit distributions to us may be restricted due to the foreign exchange control policies and availability of cash balances. Since substantially all of Kunpeng's operations are conducted in China and a majority of its revenues are generated in China, a significant portion of its revenue earned and currency received are denominated in Renminbi.

The Chinese government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Renminbi is currently not a freely convertible currency. Shortages in the availability of foreign currency may restrict Kunpeng's ability to remit sufficient foreign currency to make profit distributions to us, or otherwise satisfy foreign currency denominated obligations. Under existing Chinese foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from the transaction, can be made in foreign currencies without prior approval from the State Administration of Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate governmental authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies.

The Chinese government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents Kunpeng from obtaining sufficient foreign currency to satisfy its currency demands, it may not be able to make profit distributions to us or pay certain of its expenses as they come due.

We are a joint venture partner in a new regional air carrier in the People's Republic of China to whom we sublease aircraft. If the regional carrier is unable to operate profitably, or if for any reason it defaults under a sublease with us, such event would have a material adverse effect on our financial condition and results of operations.

As a joint venture partner with Shenzhen Airlines, we are a co-owner of Kunpeng, a regional air carrier certificated under the laws of the People's Republic of China. In addition to our joint venture interest in Kunpeng, we currently sublease three regional jets to Kunpeng and are in negotiations to sublease additional aircraft to Kunpeng in the future. We lease these aircraft from unrelated third parties under long-term leases ("Headlease") and as the lessee we are responsible for rent as well as all costs of maintaining, operating and insuring the aircraft. We pass along most of those costs to the sublessee under the sublease, but we are not thereby released from our obligations under the Headlease. If the sublessee defaults and fails to perform any of its obligations under a sublease, that failure may result in a default by us under the related Headlease. If Kunpeng were to default under a sublease, for any reason, that default would have a material adverse effect on the value of our investment in the joint venture, and would also have a material adverse effect upon our ability to perform our obligations under the related Headlease, including our obligation to pay rent and to maintain the aircraft in a specified airworthy condition. Any of these events could materially and adversely affect our financial condition and results of operations.

Failure to comply with the U.S. Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.

We are subject to the U.S. Foreign Corrupt Practices Act, which generally prohibits United States companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. In addition, we are required to maintain records that accurately and fairly represent our transactions and have an adequate system of internal accounting controls. Foreign companies, including some that may compete with us, are not subject to these prohibitions, and therefore may have a competitive advantage over us. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time-to-time in China. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Industry

If competition in the airline industry increases, we may experience a decline in revenue.

Increased competition in the airline industry as well as competitive pressure on our code-share partners or in our markets could have a material adverse effect on our business, financial condition and results of operation. The airline industry is highly competitive. The earnings of many of the airlines have historically been volatile. The airline industry is susceptible to price discounting, which involves the offering of discount or promotional fares to passengers. Any such fares offered by one airline are normally matched by competing airlines, which may result in lower revenue per passenger, i.e., lower yields, without a corresponding increase in traffic levels. Also, in recent years several new carriers have entered the industry, typically with low cost structures. In some cases, new entrants have initiated or triggered price discounting. The entry of additional new major or regional carriers in any of our markets, as well as increased competition from or the introduction of new services by established carriers, could negatively impact our financial condition and results of operations.

Our reliance on our code-share agreements with our major airline partners for the majority of our revenue means that we must rely on the ability of our code-share partners to adequately promote their respective services and to maintain their respective market share. Competitive pressures by low-fare carriers and price discounting among major airlines could have a material adverse effect on our code-share partners and therefore adversely affect our business, financial condition and results of operations.

The results of operations in the air travel business historically fluctuate in response to general economic conditions. The airline industry is sensitive to changes in economic conditions that affect business and leisure travel and is highly susceptible to unforeseen events, such as political instability, regional hostilities, economic recession, fuel price increases, inflation, adverse weather conditions or other adverse occurrences that result in a decline in air travel. Any event that results in decreased travel or increased competition among airlines could have a material adverse effect on our business, financial condition and results of operations.

In addition to traditional competition among airlines, the industry faces competition from ground and sea transportation alternatives. Video teleconferencing and other methods of electronic communication may add a new dimension of competition to the industry as business travelers seek lower-cost substitutes for air travel.

The airline industry is heavily regulated.

Airlines are subject to extensive regulatory and legal compliance requirements, both domestically and internationally, that involve significant costs. In the last several years, the FAA has issued a number of directives and other regulations relating to the maintenance and operation of aircraft that have required us to make significant expenditures. FAA requirements cover, among other things, retirement of older aircraft, security measures, collision avoidance systems, airborne wind shear avoidance systems, noise abatement, commuter aircraft safety and increased inspection and maintenance procedures to be conducted on older aircraft.

We incur substantial costs in maintaining our current certifications and otherwise complying with the laws, rules and regulations to which we are subject. We cannot predict whether we will be able to comply with all present and future laws, rules, regulations and certification requirements or that the cost of continued compliance will not significantly increase our costs of doing business, to the extent such costs are not reimbursed by our code-share partners.

The FAA has the authority to issue mandatory orders relating to, among other things, the grounding of aircraft, inspection of aircraft, installation of new safety-related items and removal and replacement of aircraft parts that have failed or may fail in the future. A decision by the FAA to ground, or require time consuming inspections of or maintenance on, all or any of our aircraft, for any reason, could negatively impact our results of operations.

In addition to state and federal regulation, airports and municipalities enact rules and regulations that affect our operations. From time to time, various airports throughout the country have considered limiting the use of smaller aircraft at such airports. The imposition of any limits on the use of our aircraft at any airport at which we operate could interfere with our obligations under our code-share agreements and severely interrupt our business operations.

Additional laws, regulations, taxes and airport rates and charges have been proposed from time to time that could significantly increase the cost of airline operations or reduce revenues. If adopted, these measures could have had the effect of raising ticket prices, reducing revenue and increasing costs. In addition, as a result of the terrorist attacks in New York and Washington, D.C. in September 2001, the FAA has imposed more stringent security procedures on airlines and imposed security taxes on each ticket sold. We cannot predict what other new regulations may be imposed on airlines and we cannot assure you that laws or regulations enacted in the future will not materially adversely affect our financial condition, results of operations and the price of our common stock.

The airline industry has been subject to a number of strikes which could affect our business.

The airline industry has been negatively impacted by a number of labor strikes. Any new collective bargaining agreement entered into by other regional carriers may result in higher industry wages and add increased pressure on us to increase the wages and benefits of our employees. Furthermore, since each of our code-share partners is a significant source of revenue, any labor disruption or labor strike by the employees of any one of our code-share partners could have a material adverse effect on our financial condition, results of operations and the price of our common stock.

Risks Related to Our Common Stock

Provisions in our charter documents might deter acquisition bids for us.

Our articles of incorporation and bylaws contain provisions that, among other things:

- authorize our board of directors to issue preferred stock ranking senior to our common stock without any action on the part of the stockholders;
- establish advance notice procedures for shareholder proposals, including nominations of directors, to be considered at stockholders' meetings;
- authorize a majority of our board of directors, in certain circumstances, to fill vacancies on the board resulting from an increase in the authorized number of directors or from vacancies;
- restrict the ability of stockholders to modify the number of authorized directors; and
- restrict the ability of stockholders to call special meetings of stockholders.

In addition, Section 78.438 of the Nevada general corporation law prohibits us from entering into some business combinations with interested stockholders without the approval of our board of directors. These provisions could make it more difficult for a third party to acquire us, even if doing so would benefit our stockholders.

Our stock price may continue to be volatile and could decline substantially.

The stock market has, from time to time, experienced extreme price and volume fluctuations. Many factors may cause the market price for our common stock to decline following this Form 10-K, including:

- our operating results failing to meet the expectations of securities analysts or investors in any quarter;
- downward revisions in securities analysts' estimates;
- material announcements by us or our competitors;
- public sales of a substantial number of shares of our common stock following this Form 10-K;
- governmental regulatory action; or
- adverse changes in general market conditions or economic trends.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

Our primary property consists of the aircraft used in the operation of our flights. The following table lists the aircraft owned and leased by the Company as of September 30, 2007:

Type of Aircraft	Number of Aircraft: Owned	Leased	Total	Operating on Sept. 30, 2007	Passenger Capacity
CRJ-200/100 Regional Jet	2	57	59	52	50
CRJ-700 Regional Jet	8	12	20	20	66
CRJ-900 Regional Jet	14	25	39	38	86(1)
Embraer 145 Regional Jet	—	36	36	36	50
Beechcraft 1900D	34	—	34	20	19(2)
Dash-8	—	27	27	16	37(3)
Total	58	157	215	182	

(1) — One CRJ-900 aircraft has a passenger capacity of 76, delivered in fiscal 2007 and began revenue service in fiscal 2008.

(2) — In connection with its decision to discontinue the Air Midwest turboprop operations, the Company began soliciting bids for the sale of the 20 aircraft in operation as of September 30, 2007.

(3) — As discussed in the Delta Code Share Agreement section (Part I), 11 Dash-8's are in process of being returned to the respective lessors.

See "Business — Airline Operations" and "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — Liquidity and Capital Resources" for a discussion regarding the Company's aircraft fleet commitments.

In addition to aircraft, we have office and maintenance facilities to support our operations. Our facilities are summarized in the following table:

Type	Location	Ownership	Approximate Square Feet
Headquarters	Phoenix, AZ	Leased	36,000
Training/Administration	Phoenix, AZ	Leased	27,000
Hangar/Office	Phoenix, AZ	Leased	22,000
Engine Shop & Commissary	Phoenix, AZ	Leased	25,000
RAS Office/Component Overhaul Facility	Phoenix, AZ	Leased	19,000
Customer Service Training/Storage	Phoenix, AZ	Leased	10,000
Office (East Coast)	Charlotte, NC	Leased	5,500
Hangar	Charlotte, NC	Leased	30,000
Hangar	Columbia, SC	(1)	20,000
Hangar	Columbia, SC	(1)	35,350
Hangar	Grand Junction, CO	(1)	25,000
Hangar/Office	Wichita, KS	(1)	20,000
Training/Administration	Farmington, NM	(1)	10,000
Hangar	Farmington, NM	(1)	24,000
Hangar/Office	Dubois, PA	(1)	23,000
Hangar	Orlando, FL	Leased	18,693
Office	Honolulu, HI	Leased	7,793
Hangar	Chicago, IL	Leased	16,448

(1) Building is owned, underlying land is leased.

We lease ticket counters, check-in and boarding and other facilities in the passenger terminal areas in the majority of the airports we serve and staff those facilities with our personnel. Delta, United and US Airways also provide facilities, ticket handling and ground support services for us at certain airports.

Our corporate headquarters and training/administrative facilities in Phoenix, Arizona are subject to long-term leases expiring on August 31, 2012 and November 1, 2012, respectively.

We believe our facilities are suitable and adequate for our current and anticipated needs.

Item 3. ***Legal Proceedings***

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

On October 30, 2007, the Bankruptcy Court found that the Company violated the terms of the Confidentiality Agreement and awarded Hawaiian $80.0 million in damages and ordered the Company to pay Hawaiian's cost of litigation, reasonable attorneys' fees and interest. This ruling arose out of the Bankruptcy Court's finding that our former executive vice president and Chief Financial Officer ("CFO"), intentionally and in bad faith destroyed evidence pertinent to Hawaiian's case against us. While we have filed a notice of appeal to this ruling and posted a $90.0 million bond, we can give no assurance that our appeal will result in a favorable outcome for us. In connection with these findings, we conducted a board of directors led internal investigation utilizing external forensic accountants and legal counsel to determine the extent, if any, of evidence that may exist indicating that our former CFO committed any other similar actions, or violated any other company policies or controls. This investigation was completed in December 2007, and nothing came to our attention that lead us to believe that any other issues existed.

On January 9, 2007, Aloha Airlines filed suit against Mesa Air Group in the United States District Court for the District of Hawaii. The complaint seeks damages and injunctive relief. Aloha alleges that Mesa's inter-island air fares are below cost and that Mesa is, therefore, violating specific provisions of the Sherman Act. Aloha also alleges breach of contract and fraud by Mesa in connection with two confidentiality agreements, one in 2005 and the other in 2006.

Mesa denies any attempt at monopolization of the inter-island market and further denies any improper use of the data furnished by Aloha while Mesa was considering a bid for Aloha during its bankruptcy. The case is in its incipient stages and a tentative trial date of October 28, 2008 has been scheduled by the court.

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

Item 4. ***Submission of Matters to a Vote of Security Holders***

None.

PART II

Item 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Market Price of Common Stock

The following table sets forth, for the periods indicated, the high and low price per share of Mesa common stock for the two most recent fiscal years, as reported by NASDAQ. Mesa's common stock is traded on the NASDAQ Global Market under the symbol "MESA."

	Fiscal 2007		Fiscal 2006	
Quarter	High	Low	High	Low
First	$ 9.24	$ 7.41	$ 11.98	$ 8.45
Second	8.82	7.26	12.70	10.47
Third	8.02	6.51	11.14	8.69
Fourth	7.25	4.38	10.18	7.36

On January 11, 2008, we had 984 stockholders of record. We have never paid cash dividends on our common stock. The payment of future dividends is within the discretion of our board of directors and will depend upon our future earnings, if any, our capital requirements, bank financing, financial condition and other relevant factors.

Equity Compensation Plans

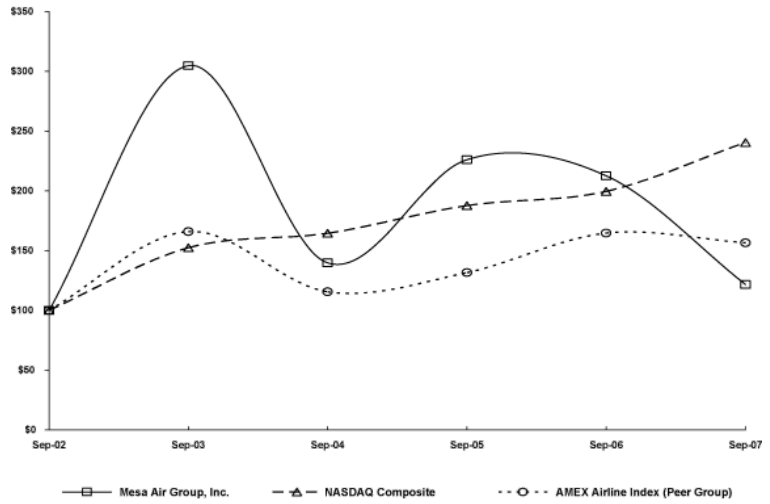
The following table sets forth certain information as of September 30, 2007, concerning outstanding options and rights to purchase common stock granted to participants in all of the Company's equity compensation plans (including the Outside Director's Stock Option Plan) and the number of shares of common stock remaining available for issuance under such equity compensation plans.

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	2,779,189	$ 7.11	521,369
Equity compensation plans not approved by security holders(1)	836,000	$ 8.49	—
Total	3,615,189	$ 7.43	521,369

(1) The Board of Directors adopted the 2001 Key Officer Plan on July 13, 2001. An aggregate of 2,000,000 shares are authorized for issuance under this plan. The Company's Chief Executive Officer and President are the only persons eligible to participate in the plan.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Mesa Air Group, Inc., The NASDAQ Composite Index
And The AMEX Airline Index (Peer Group)



* $100 invested on 9/30/02 in stock or index-including reinvestment of dividends.
Fiscal year ending September 30.

Recent Sales of Unregistered Securities

There have been no recent sales of unregistered securities.

The following table sets forth information required regarding repurchases of common stock that we made during the twelve months ended September 30, 2007:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Cumulative Number of Shares Purchased as Part of Publicly Announced Plan(1)	Maximum Number of Shares That May Yet Be Purchased Under the Plan
Three months ended December 31, 2006	530,225	$ 8.03	10,960,765	8,461,496
Three months ended March 31, 2007	2,692,174	$ 7.64	13,652,939	5,769,322
Three months ended June 30, 2007	2,248,246	$ 6.79	15,901,185	13,521,076
Three months ended September 30, 2007	—	$ —	15,901,185	13,521,076

(1) Under resolutions adopted and publicly announced in December 1999, January 2001, October 2002, October 2004, April 2005, October 2005 and May 2007 our Board of Directors has authorized the repurchase, of up to an aggregate of approximately 29.4 million shares of our common stock. Purchases are made at management's discretion based on market conditions and the Company's financial resources. As of September 30, 2007 the Company has spent approximately $106.8 million to purchase and retire approximately 15.9 million shares of its outstanding common stock.

Item 6. ***Selected Financial Data***

Selected Financial Data and Operating Statistics

The selected financial data as of and for each of the five years ended September 30, 2007, are derived from the Consolidated Financial Statements of the Company and its subsidiaries and should be read in conjunction with the Consolidated Financial Statements included elsewhere in this Form 10-K and the related notes thereto and "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS." In the fourth quarter of fiscal 2007, we committed to a plan to sell Air Midwest or certain assets thereof. Air Midwest includes our independent Mesa operations, Midwest Airlines code-share operations, and our Beechcraft 1900D 19-seat turboprop code-share operations with US Airways. All assets and liabilities and results of operations associated with these assets have been presented in the accompanying consolidated financial statements as discontinued operations separate from continuing operations.

Consolidated Statement of Operations and Balance Sheet data as of September 30 (000's):

	2007(1)	2006(2)	2005(3)	2004(4)	2003(5)
Consolidated Statement of Operations Data — Continuing Operations:					
Net operating revenues	$ 1,298,064	$ 1,284,903	$ 1,076,005	$ 815,098	$ 513,848
Operating expenses	1,371,836	1,182,514	943,006	741,137	452,024
Operating income	(73,772)	102,389	132,999	73,961	61,824
Interest expense	39,380	34,209	41,324	21,892	9,816
Income (loss) before income taxes	(108,922)	61,942	99,400	55,011	47,837
Net income (loss) from continuing operations	(71,538)	37,103	61,563	32,000	29,774
Net income (loss) per share — continuing operations:					
Basic	$ (2.31)	$ 1.11	$ 2.11	$ 1.02	$ 0.94
Diluted	(2.31)	(0.91)	1.45	0.78	0.88
Net loss from discontinued operations	$ (10,023)	$ (3,136)	$ (4,696)	$ (5,718)	$ (4,464)
Consolidated Balance Sheet Data — Continuing Operations:					
Working capital (deficit)	$ 192,916	$ 187,635	$ 225,176	$ 3,739	$ (16,357)
Total assets	1,226,296	1,238,213	1,167,671	1,121,537	712,452
Long-term debt, excluding current portion	561,946	500,363	589,029	500,921	199,023
Stockholders' equity	$ 145,100	$ 264,210	$ 176,670	$ 128,904	$ 111,973
Consolidated Operating Statistics*:					
Passengers carried	16,393,027	14,839,701	13,088,872	10,239,915	6,444,459
Revenue passenger miles (000)	6,952,438	6,840,101	6,185,864	5,035,165	2,814,480
Available seat miles ("ASM") (000)	9,182,517	9,139,340	8,715,749	7,107,684	4,453,707
Block hours	616,591	571,827	571,339	513,881	393,335
Average passenger journey in miles	424	461	473	492	436
Average stage length in miles	364	397	389	390	337
Load factor	75.7%	74.8%	71.0%	70.8%	63.2%
Break-even passenger load factor	74.6%	61.1%	53.3%	53.6%	46.3%
Revenue per ASM in cents	14.9	14.6	13.0	12.6	13.4
Operating cost per ASM in cents	14.7	13.5	11.6	11.7	12.3
Average yield per revenue passenger mile in cents	19.7	19.5	18.4	17.8	21.3
Average revenue per passenger	$ 82.14	$ 87.96	$ 84.25	$ 84.81	$ 89.44
Aircraft in service	182	191	182	180	150
Cities served	184	173	176	181	163
Number of employees	4,800	5,200	4,600	5,000	3,600

* Operating statistics include Air Midwest turboprop operations

(1) Net loss in fiscal 2007 includes the pretax effect of recognizing a loss contingency of $86.9 million, impairment of contract incentives of $25.3 million, $11.6 million of exit costs associated with the elimination of the Dash-8 JFK operations, and $6.4 million in impairment charges related to leasehold improvements made to certain aircraft under the United code-share agreement.

(2) Net income in fiscal 2006 includes a bankruptcy settlement of $12.1 million (pretax) and debt conversion costs of $13.1 million (pretax).

(3) Net income in fiscal 2005 includes the net effect of reversing certain impairment and restructuring charges of $1.3 million.

(4) Net income in fiscal 2004 includes the net effect of impairment and restructuring charges of $11.9 million (pretax).

(5) Net income in fiscal 2003 includes the effect of impairment and restructuring charges of $1.1 million (pretax) and the reversal of impairment and restructuring charges of $12.0 million (pretax).

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

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

Executive Overview

Fiscal 2007 was a year of challenges and modest successes for us. During fiscal 2007 we formed a joint venture in China with Shenzhen Airlines and commenced flying 50-seat CRJ-200 aircraft. We expect to be flying 10 aircraft by the summer of 2008 in time for the Beijing Olympic Games. China's market is considerably larger than the U.S and we expect this joint venture to materially contribute to our results of operations in the future. This new joint venture has also enabled us to transition certain excess 50-seat regional jet aircraft to China and reduce our exposure to certain unprofitable 50-seat regional jets flying with United Airlines.

In connection with an amendment to and assumption of our existing Delta Connection Agreement, we received a general unsecured claim of $35.0 million as part of Delta's bankruptcy proceeding. During the third quarter of 2007 the Company received 787,261 shares of Delta stock representing approximately 89% of the total award. These shares were sold in the same quarter for approximately $16.5 million. The resulting gain was deferred and is being amortized over the remainder of the Amended DCA.

We experienced a setback in our Hawaiian litigation. In October 2007, the United States Bankruptcy Court for the District of Hawaii found that the Company violated the terms of a confidentiality agreement between Hawaiian and Mesa and awarded Hawaiian $80.0 million in damages and ordered the Company to pay Hawaiian's cost of litigation, reasonable attorneys' fees and interest. A loss contingency of $86.9 million has been recorded in the Statements of Operations for fiscal 2007. We have filed a notice of appeal to this ruling.

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company continually considers events or changes in circumstances that indicate the carrying amount of a long-term asset may not be recoverable. During the second quarter of 2007 the Company evaluated two such cases. In each instance the gross undiscounted cash flows related to a long-term asset were computed and found to be less than the carrying value of the long-lived asset. The fair market value of the two assets was then determined and an impairment charge, equal to the excess of the carrying value over fair value, was recorded totaling $37.7 million during the second quarter.

The first impairment charge, totaling $31.7 million, related to the unamortized balance of a $30.0 million nonrefundable cash incentive ("Incentive") paid to United prior to fiscal 2007, upon amending our code-share agreement with United (the "Amendment") and leasehold improvements relating to certain aircraft operating under the United code-share agreement. The Amendment primarily allowed us to place 30 additional aircraft with United, bringing the total aircraft under the United code share agreement to 70 and to extend the expiration dates under the existing code-share agreement with respect to certain of the other aircraft. The Incentive was included in other assets and was being amortized as a reduction to revenue over the term of the amended code share agreement. Beginning with the second quarter of fiscal 2006 we began experiencing declining margins related to this code-share and management initiated an operational analysis in the fourth quarter of fiscal 2006, which was completed in the second quarter of fiscal 2007. During the second quarter of fiscal 2007 the margins deteriorated further, resulting in management concluding that the Company will incur operating losses over the remaining term of the amended code-share agreement. The analysis determined that these losses were due primarily to increases in (1) maintenance costs from certain contractual increases in maintenance support agreements that went into effect in the second quarter of fiscal 2007; (2) lower total completion factors primarily attributable to the locations from which we operate the additional 30 aircraft added in the amended code-share agreement, resulting in higher operational costs and higher labor costs resulting from employee turnover and; (3) other underlying costs increasing at greater rates than we had originally anticipated when we entered into the amended code-share agreement. In order to determine whether or not this asset was impaired, we estimated the future gross undiscounted cash flows related to this code-share agreement and found them to be less than the asset's unamortized balance. The fair value of the asset was determined to be zero. Accordingly, an impairment charge was taken for $25.3 million during the second quarter. In addition, leasehold improvements related to certain aircraft under the United code-share agreement were evaluated for recoverability and were determined to be impaired and accordingly an impairment charge was taken for $6.4 million during the second quarter. Management is evaluating various alternatives to address the situation, however there can be no assurance that we will be successful in our efforts.

During fiscal 2007, we parked 12 Dash-8 aircraft, associated with the Delta code-share agreement. Due to higher than anticipated costs associated with our Delta Dash-8 fleet related to our JFK operations, the Company and Delta developed a joint plan to eliminate the Dash-8 fleet from the JFK operations. The agreement reached with Delta called for service to conclude by August 21, 2007. Losses are accrued as each aircraft is removed from operations for early termination penalties, lease settle up and other charges. The estimated costs associated with the parking and early termination of the lease agreements totaling approximately $11.6 million have been recorded in our Statements of Operations in fiscal 2007.

Although we experienced relatively flat operating revenues, from $1.28 billion in fiscal 2006 to $1.30 billion in fiscal 2007, we experienced material increases in Maintenance, Air and Traffic Servicing, and General and Administrative expenses, resulting in our first annual net loss in five years.

Discontinued Operations

In the fourth quarter of fiscal 2007, the Company committed to a plan to sell Air Midwest or certain assets thereof. Air Midwest consists of turboprop operations, which includes our independent Mesa operations. Midwest Airlines code-share operations, and our Beechcraft 1900D turboprop code-share operations with US Airways. In connection with this decision, the Company began soliciting bids for the sale of the twenty Beechcraft 1900D aircraft in operation and began to take the necessary steps to exit the EAS markets that we serve and expect to be out of all EAS markets by the end of fiscal 2008. All assets and liabilities, results of operations, and other financial and operational data associated with these assets have been presented in the accompanying consolidated financial statements as discontinued operations separate from continuing operations, unless otherwise noted. For all periods presented, we reclassified operating results of the Air Midwest turboprop operation to loss from discontinued operations.

Code-Share Agreements

Freedom commenced operations with Delta in October 2005 and is contracted to operate up to 36 50-seat regional jet aircraft on routes throughout Delta's network. During the second quarter of 2007, Delta exercised its right to terminate our turboprop code-sharing agreement and we subsequently removed all 12 Dash 8 aircraft from service recognizing exit costs of $11.6 million, but agreed to expand our service pursuant to an amendment to our existing code-sharing agreement and an agreement for a new service. Under the terms of the new code-sharing agreement, we are authorized to operate 14 CRJ-900 aircraft as a Delta Connection carrier. This new service began in November 2007 and as of December 2007, we are operating two CRJ-900 aircraft for Delta's network.

Fleet

During fiscal 2007, we had a net reduction of 6 Dash-8's related to Delta's discontinuance of our turboprop code-sharing agreement, and we removed eight CRJ-200's; five from US Airways and three from United.

Aircraft in Operation at September 30:

Type of Aircraft	2007	2006	2005
CRJ-200/100 Regional Jet	52	60	56
CRJ-700 Regional Jet	20	15	15
CRJ-900 Regional Jet	38	38	37
Embraer 145 Regional Jet	36	36	36
Beechcraft 1900D	20	20	22
Dash-8	16	22	16
Total	182	191	182

Rotable Spare Parts Maintenance Agreements

In fiscal 2005, we entered into a ten-year agreement with AAR Corp. (the "AAR Agreement"), for the management and repair of certain of our CRJ-200, -700, -900 and ERJ-145 aircraft rotable spare parts inventory. The agreement was completed in November 2005. Under the AAR agreement, AAR purchased certain of our existing rotable spare parts inventory for $39.5 million in cash and $21.5 million in notes receivable. As of September 2007, $6.5 million remained outstanding and is due by AAR to Mesa at various dates over the next 2 years.

Summary of Financial Results — Continuing Operations

Mesa Air Group recorded a consolidated net loss from continuing operations of $71.5 million in fiscal 2007, representing a basic and diluted loss per share of $(2.31). This compares to consolidated net income from continuing operations of $37.1 million or $0.91 per diluted share in fiscal 2006 and consolidated net income from continuing operations of $61.6 million or $1.45 per diluted share in fiscal 2005.

Approximately 98% of our passenger revenue was associated with revenue-guarantee code-share agreements. Under the terms of our revenue-guarantee agreements, our major carrier partner controls the marketing, scheduling, ticketing, pricing and seat inventories. Our role is simply to operate our fleet in the safest and most reliable manner in exchange for fees paid under a generally fixed payment schedule. We receive a guaranteed payment based upon a fixed minimum monthly amount plus amounts related to departures and block hours flown in addition to direct reimbursement of expenses such as fuel, landing fees and insurance. Among other advantages, revenue-guarantee arrangements reduce our exposure to fluctuations in passenger traffic and fare levels, as well as fuel prices. In fiscal 2007, approximately 97% of our fuel purchases were reimbursed under revenue-guarantee code-share agreements. The remaining passenger revenues are derived from our ***go!*** operations.

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Results of Continuing Operations

The following tables set forth selected operating and financial data of the Company for the years indicated below.

	Operating Data Years Ended September 30, 2007	2006	2005
Passengers	15,993,110	14,506,666	12,598,849
Available seat miles (“ASM”) (000’s)	8,996,959	8,980,470	8,526,378
Revenue passenger miles (000’s)	6,879,624	6,777,016	6,091,456
Load factor	76.5%	75.4%	71.4%
Yield per revenue passenger mile (cents)	18.9	19.0	17.7
Revenue per ASM (cents)	14.4	14.3	12.6
Operating cost per ASM (cents)	15.2	13.2	11.1
Average stage length (miles)	392	433	439
Number of operating aircraft in fleet	162	171	162
Gallons of fuel consumed	201,526,868	205,593,333	194,770,284
Block hours flown	564,379	522,884	508,776
Departures	378,291	338,888	322,524

Operating Expense Data
Years Ended September 30,

	2007 Amount (000s)	2007 % of Total Net Revenues	2007 Cost per ASM (cents)	2006 Amount (000s)	2006 % of Total Net Revenues	2006 Cost per ASM (cents)	2005 Amount (000s)	2005 % of Total Net Revenues	2005 Cost per ASM (cents)
Flight operations	$ 382,504	29.5%	4.3	$ 368,023	28.6%	4.1	$ 314,007	29.2%	3.7
Fuel	438,010	33.7%	4.9	446,788	34.8%	5.0	290,161	27.0%	3.4
Maintenance	254,626	19.6%	2.8	213,317	16.6%	2.4	173,869	16.2%	2.0
Aircraft and traffic servicing	82,248	6.3%	0.9	72,615	5.7%	0.8	59,407	5.5%	0.7
Promotion and sales	3,605	0.3%	—	1,990	0.2%	—	4	0.0%	—
General and administrative	71,818	5.5%	0.8	56,940	4.4%	0.6	64,761	6.0%	0.8
Depreciation and amortization	39,354	3.0%	0.4	34,939	2.7%	0.4	42,054	3.9%	0.5
Loss contingency	86,870	6.7%	1.0	—	—	—	—	—	—
Bankruptcy and vendor settlements	434	0.0%	—	(12,098)	(0.9)%	(0.1)	—	—	—
Impairment and restructuring charges (credits)	12,367	1.0%	0.1	—	—	—	(1,257)	0.1%	—
Total operating expenses	1,371,836	105.7%	15.2	1,182,514	92.0%	13.2	943,006	87.6%	11.1
Interest expense	(39,380)	(3.0)%	(0.4)	(34,209)	(2.7)%	(0.4)	(41,324)	(3.8)%	(0.5)
Interest income	14,314	1.1%	0.2	12,076	0.9%	0.1	2,888	0.3%	—
Loss from equity method investments	(3,868)	(0.3)%	—	(2,490)	(0.2)%	—	—	0.0%	—
Other income (expense)	$ (6,216)	(0.5)%	(0.1)	$ (15,824)	(1.2)%	(0.2)	$ 4,837	0.4%	0.1

Note: Numbers in the table above may not be recalculated due to rounding.

Year Ended September 30, 2007 (000’s)	Segment Data Mesa/ Freedom	*go!*	Other	Elimination	Total
Total net operating revenues	$ 1,278,239	$ 25,654	$ 274,320	$ (280,149)	$ 1,298,064
Total operating expenses	1,245,422	39,587	328,569	(241,742)	1,371,836
Operating income (loss)	$ 32,817	$ (13,933)	$ (54,249)	$ (38,407)	$ (73,772)

Year Ended September 30, 2006 (000's)	Mesa/ Freedom	*go!*	Other	Elimination	Total
Total net operating revenues	$ 1,272,206	$ 9,165	$ 247,474	$ (243,942)	$ 1,284,903
Total operating expenses	1,168,390	15,010	209,381	(210,267)	1,182,514
Operating income (loss)	$ 103,816	$ (5,845)	$ 38,093	$ (33,675)	$ 102,389

Year Ended September 30, 2005 (000's)	Mesa/ Freedom	*go!*	Other	Elimination	Total
Total net operating revenues	$ 1,064,014	$ —	$ 300,261	$ (288,270)	$ 1,076,005
Total operating expenses	929,344	—	258,508	(244,846)	943,006
Operating income (loss)	$ 134,670	$ —	$ 41,753	$ (43,424)	$ 132,999

Fiscal 2007 Versus Fiscal 2006

Operating Revenues

In fiscal 2007, net operating revenue remained relatively unchanged at $1.3 billion for fiscal 2007 and fiscal 2006. Although contract revenue increased by $21.6 million, total operating revenues remained relatively unchanged in fiscal 2007 as compared to fiscal 2006. During the second quarter of fiscal 2007 the Company evaluated the recoverability of certain long-term assets which resulted in an impairment charge of $37.7 million. A portion of that charge, $25.3 million, related to certain contract incentives that had previously been paid to United and were reflected against gross revenue in the Statements of Operations. Operating revenues for ***go!*** increased $16.3 million, or 179.3%, primarily due to fiscal 2007 including twelve months of operations at ***go!*,** as compared to four months in fiscal 2006.

Operating Expenses

Flight Operations

In fiscal 2007, flight operations expense increased $14.5 million, or 3.9%, to $382.5 million from $368.0 million for fiscal 2006. On an ASM basis, flight operations expense increased 4.9% to 4.3 cents per ASM in fiscal 2007 from 4.1 cents per ASM in fiscal 2006. The increase is driven by incremental employee related expenses of approximately $13.0 million, which is primarily due to our Delta Dash-8 operation at JFK. In addition there was an increase due to ***go!*** results including twelve months of operations in fiscal 2007**,** as compared to four months in fiscal 2006.

Fuel

In fiscal 2007, fuel expense decreased by $8.8 million or 2.0%, to $438.0 million from $446.8 million for fiscal 2006. On an ASM basis, fuel expense decreased 2.0% to 4.9 cents per ASM in fiscal 2007 from 5.0 cents per ASM in fiscal 2006. Fuel cost per gallon in fiscal 2007 remained constant at $2.17 per gallon. The amount of fuel purchased in fiscal 2007 decreased resulting in an $8.8 million favorable volume variance. This decrease is due to a new direct supply agreement with United Airlines at three large stations. In fiscal 2007, approximately 97% of our fuel costs were reimbursed by our code-share partners.

Maintenance

In fiscal 2007, maintenance expense increased $41.3 million, or 19.4%, to $254.6 million from $213.3 million for fiscal 2006. On an ASM basis, maintenance expense increased 16.7% to 2.8 cents per ASM in fiscal 2007 from 2.4 cents per ASM in fiscal 2006. The increase in maintenance expense is primarily due to incremental costs of approximately $17.3 million related to changes in maintenance contracts and additional component repair, and aircraft heavy maintenance expense of approximately $19.3 million related to the aging CRJ-200 and Dash-8 fleet. Maintenance expense also increased as a result of increased headcount and the fact that ***go!*** included twelve months of operations in fiscal 2007 as compared to four months in fiscal 2006.

Aircraft and Traffic Servicing

In fiscal 2007, aircraft and traffic servicing expense increased by $9.6 million, or 13.3%, to $82.2 million from $72.6 million for fiscal 2006. On an ASM basis, aircraft and traffic servicing expense increased 13.1% to 0.9 cents per ASM in fiscal 2007 from 0.8 cents per ASM in fiscal 2006. Aircraft and traffic servicing related to our code-share operations increased $4.9 million, which is primarily due to incremental operations under the Delta contract in 2007 as compared to fiscal 2006. This increase is entirely reimbursed by our contract partner Delta, as it consists of passenger related costs, rents and landings. Aircraft and traffic servicing expenses at ***go!*** increased by $4.7 million, which is due to ***go!*** including twelve months of operations for fiscal 2007 as compared to four months in fiscal 2006.

Promotion and Sales

In fiscal 2007, promotion and sales expense increased by $1.6 million, or 81.2%, to $3.6 million from $2.0 million for fiscal 2006. The increase is due to ***go!*** results including twelve months of operations in fiscal year 2007 as compared to four months in fiscal 2006. We do not pay promotion and sales expenses under our regional jet revenue-guarantee contracts.

General and Administrative

In fiscal 2007, general and administrative expense increased $14.9 million, or 26.1%, to $71.8 million from $56.9 million for fiscal 2006. The increase is primarily related to bad debt expense, wages and legal expenses. Fiscal 2006 bad debt expense was reduced by the receipt of $7.2 million related to the Pre-Merger US Airways bankruptcy that was previously reserved and other items that were established in fiscal 2005. Wages increased in various corporate departments and legal expenses increased due to litigation involving ***go!*** and the start-up of the Chinese joint venture, Kunpeng Airlines.

Depreciation and Amortization

In fiscal 2007, depreciation and amortization expense increased $4.4 million, or 12.6%, to $39.4 million from $34.9 million for fiscal 2006. The increase was primarily due to the addition of three CRJ-700 aircraft during the second quarter of 2007, as well as a full years' depreciation on aircraft purchased in fiscal 2006. In addition, depreciation and amortization increased due to ***go!*** results including twelve months of operations in fiscal year 2007 as compared to four months in fiscal 2006.

Loss Contingency

On October 30, 2007, the United States Bankruptcy Court for the District of Hawaii found that the Company had violated the terms of a confidentiality agreement with Hawaiian Airlines and awarded Hawaiian $80.0 million in damages and ordered the Company to pay Hawaiian's cost of litigation, reasonable attorneys' fees and interest. The Company filed a notice of appeal to this ruling in November 2007 and posted a $90.0 million bond pending the outcome of this litigation. As a result, the Company recorded $86.9 million as a charge to the Statements of Operations in the fourth quarter of fiscal 2007.

Bankruptcy and Vendor Settlements

In fiscal 2007, the Company received approximately 48,000 shares of US Airways common stock as part of our bankruptcy claim against Pre-Merger US Airways and recognized an approximate $2.4 million benefit, as compared to a $12.1 million benefit based on shares of US Airways common stock received in fiscal 2006. In fiscal 2007, the $2.4 million benefit in bankruptcy settlement was offset by approximately $2.9 million for an AAR component repair contract settlement.

Impairment and Restructuring Charges

In fiscal 2007, in accordance with FAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company recorded an impairment charge of $12.4 million (which was in addition to the $25.3 million noted above) related to leasehold improvements pertaining to certain aircraft under the United and Delta code share agreements where the gross undiscounted cash flows related to long-lived assets was computed and found to be less than the carrying value of the long-lived assets. There were no such impairment charges in the twelve months ended September 30, 2006.

Interest Expense

In fiscal 2007, interest expense increased $5.2 million, or 15.1%, to $39.4 million from $34.2 million for fiscal 2006. Approximately one-half of this increase is due to higher average outstanding debt balances in fiscal 2007 as compared to fiscal 2006. The remainder of the increase is due to a higher variable rate portion of interest on our long-term debt.

Interest Income

In fiscal 2007, interest income increased $2.2 million, or 18.5%, to $14.3 million from $12.1 million for fiscal 2006. The increase is due to higher rates of return on our outstanding cash and cash equivalents and portfolio of marketable securities.

Loss from Equity Method Investments

In fiscal 2007, loss from equity method investments increased $1.4 million to $3.9 million from $2.5 million for fiscal 2006. The increase is due to our proportional share of losses on our investment in Kunpeng Airlines, which did not begin revenue generating activities until the end of fiscal 2007, our share of losses related to fiscal 2007 investment in the preferred shares of a closely held emerging markets payment processing related business, and losses associated with our 2006 investment in the common stock and notes of a closely held airline related business.

Other Income (Expense)

In fiscal 2007, other income (expense) decreased $9.6 million to ($6.2) million from ($15.8) million for fiscal 2006. The decrease is primarily due to $13.1 million in debt conversion expenses in fiscal 2006 that did not recur in fiscal 2007, partially offset by unrealized losses on investment securities.

Income Taxes

In fiscal 2007, our effective tax rate decreased from 40.1% for fiscal 2006 to 34.3%. The decrease in our effective tax rate is primarily due to the rate impact of the inverse relationship of operating losses and non-deductible items as well as increased valuation allowances and state-only tax items.

Fiscal 2006 Versus Fiscal 2005

Operating Revenues

In fiscal 2006, operating revenue increased by $208.9 million, or 19.4%, from $1.1 billion in fiscal 2005 to $1.3 billion in fiscal 2006. This increase is due, in large part, to a $155.8 million increase in fuel reimbursements by our code-share partners. In addition, fiscal 2006 included four months of our **go*!*** operations.

Operating Expenses

Flight Operations

In fiscal 2006, flight operations expense increased $54.0 million, or 10.8%, to $368.0 million from $314.0 million for fiscal 2005. On an ASM basis, flight operations expense increased 11.2% to 4.1 cents per ASM in fiscal 2006 from 3.7 cents per ASM in fiscal 2005. The increase is primarily driven by aircraft lease expense increasing $35.2 million in fiscal 2006, due to the sale and leaseback of 15 CRJ-900 aircraft in September 2005. In addition, wages and employee related expenses increased $18.4 million in fiscal 2006. These increases are a result of training costs associated with the transition of aircraft onto the Freedom certificate as well as the start up of the Company's Delta Dash-8 operations at New York's JFK airport. Flight operations expense also increased due to the start-up of ***go!*** operations.

Fuel

In fiscal 2006, fuel expense increased $156.6 million, or 47.1%, to $446.8 million from $290.2 million for fiscal 2005. On an ASM basis, fuel expense increased 46.0% to 5.0 cents per ASM in fiscal 2006 from 3.4 cents per ASM in fiscal 2005. Fuel cost per gallon in fiscal 2006 increased 45.6% from $1.49 per gallon in fiscal 2005 to $2.17 per gallon in fiscal 2006, resulting in a $140.5 million unfavorable price variance. In addition, the amount of fuel purchased in fiscal 2006 increased resulting in a $23.5 million unfavorable volume variance. In fiscal 2006, 99.9% of our fuel costs were reimbursed by our code-share partners.

Maintenance

In fiscal 2006, maintenance expense increased $39.4 million, or 22.7%, to $213.3 million from $173.9 million for fiscal 2005. On an ASM basis, maintenance expense increased 20% to 2.4 cents per ASM in fiscal 2006 from 2.0 cents per ASM in fiscal 2005. The increase was driven by an approximate $22.0 million increase in aircraft heavy maintenance and rotable spare part repair and rent expense, an approximate $8 million increase in engine maintenance, a $5.0 million increase in materials, repairs and servicing expenses, and a $2.3 million increase in hangar rent. These increases are due to the timing of certain maintenance events for the Company's aircraft and the establishment of additional bases to support the United and Delta operations.

Aircraft and Traffic Servicing

In fiscal 2006, aircraft and traffic servicing expense increased by $13.2 million, or 22.2%, to $72.6 million from $59.4 million for fiscal 2005. On an ASM basis, aircraft and traffic servicing expense increased 15.9% to 0.8 cents per ASM in fiscal 2006 from 0.7 cents per ASM in fiscal 2005. Aircraft and traffic servicing related to our code-share business increased $10.7 million, which included a $5.6 million increase in station rents and a $4.5 million increase in passenger related costs, primarily landing fees. These increases were mainly a result of moving into higher cost East Coast cities for United and Delta. These costs are reimbursed by our code-share partners. In addition, expenses were higher by $2.5 million due to the ***go!*** startup costs in 2006.

Promotion and Sales

We do not pay promotion and sales expenses under our regional jet revenue-guarantee contracts. In fiscal 2006 we incurred $2.0 million due to the startup of ***go!***. Promotion and sales expense in fiscal 2005 was negligible.

General and Administrative

In fiscal 2006, general and administrative expense decreased $7.8 million, or 12.1%, to $56.9 million from $64.8 million for fiscal 2005. The decrease was driven by administrative costs which included a $13.5 million reduction in bad debt expense from the Pre-Merger US Airways bankruptcy settlement and a $3 million reduction in medical expenses. These decreases were offset by a $1.8 million increase in legal expenses and a $1.7 million increase in utilities.

Depreciation and Amortization

In fiscal 2006, depreciation and amortization expense decreased $7.1 million, or 16.9%, to $34.9 million from $42.1 million for fiscal 2005. The decrease was primarily due to a $7.2 million reduction in depreciation expense as a result of permanently financing 15 CRJ-900 aircraft as operating leases in the fourth quarter of fiscal 2005.

Bankruptcy Settlement

In fiscal 2006, the Company received approximately 350,000 shares of US Airways common stock as part of our bankruptcy claim against Pre-Merger US Airways. The shares were valued at approximately $50 per share, therefore the Company recognized approximately $17.6 million in benefit from its claim. Of the $17.6 million, $5.5 million was applied to receivables that were previously reserved.

Impairment and Restructuring Charges

In fiscal 2005, we reversed $1.3 million in reserves for lease and lease return costs related to two Shorts 360 aircraft the Company returned to the lessor in January 2005.

Interest Expense

In fiscal 2006, interest expense decreased $7.1 million, or 17.2%, to $34.2 million from $41.3 million for fiscal 2005. The net decrease in interest expense was primarily due a $10.4 million reduction in interest expense as a result of permanently financing 15 CRJ-900 aircraft with operating leases in the fourth quarter of fiscal 2005, a $2.8 million reduction in convertible debt interest expense as a result of the conversion from debt to equity and a $1.0 million reduction in interest expense related to the financing of rotable inventory that was retired in the first quarter of fiscal 2006. These decreases were partially offset by a $6.4 million increase in interest expense on aircraft financing as a result of increases in variable interest rates.

Interest Income

In fiscal 2006, interest income increased $9.2 million to $12.1 million from $2.9 million for fiscal 2005. The increase is due to increases in the rates of return on our portfolio of marketable securities.

Loss from Equity Method Investments

In fiscal 2006, the Company participated with a private equity fund in making an investment in the common stock and notes of a closely held airline related business. Our proportional share of losses associated with this investment totaled $2.5 million. There were no such losses in 2005.

Other Income (Expense)

In fiscal 2006, other income (expense) increased $20.6 million from an income of $4.8 million for fiscal 2005 to an expense of ($15.8) million for fiscal 2006. The increase is primarily due to $13.1 million increase in debt conversion costs and a $5.1 million decrease in gains on investment securities.

Income Taxes

In fiscal 2006, our effective tax rate increased from 38.3% for fiscal 2005 to 40.1%. The increase in our effective tax rate is mainly due to the inability to deduct stock option expense related to incentive stock options for income tax purposes.

Results of Discontinued Operations

In the fourth quarter of fiscal 2007, we committed to a plan to sell Air Midwest or certain assets therein. In connection with this decision, the Company began soliciting bids for the sale of the twenty Beechcraft 1900D aircraft in operation and began to take the necessary steps to exit the EAS markets that we serve. Within the next fiscal year, the Company expects to sell Air Midwest in its entirety or sell certain operating assets thereof, primarily the twenty Beechcraft 1900's. For all periods presented, we reclassified operating results of the Air Midwest turboprop operation to loss from discontinued operations. All assets and liabilities associated with discontinued operations were reclassified to the balance sheet captions "Assets of discontinued operations" and "Liabilities of discontinued operations", respectively.

Loss from discontinued operations for fiscal 2007 was $10.0 million, compared to a loss from discontinued operations of $3.1 million and $4.7 million for fiscal 2006 and 2005, respectively. The increase in net loss from discontinued operations in fiscal 2007 as compared to prior years was due primarily to increased maintenance costs and engine overhauls. Only interest expense directly associated with the debt outstanding in connection with the owned aircraft is included in discontinued operations. No general overhead or interest expense not directly related to the Air Midwest turboprop operation has been included within discontinued operations. The carrying value of all assets and liabilities of the discontinued operation approximated fair market value, therefore no adjustments related thereto have been recorded. In addition, no costs associated with exit or disposal activities as contemplated by SFAS No. 146 have been recorded.

Liquidity and Capital Resources

Sources and Uses of Cash

At September 30, 2007, we had cash, cash equivalents, and marketable securities (including restricted cash) of $208.6 million, compared to $234.3 million at September 30, 2006. Our cash and cash equivalents and marketable securities are intended to be used for working capital, capital expenditures, acquisitions, and to fund our obligations with respect to regional jet deliveries.

Sources of cash for the year ended September 30, 2007 were due primarily to cash flows from operations of $101.7 million. This positive cash flow was driven by changes in assets and liabilities including, $59.0 million of proceeds from sales of investment securities, an increase in accrued liabilities, and the add-back of the accrual for the loss contingency related to the judgment against ***go!***.

Cash used in investing activities were $11.4 million driven by capital expenditures of $29.8 million related to the expansion of our regional jet fleet and related provisioning of rotable inventory to support the additional jets. These amounts were offset by proceeds from the sale of flight equipment and returns of deposits previously paid on leases and equipment.

Cash used in financing activities was $53.4 million due primarily to net reductions in long-term debt totaling $44.6 million and common stock repurchased by the Company totaling $40.1 million. These uses were partially offset by $30.7 million of proceeds from receipt of deferred credits during fiscal 2007.

As of September 30, 2007, we had net receivables of approximately $49.4 million, compared to net receivables of approximately $42.4 million as of September 30, 2006. The amounts due consist primarily of receivables due from our code-share partners, Federal Excise tax refunds on fuel, insurance proceeds, manufacturers credits and passenger ticket receivables due through the Airline Clearing House. Accounts receivable from our code-share partners were 47% of total gross accounts receivable at September 30, 2007.

Code-Share Partner's Bankruptcy

On September 14, 2005, Delta Air Lines, Inc. filed for reorganization under Chapter 11 of the US Bankruptcy Code. During the second quarter of 2007, as part of Delta's bankruptcy, we reached an agreement with Delta for an amendment to and assumption of our existing code-sharing agreement, as well as for a new code-sharing agreement to operate 14 CRJ-900 regional jet aircraft. After service begins pursuant to the amended code-sharing agreement and the new code-sharing agreement, our regional jet fleet flying for Delta will consist of 14 CRJ-900's and 36 ERJ-145s. Delta exited bankruptcy in April 2007.

Operating Leases

We have significant long-term lease obligations primarily relating to our aircraft fleet. The leases are classified as operating leases and are therefore excluded from our consolidated balance sheets. At September 30, 2007, we have 157 aircraft on lease with remaining lease terms ranging from 1 to 16.5 years**.** Future minimum lease payments due under all long-term operating leases were approximately $2.1 billion at September 30, 2007.

3.625% Senior Convertible Notes due 2024

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

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

6.25% Senior Convertible Notes Due 2023

In June 2003, we completed the private placement of senior convertible notes due 2023, which resulted in gross proceeds of $100.1 million ($96.9 million net). Cash interest is payable on the notes at the rate of 2.4829% per year on the aggregate amount due at maturity, payable semiannually in arrears on June 16 and December 16 of each year, beginning December 16, 2003, until June 16, 2008. After that date, we will not pay cash interest on the notes prior to maturity, and the notes will begin accruing original issue discount at a rate of 6.25% until maturity. On June 16, 2023, the maturity date of the notes, the principal amount of each note will be $1,000. The aggregate amount due at maturity, including interest accrued from June 16, 2008, of all these notes would have been $252 million (see discussion of fiscal 2006 conversion below). Each of our wholly-owned subsidiaries guarantees the notes on an unsecured senior basis. The notes and the note guarantees are senior unsecured obligations and rank equally with our existing and future senior unsecured indebtedness. The notes and the note guarantees are junior to the secured obligations of our wholly owned subsidiaries to the extent of the collateral pledged.

The notes were sold at an issue price of $397.27 per note and are convertible into shares of our common stock at a conversion rate of 39.727 shares per note, which equals a conversion price of $10 per share. This conversion rate is subject to adjustment in certain circumstances. Holders of the notes may convert their notes only if: (i) the sale price of our common stock exceeds 110% of the accreted conversion price for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding quarter; (ii) prior to June 16, 2018, the trading price for the notes falls below certain thresholds; (iii) the notes have been called for redemption; or (iv) specified corporate transactions occur. These notes became convertible in 2003. The Company may redeem the notes, in whole or in part, beginning on June 16, 2008, at a redemption price equal to the issue price, plus accrued original issue discount, plus any accrued and unpaid cash interest. The holders of the notes may require the Company to repurchase the notes on June 16, 2008 at a price of $397.27 per note ($37.8 million in aggregate) plus accrued and unpaid cash interest, if any, on June 16, 2013 at a price of $540.41 per note plus accrued and unpaid cash interest, if any, and on June 16, 2018 at a price of $735.13 per note plus accrued and unpaid cash interest, if any. The Company may pay the purchase price of such notes in cash, common stock, or a combination thereof.

In fiscal 2006, holders of $156.8 million in aggregate principal amount at maturity ($62.3 million carrying amount) of the Company's Senior Convertible Notes due 2023 (the "Notes") converted their Notes into shares of Mesa common stock. In connection with these conversions, the Company issued an aggregate of 6.2 million shares of Mesa common stock and also paid approximately $11.3 million in debt conversion costs to these Noteholders. The Company also wrote off $1.8 million in debt issue costs related to these notes. There were no such conversions in fiscal 2007.

Interim and Permanent Aircraft Financing Arrangements

At September 30, 2007, we had no aircraft on interim financing. In October 2006, we entered into interim financing with a manufacturer for one aircraft. We subsequently entered into permanent financing, in January 2007, for such aircraft along with five other aircraft that were on interim financing at September 30, 2006. Such permanent financing of six aircraft was under one debt facility comprising senior and subordinated notes for each aircraft. In April 2007, we entered into interim lease financing with a manufacturer for two aircraft and subsequently entered into permanent financing in July 2007, through a sale and leaseback transaction with an independent third-party lessor. Under interim financing arrangements, we take delivery and title of the aircraft prior to securing permanent financing and the acquisition of the aircraft is accounted for as a purchase with debt financing. Accordingly, we reflect the aircraft and debt under interim financing on our balance sheet during the interim financing period. After taking delivery of the aircraft, it is our practice and our intention to subsequently enter into permanent financing or a sale and leaseback transaction with an independent third-party lessor. The proceeds from permanent financing, or the sale and leaseback transaction are used to retire the notes payable to the manufacturer. Any gain recognized on the sale and leaseback transaction is deferred and amortized over the life of the lease. These interim financings agreements typically have a term of six months and provide for monthly interest only payments at LIBOR plus 3%. The current interim financing agreement with the manufacturer provides for us to have a maximum of 15 aircraft on interim financing at any one time.

Other Indebtedness and Obligations

During January 2007, the Company permanently financed three CRJ-900 and three CRJ-700 aircraft with a combination of senior and subordinated debt totaling $135.3 million. The senior debt, totaling $120.3 million, bears interest at the monthly LIBOR plus 2.25% and requires monthly principal and interest payments. The subordinated debt, totaling $15.0 million, bears interest at a fixed rate of 8.31% and requires monthly principal and interest payments.

In October 2004, the Company permanently financed five CRJ-900 aircraft with $118.0 million in debt. The debt bears interest at the monthly LIBOR plus 3% and requires monthly principal and interest payments.

In January and March 2004, the Company permanently financed five CRJ-700 and six CRJ-900 aircraft with $254.7 million in debt. The debt bears interest at the monthly LIBOR plus 3% and requires monthly principal and interest payments.

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

Restricted Cash

As of September 30, 2007, we had $12.2 million in restricted cash on deposit collateralizing various letters of credit outstanding and the ACH funding of our payroll.

Recent Developments — Posting of Bond in Hawaiian Litigation

In November 2007, we posted a $90.0 million bond in our litigation case with Hawaiian Airlines, which covers the original $80.0 million judgment, $4.7 million in legal fees, $3.4 million in interest and $1.9 million for additional costs. The bond was funded from cash on hand. See disclosure under “Litigation” for a summary of the Hawaiian Airlines litigation and the U.S. Bankruptcy Court’s ruling therein.

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 (1) made guarantees, (2) a retained or a contingent interest in transferred assets, (3) an obligation under derivative instruments classified as equity or (4) 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.

The Company has no off-balance sheet arrangements of the types described in the four categories above that they believe may have material current or future effect on financial condition, liquidity or results of operations.

Contractual Obligations

As of September 30, 2007, we had $674.3 million of long-term debt (including current maturities). This amount consisted of $493.4 million in notes payable related to owned aircraft used in continuing operations, $42.2 million in notes payable related to owned aircraft included in liabilities of discontinued operations, $137.8 in aggregate principal amount of our senior convertible notes due 2023 and 2024 and $0.9 million in other miscellaneous debt.

The following table sets forth our cash obligations (including principal and interest) as of September 30, 2007:

Obligations	Payment Due by Period 2008	2009(5)	2010	2011 (In thousands)	2012	Thereafter	Total
Long-term debt:							
Note payable related to CRJ700s and 900s(1)	$ 46,086	$ 45,206	$ 44,320	$ 43,395	$ 42,452	$ 255,101	$ 476,560
2003 senior convertible debt notes (assuming no conversions)(2)	1,182	—	—	—	—	95,234	96,416
2004 senior convertible debt notes (assuming no conversions)(3)	3,625	1,813	—	—	—	171,409	176,847
Senior CR7 CR9	13,699	13,702	13,706	13,709	13,713	120,828	189,357
Subordinate CR7 CR9	2,719	2,719	2,719	5,698	3,619	—	17,474
Notes payable related to B1900Ds(6)	11,938	11,938	28,978	25,152	9,063	—	87,069
Note payable related to CRJ200s(1)	3,000	3,000	3,000	3,000	3,000	11,952	26,952
Mortgage note payable	109	824	—	—	—	—	933
Other	25	25	25	25	25	—	125
Total long-term debt	82,383	79,227	92,748	90,979	71,872	654,524	1,071,733
Payments under operating leases:							
Cash aircraft rental payments(1)	220,707	196,055	194,879	200,910	203,875	1,071,325	2,087,751
Lease payments on equipment and operating facilities	1,392	962	947	956	880	318	5,455
Total lease payments	222,099	197,017	195,826	201,866	204,755	1,071,643	2,093,206
Future aircraft acquisition costs(4)	30,000	270,000	—	—	—	—	300,000
Minimum payments due under rotable spare parts maintenance agreement	26,650	29,371	32,225	32,614	33,153	103,323	257,336
Total	$ 361,132	$ 575,615	$ 320,799	$ 325,459	$ 309,780	$ 1,829,490	$ 3,722,275

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

(2) In the event that the holders of these notes exercise their right to require the Company to repurchase the notes on June 16, 2008 at a price of $397.27 per note, the Company could be obligated to pay $37.8 million in fiscal 2008. The Company may pay the purchase price of such notes in cash, common stock, or a combination thereof.

(3) In the event that the holders of these notes exercise their right to require the Company to repurchase the notes on February 10, 2009 at a price of $583.40 per note, the Company could be obligated to pay $100.0 million in fiscal 2009. The Company may pay the purchase price of such notes in cash, common stock, or a combination thereof.

(4) Represents the estimated cost of commitments to acquire ten CRJ-700 aircraft.

(5) Although not included in the table, the Company has committed to contribute an additional $26.5 million prior to May 16, 2009. See “Capital Contribution to Kunpeng.”

(6) Includes debt related to the 20 aircraft operated by Air Midwest that are currently held for sale. See discussion of discontinued operations in note 2 to the consolidated financial statements.

Maintenance Commitments

In January 1997, we entered into a 10-year engine maintenance contract with General Electric Aircraft Engines (“GE”) for CRJ-200 aircraft engines. The agreement, which covers 66 GE CF34-3B1 jet engines operated by the Company, was most recently amended in the third quarter of fiscal 2007. The amended contract provided for a one-time payment, equal monthly payments for the remainder of the contract’s term and sets out a reduced base rate hourly fee. The contract expires in December 2008, at which time the engines that were covered by such contract are expected to transition to and be covered by the DTO (as defined below) maintenance program (as contemplated by the MOU with DTO referenced below).

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

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

In May 2002, the Company entered into a five-year fleet management program with PWC to provide maintenance for the Company’s Beechcraft 1900D turboprop engines. The contract requires a monthly payment based upon flight hours incurred by the covered aircraft. The hourly rate is subject to annual adjustment based on changes in certain price indices and is guaranteed to increase by no less than 1.5% per year. The monthly charges are made for seventy-two months and services are covered for sixty months. Services provided in the last year are on a time and materials basis. Pursuant to the agreement, the Company sold certain assets of its Desert Turbine Services unit, as well as all spare PT6 engines to PWC for $6.8 million, which approximated the net book value of the assets. Pursuant to the agreement, the Company provided a working capital loan to PWC for the same amount, which is to be repaid through a reduced hourly rate being charged for maintenance. The loan had a balance of $0, $2.0 million and $2.8 million at September 30, 2007, 2006 and 2005, respectively. The agreement covers all of the Company’s Beechcraft 1900D turboprop aircraft and engines. The agreement also contains a termination clause and look back provision to provide for any shortfall between the cost of maintenance incurred by the provider and the amount paid up to the termination date by the Company and provides for return of a pro-rated share of the prepaid amount upon early termination. The Company does not anticipate an early termination under the contract.

In August 2005, we entered into a ten-year agreement with AAR Corp. (the “AAR Agreement”), for the management and repair of certain of our CRJ-200, -700, -900 and ERJ-145 aircraft rotable spare parts inventory. Under the agreement, the Company sold certain existing spare parts inventory to AAR for $39.6 million in cash and $21.5 million in notes receivable to be paid over four years. The AAR Agreement was contingent upon the Company terminating an agreement for its CRJ-200 aircraft rotable spare parts inventory with GE Capital Aviation Services (“GECAS”) and including these rotables in the arrangement. We terminated the GECAS agreement and finalized the AAR Agreement in November 2005. Upon entering into the agreement, the Company received $22.8 million ($23.8 million less $1.0 million deposit that was retained by AAR), which was recorded as a deposit at September 30, 2005, pending the termination of the GECAS agreement. An additional $15.8 million was received in the quarter ended December 31, 2005. Under the agreement, we are required to pay AAR a monthly fee based upon flight hours for access to and maintenance and servicing of the inventory. The agreement also contains certain minimum monthly payments that Mesa must make to AAR. As of September 30, 2007, the remaining minimum fees payable over the term of the agreement totaled $293.1 million. Based on this arrangement, we account for the transaction as a service agreement and an operating lease of rotable spare parts with AAR. The sale of the rotable spare parts resulted in a gain of $2.1 million, which has been deferred and is being recognized over the term of the agreement. At termination, we may elect to purchase the covered inventory at fair value, but are not contractually obligated to do so.

In June 2006, we entered into a separate two-year agreement with AAR for the management and repair of our CRJ-200 aircraft rotable spare parts inventory associated with our ***go!*** operations. Under this agreement, we transferred certain existing spare parts inventory to AAR for $1.2 million in cash. AAR is required to purchase an additional $2.9 million in rotable spare parts to support the agreement. Under the agreement, we are required to pay AAR a monthly fee based upon flight hours for access to and maintenance of the inventory. As of September 30, 2007, the remaining minimum fees payable over the term of the agreement totaled $5.8 million. At termination, we have guaranteed the fair value of the underlying rotables. Based on this arrangement, we account for the transaction as a financing arrangement, thus recording both the rotable spare parts inventory as an asset and the related payable to AAR as a liability.

During the second quarter of fiscal year 2007, we entered into a memorandum of understanding (“MOU”) with Delta’s Technical Operations division (“DTO”) for its previously uncovered General Electric Aircraft Engines (“GE”) engines. As referenced above, the MOU contemplates that the GE CF334-3B1 engines, currently covered by the GE contract (scheduled to expired in December 2008), will be transitioned to and covered by the DTO maintenance program. The MOU requires a monthly payment based upon the prior month’s flight hours incurred by the covered engines. The hourly rate increases over time based upon the engine overhaul costs that are expected to be incurred in that year and is subject to escalation based on changes in certain price indices. Maintenance expense is recognized based upon the product of flight hours flown and the rate in effect for the applicable period. Negotiations are continuing between the Company and DTO and we anticipate executing a final definitive agreement in the first quarter of fiscal year 2008.

We believe that the Company will be able to meet its ongoing financial requirements through a combination of existing liquidity, operational cash flows, refinancing or some type of capital market transaction.

Capital Contribution Commitment to Kunpeng

Under the terms of the Joint Venture Agreement, Shenzhen Airlines and the Company are obligated to contribute an additional RMB 204,000,000 and RMB 196,000,000 (approximately $27.6 million and $26.5 million, respectively, at December 10, 2007) to Kunpeng in accordance with Kunpeng’s operational requirements as determined by Kunpeng’s board of directors, but in any event, prior to May 16, 2009.

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

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

Under the Company's revenue-guarantee agreements with Delta, United and US Airways, the Company is reimbursed under a fixed rate per block-hour plus an amount per aircraft designed to reimburse the Company for certain aircraft ownership costs. In accordance with Emerging Issues Task Force Issue No. 01-08, "Determining Whether an Arrangement Contains a Lease," the Company has concluded that a component of its revenue under the agreement discussed above is rental income, inasmuch as the agreement identifies the "right of use" of a specific type and number of aircraft over a stated period of time. The amount deemed to be rental income during fiscal 2007, 2006 and 2005 was $261.8 million, $248.5 million and $235.5 million, respectively, and has been included in passenger revenue on the Company's consolidated statements of operations.

In connection with providing service under the Company's revenue-guarantee agreement with Pre-Merger US Airways, the Company's fuel reimbursement was capped at $0.85 per gallon. Under this agreement, the Company had the option to purchase fuel from a subsidiary of US Airways at the capped rate. As a result, amounts included in revenue for fuel reimbursement and expense for fuel cost may not have represented market rates for fuel for the Company's Pre-Merger US Airways flying. The Company purchased 12.7 million gallons and 67.4 million gallons of fuel under this arrangement in fiscal 2006 and 2005, respectively. The Company did not purchase any fuel under this arrangement in fiscal 2007.

The US Airways and Midwest Airlines Beechcraft 1900D turboprop code-share agreements are pro-rate agreements. Under a prorate agreement, we receive a percentage of the passenger's fare based on a standard industry formula that allocates revenue based on the percentage of transportation provided. Revenue from our pro-rate agreements and our independent operation is recognized when transportation is provided. Tickets sold but not yet used are included in air traffic liability on the consolidated balance sheets.

During the second quarter of fiscal 2007, as part of Delta's bankruptcy, we reached an agreement with Delta for an amendment to and assumption of our existing code-sharing agreement ("Amended DCA"), as well as for a new code-sharing agreement ("Expansion DCA"). The compensation structure for the Expansion DCA is similar to the structure in the Amended DCA, except that the CRJ-900 aircraft will be owned by Delta and leased to us for a nominal amount and no mark-up or incentive compensation will be paid on fuel costs above a certain level or on fuel provided by Delta. Additionally, certain major maintenance expense items (engine and airframe) will be reimbursed based on actual expenses incurred. As a result, our revenue and expenses attributable to flying the CRJ-900's will be substantially less than if we provided the aircraft.

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

Allowance for Doubtful Accounts

Amounts billed by the Company under revenue guarantee arrangements are subject to our interpretation of the applicable code-share agreement and are subject to audit by our code-share partners. Periodically our code-share partners dispute amounts billed and pay amounts less than the amount billed. Ultimate collection of the remaining amounts not only depends upon Mesa prevailing under audit, but also upon the financial well-being of the code-share partner. In the fourth quarter of fiscal 2007, we reached a settlement with respect to a dispute with US Airways related to fees payable pursuant to the code-share agreement. In settlement of this dispute through July 2007, US Airways has agreed to pay us a lump sum of $7,464,000 plus agreed upon monthly amounts per aircraft for the period commencing in August 2007 through the balance of the agreement. As such, we periodically review amounts past due and record a reserve for amounts estimated to be uncollectible. The allowance for doubtful accounts was $5.6 million and $1.6 million at September 30, 2007 and 2006, respectively. If our actual ability to collect these receivables and the actual financial viability of our partners is materially different than estimated, our estimate of the allowance could be materially misstated.

Aircraft Leases

The majority of the Company's aircraft are leased from third parties. In order to determine the proper classification of a lease as either an operating lease or a capital lease, the Company must make certain estimates at the inception of the lease relating to the economic useful life and the fair value of an asset as well as select an appropriate discount rate to be used in discounting future lease payments. These estimates are utilized by management in making computations as required by existing accounting standards that determine whether the lease is classified as an operating lease or a capital lease. All of the Company's aircraft leases have been classified as operating leases, which results in rental payments being charged to expense over the term of the related leases. Additionally, operating leases are not reflected in the Company's consolidated balance sheets and accordingly, neither a lease asset nor an obligation for future lease payments is reflected in the Company's consolidated balance sheets. In the event that the Company and/or one of its partners decide to exit an activity involving leased aircraft, losses may be incurred related to such an activity. In the event that the Company exits an activity that results in exit losses (as in the case of the Dash-8's previously discussed), these losses are accrued as each aircraft is removed from operations for early termination penalties, lease settle up and other charges.

Accrued Health Care Costs

We are currently self-insured up to a cap for health care costs and as such, a reserve for the cost of claims that have not been paid as of the balance sheet dates is estimated. Our estimate of this reserve is based upon historical claim experience and upon the recommendations of our health care provider. At September 30, 2007 and 2006, we accrued $2.2 million and $2.6 million, respectively, for the cost of future health care claims. If the ultimate development of these claims is significantly different than those that have been estimated, the accrual for future health care claims could be materially misstated.

Accrued Worker's Compensation Costs

Beginning in fiscal 2005, we implemented a new worker's compensation program. Under the program, we are self-insured up to a cap for worker's compensation claims and as such, a reserve for the cost of claims that have not been paid as of the balance sheet date is estimated. Our estimate of this reserve is based upon historical claim experience and upon the recommendations of our third-party administrator. At September 30, 2007 and 2006, we accrued $2.9 million and $3.4 million, respectively, for the cost of worker's compensation claims. If the ultimate development of these claims is significantly different than those that have been estimated, the accrual for future worker's compensation claims could be materially misstated.

Long-lived Assets, Aircraft and Parts Held for Sale

Property and equipment are stated at cost and depreciated over their estimated useful lives to their estimated salvage values using the straight-line method. Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may be impaired. Under the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company records an impairment loss if the undiscounted future cash flows are found to be less than the carrying amount of the asset. If an impairment loss has occurred, a charge is recorded to reduce the carrying amount of the asset to fair value. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. As previously discussed, we recorded significant losses in fiscal 2007 related to the impairment of long-lived assets.

As discussed previously, in February 2006, Hawaiian Airlines, Inc. ("Hawaiian") filed a complaint against us in the United States Bankruptcy Court for the District of Hawaii (the "Bankruptcy Court") alleging that we had breached, among other things, the terms of a Confidentiality Agreement. On October 30, 2007, the Bankruptcy Court found that we violated the terms of the Confidentiality Agreement and awarded Hawaiian $80.0 million in damages and ordered us to pay Hawaiian's cost of litigation, reasonable attorneys' fees and interest. While we have filed a notice of appeal to this ruling, we can give no assurance that our appeal will result in a favorable outcome for us. In November 2007, we posted a $90.0 million bond as security for the judgment amount by placing such amount with a surety acceptable to the Bankruptcy Court. In accordance with Financial Accounting Standards No. 5 "Accounting for Contingencies", ("FAS 5") we evaluated the judgment rendered against us for potential recognition in the financial statements. We determined that it was probable (defined as "likely to occur") that the Company had incurred a loss and the amount of that loss was reasonably estimable (as defined by FAS 5) and accordingly we recorded a loss contingency of $86.9 million as of September 30, 2007 representing the sum of the judgment, legal fees and interest in this matter.

Valuation of Deferred Tax Assets

The Company records deferred tax assets for the value of benefits expected to be realized from the utilization of alternative minimum tax credit carryforwards, capital loss carryforwards, and state and federal net operating loss carryforwards. We periodically review these assets for realizability based upon expected taxable income in the applicable taxing jurisdictions. To the extent we believe some portion of the benefit may not be realizable, an estimate of the unrealized portion is made and an allowance is recorded. At September 30, 2007 and 2006, we had a valuation allowance of $1.8 million and $0.6 million, respectively, for certain state net operating loss carryforwards because we believe we will not be able to generate sufficient taxable income in these jurisdictions in the future to realize the benefits of these recorded deferred tax assets. We believe we will generate sufficient taxable income in the future to realize the benefits of our other deferred tax assets. This belief is based upon the Company having had pretax income in four of the last five fiscal years and we have taken steps to minimize the financial impact of our unprofitable subsidiaries. Realization of these deferred tax assets is dependent upon generating sufficient taxable income prior to expiration of any net operating loss carryforwards. Although realization is not assured, management believes it is more likely than not that the remaining, recorded deferred tax assets will be realized. If the ultimate realization of these deferred tax assets is significantly different from our expectations, the value of its deferred tax assets could be materially overstated.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") ratified Emerging Issues Task Force Issue No. 06-3 ("EITF 06-3"), "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)." EITF 06-3 applies to any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer. EITF 06-3 allows companies to present taxes either gross within revenue and expense or net. If taxes subject to this issue are significant, a company is required to disclose its accounting policy for presenting taxes and the amount of such taxes that are recognized on a gross basis. The Company currently presents such taxes net, adopting EITF-06-03 during the second quarter of fiscal 2007. These taxes are currently not material to the Company's consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements." This standard defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosure about fair value measurements. This pronouncement applies to other accounting standards that require or permit fair value measurements. Accordingly, this statement does not require any new fair value measurement. This statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company will be required to adopt SFAS No. 157 in the first quarter of fiscal year 2009. We are in the process of evaluating the impact SFAS 157 will have on our financial condition and results of operations.

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

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 108 ("SAB 108"). Due to diversity in practice among registrants, SAB 108 expresses SEC staff views regarding the process by which misstatements in financial statements are evaluated for purposes of determining whether financial statement restatement is necessary. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB 108 did not have a material impact on the Company's consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are in the process of evaluating the impact FIN 48 will have on our financial condition and results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115" ("SFAS 159"). Under SFAS 159, companies have an opportunity to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact SFAS 159 will have on our financial condition and results of operations.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

We have exposure to market risk associated with changes in interest rates related primarily to our debt obligations and short-term marketable investment portfolio. Certain of our debt obligations are variable in rate and therefore have exposure to changes in interest rates. A 10% change in interest rates would result in an approximately $3.9 million impact on interest expense. We also have investments in debt securities. If short- term interest rates were to average 10% more than they did in fiscal year 2007 interest income would be impacted by approximately $1.4 million.

We have exposure to certain market risks associated with our aircraft fuel. Aviation fuel expense is a significant expense for any air carrier and even marginal changes in the cost of fuel greatly impact a carrier's profitability. Standard industry contracts do not generally provide protection against fuel price increases, nor do they insure availability of supply. However, the Delta, United and US Airways revenue-guarantee code-share agreements allow fuel costs to be reimbursed by the code-share partner, thereby reducing our overall exposure to fuel price fluctuations. In fiscal 2007, approximately 97% of our fuel requirements were associated with these contracts. Each one cent change in the price of jet fuel amounts to a $0.11 million change in annual fuel costs for that portion of fuel expense that is not reimbursed by our code-share partners.

As of December 10, 2007, our outstanding obligation to make additional capital contributions to Kunpeng under the Joint Venture Agreement had an aggregate fair value of approximately $26.5 million. The potential increase in the fair value of this obligation resulting from a 10% adverse change in quoted foreign currency exchange rates would be approximately $2.65 million at December 10, 2007.

Item 8. *Financial Statements and Supplementary Data*

Consolidated Financial Statements

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission have been omitted because they are not applicable, not required or the information has been furnished elsewhere.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Mesa Air Group, Inc.
Phoenix, Arizona

We have audited the accompanying consolidated balance sheets of Mesa Air Group, Inc. and subsidiaries (the "Company") as of September 30, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Mesa Air Group, Inc. and subsidiaries as of September 30, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, on October 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 123R, *Share-Based Payment*.

As discussed in Note 2 to the consolidated financial statements, the consolidated financial statements have been retrospectively adjusted for discontinued operations.

As discussed in Note 3 to the consolidated financial statements, substantially all of the Company's passenger revenue is derived from code-share agreements with Delta Air Lines, Inc. ("Delta"), United Airlines, Inc. ("United"), and America West Airlines, Inc. ("America West"), which currently operates as US Airways as a result of a merger between America West and US Airways, Inc. ("US Airways").

As discussed in Note 16 to the consolidated financial statements, on October 30, 2007, there was a judgment against the Company in the amount of $80 million related to a lawsuit. The Company filed a notice of appeal to this ruling in November 2007 and posted a $90 million bond pending the outcome of the litigation.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of September 30, 2007, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 14, 2008 expressed an adverse opinion on the Company's internal control over financial reporting because of a material weakness.

/s/ DELOITTE & TOUCHE LLP

Phoenix, Arizona
January 14, 2008

PART 1. FINANCIAL INFORMATION

MESA AIR GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended September 30,		
	2007	2006	2005
	(In thousands, except per share amounts)		
Operating revenues:			
Passenger	$ 1,313,220	$ 1,275,330	$ 1,063,826
Freight and other	10,168	9,573	12,179
Gross operating revenues	1,323,388	1,284,903	1,076,005
Impairment of contract incentives	(25,324)	—	—
Total net operating revenues	1,298,064	1,284,903	1,076,005
Operating expenses:			
Flight operations	382,504	368,023	314,007
Fuel	438,010	446,788	290,161
Maintenance	254,626	213,317	173,869
Aircraft and traffic servicing	82,248	72,615	59,407
Promotion and sales	3,605	1,990	4
General and administrative	71,818	56,940	64,761
Depreciation and amortization	39,354	34,939	42,054
Loss contingency	86,870	—	—
Bankruptcy and vendor settlements	434	(12,098)	—
Impairment and restructuring charges (credits)	12,367	—	(1,257)
Total operating expenses	1,371,836	1,182,514	943,006
Operating income (loss)	(73,772)	102,389	132,999
Other expense:			
Interest expense	(39,380)	(34,209)	(41,324)
Interest income	14,314	12,076	2,887
Loss from equity method investments	(3,868)	(2,490)	—
Other income (expense)	(6,216)	(15,824)	4,837
Total other expense	(35,150)	(40,447)	(33,600)
Income (loss) from continuing operations before taxes	(108,922)	61,942	99,400
Income tax provision (benefit)	(37,384)	24,839	37,837
Net income (loss) from continuing operations	(71,538)	37,103	61,563
Loss from discontinued operations, net of taxes	(10,023)	(3,136)	(4,696)
Net income (loss)	$ (81,561)	$ 33,967	$ 56,867
Basic income (loss) per common share:			
Income (loss) from continuing operations	$ (2.31)	$ 1.11	$ 2.11
Loss from discontinued operations	(0.32)	(0.10)	(0.16)
Net income (loss) per share	$ (2.63)	$ 1.01	$ 1.95
Diluted income (loss) per common share:			
Income (loss) from continuing operations	$ (2.31)	$ 0.91	$ 1.45
Loss from discontinued operations	(0.32)	(0.07)	(0.10)
Net income (loss) per share	$ (2.63)	$ 0.84	$ 1.35

See accompanying notes to consolidated financial statements.

MESA AIR GROUP, INC.

CONSOLIDATED BALANCE SHEETS

	September 30, 2007	September 30, 2006
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 72,377	$ 35,578
Marketable securities	124,016	186,764
Restricted cash	12,195	12,001
Receivables, net	49,366	42,422
Income tax receivable	877	615
Expendable parts and supplies, net	35,893	30,229
Prepaid expenses and other current assets	150,028	139,487
Deferred income taxes	46,123	4,115
Assets of discontinued operations	41,374	44,663
Total current assets	532,249	495,874
Property and equipment, net	627,136	634,154
Lease and equipment deposits	17,887	27,260
Equity method investments	16,364	12,510
Other assets	32,660	68,415
Total assets	$ 1,226,296	$ 1,238,213
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 70,179	$ 25,817
Short-term debt	—	123,076
Accounts payable	61,007	54,973
Air traffic liability	4,211	5,392
Accrued compensation	7,353	4,311
Income taxes payable	1,235	1,008
Other accrued expenses	143,836	40,571
Liabilities of discontinued operations	51,512	53,091
Total current liabilities	339,333	308,239
Long-term debt, excluding current portion	561,946	500,363
Deferred credits	118,578	101,723
Deferred income taxes	42,318	44,531
Other noncurrent liabilities	19,021	19,147
Total liabilities	1,081,196	974,003
Stockholders' equity:		
Preferred stock of no par value, 2,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock of no par value and additional paid-in capital, 75,000,000 shares authorized; 28,740,686 and 33,904,053 shares issued and outstanding, respectively	112,152	149,701
Retained earnings	32,948	114,509
Total stockholders' equity	145,100	264,210
Total liabilities and stockholders' equity	$ 1,226,296	$ 1,238,213

See accompanying notes to consolidated financial statements.

MESA AIR GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended September 30, 2007	2006 (In thousands)	2005
Cash Flows from Operating Activities:			
Net income (loss) from continuing operations	$ (71,538)	$ 37,103	$ 61,563
Net loss from discontinued operations	(10,023)	(3,136)	(4,696)
Net income (loss)	(81,561)	33,967	56,867
Adjustments to reconcile (loss) income to net cash flows provided by (used in) operating activities:			
Depreciation and amortization	41,243	36,537	44,231
Impairment charges	37,691	—	(1,257)
Deferred income taxes	(44,221)	22,988	31,625
Unrealized loss on investment securities	3,747	648	514
Loss from equity method investment	3,930	2,490	—
Amortization of deferred credits	(14,038)	(11,043)	(6,202)
Amortization of restricted stock awards	1,165	1,261	1,178
Amortization of contract incentive payments	1,311	3,488	—
Tax benefit on stock compensation	—	—	160
Loss on sale of assets	526	611	—
Stock option expense	805	2,313	—
Debt origination costs written-off	—	1,800	—
Provision for obsolete expendable parts and supplies	2,071	559	1,195
Provision for (recovery of) doubtful accounts	4,565	(6,607)	6,915
Changes in assets and liabilities:			
Net sales (purchases) of investment securities	59,003	(59,250)	(70,154)
Receivables	(12,167)	(9,447)	6,709
Income tax receivables	(262)	89	762
Expendable parts and supplies	(7,673)	542	(2,693)
Prepaid expenses	(10,554)	(41,296)	(58,704)
Other current assets	2,565	1,178	—
Contract incentive payments	—	(20,707)	(12,025)
Accounts payable	6,526	3,489	5,787
Income taxes payable	228	(227)	2,407
Loss contingency	86,870	—	—
Other accrued liabilities	19,901	20,060	(2,540)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	101,671	(16,557)	4,775

	Years Ended September 30, 2007	2006 (In thousands)	2005
Cash Flows from Investing Activities:			
Capital expenditures	(29,831)	(44,561)	(41,873)
Proceeds from sale of flight equipment	10,040	20,076	449
Equity method investment	—	(15,000)	—
Change in restricted cash	(194)	(3,153)	636
Investment deposits	(7,785)	—	—
Change in other assets	6,953	3,410	4,088
Net returns (payments) of lease and equipment deposits	9,375	(961)	1,608
NET CASH USED IN INVESTING ACTIVITIES	(11,442)	(40,189)	(35,092)
Cash Flows from Financing Activities:			
Principal payments on long-term debt	(44,617)	(36,038)	(28,911)
Payments on financing rotable inventory	—	(15,882)	—
Proceeds from exercise of stock options and issuance of warrants	573	6,364	813
Debt issuance costs	—	—	(3,177)
Proceeds from pending sale of rotable inventory (customer deposits)	—	—	22,750
Common stock purchased and retired	(40,091)	(18,643)	(11,252)
Proceeds from receipt of deferred credits	30,705	13,095	20,412
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(53,430)	(51,104)	635
NET CHANGE IN CASH AND CASH EQUIVALENTS	36,799	(107,850)	(29,682)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	35,578	143,428	173,110
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 72,377	$ 35,578	$ 143,428
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest, net of amounts capitalized	$ 42,486	$ 39,132	$ 45,694
Cash paid (refunded) for income taxes, net	2,620	(125)	336
SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Aircraft and engine delivered under interim financing provided by manufacturer	$ 23,644	$ 74,657	$ 351,187
Conversion of convertible debentures to common stock	—	62,278	—
Aircraft and engine debt permanently financed as operating lease	—	—	(397,432)
Short-term debt permanently financed as long-term debt	135,378	—	(118,041)
Inventory and other credits received in conjunction with aircraft financing	—	7,212	11,836
Note receivable received in conjunction with sale/financing of rotable spare parts inventory	—	18,835	—
Deferred gain on sale/financing of rotable spare parts inventory	—	2,174	—
Note receivable forgiven in retirement of rotable spare parts inventory	—	3,631	—
Rotable spare parts financed with long-term payable	—	4,157	—
Other assets reclassified to expendable inventory	—	1,677	—
Rotable spare parts reclassified to other assets	—	1,982	4,248
Receivable for credits related to aircraft financing	857	2,000	—

See accompanying notes to consolidated financial statements.

MESA AIR GROUP, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Number of Shares	Common Stock and Additional Paid-in Capital	Retained Earnings	Total
Balance at October 1, 2004	30,066,777	$ 105,229	$ 23,675	$ 128,904
Exercise of stock options	165,609	712	—	712
Common stock purchased and retired	(1,792,516)	(11,252)	—	(11,252)
Issuance of restricted stock	428,297	—	—	—
Amortization of restricted stock	—	1,178	—	1,178
Tax benefit — stock compensation	—	160	—	160
Amortization of warrants	—	33	—	33
Issuance of warrants	—	68	—	68
Net income	—	—	56,867	56,867
Balance at September 30, 2005	28,868,167	96,128	80,542	176,670
Conversion of debt to equity	6,227,845	62,278	—	62,278
Exercise of stock options and warrants	1,198,720	6,364	—	6,364
Common stock purchased and retired	(2,390,679)	(18,643)	—	(18,643)
Amortization of restricted stock	—	1,261	—	1,261
Stock based compensation	—	2,313	—	2,313
Net income	—	—	33,967	33,967
Balance at September 30, 2006	33,904,053	149,701	114,509	264,210
Exercise of stock options	123,149	573	—	573
Vesting of restricted stock	184,129	—	—	—
Common stock purchased and retired	(5,470,645)	(40,092)	—	(40,092)
Amortization of restricted stock	—	1,165	—	1,165
Stock based compensation	—	805	—	805
Net loss	—	—	(81,561)	(81,561)
Balance at September 30, 2007	28,740,686	$ 112,152	$ 32,948	$ 145,100

See accompanying notes to consolidated financial statements.

MESA AIR GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Three Years Ended September 30, 2007

1. Summary of Significant Accounting Policies

Principles of Consolidation and Organization

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

The Company is an independent regional airline serving 184 cities in 45 states, the District of Columbia, Canada, the Bahamas and Mexico. At September 30, 2007, the Company operated a fleet of 182 aircraft and had over 1,100 daily departures. The Company's airline operations are conducted by three regional airline subsidiaries primarily utilizing hub-and-spoke systems. Mesa Airlines operates as America West Express under a code-share agreement with America West Airlines, Inc. ("America West") which currently operates as US Airways and is referenced to herein as "US Airways;" as United Express under a code-share agreement with United Airlines, Inc. ("United"); and independently as ***go!*** The current US Airways is a result of a merger between America West and US Airways, Inc. ("Pre-Merger US Airways"). Freedom Airlines operates as Delta Connection under code-share agreements with Delta Airlines, Inc. ("Delta"). Air Midwest operates under code-share agreements with US Airways, Pre-Merger US Airways and Midwest Airlines, Inc. ("Midwest"). Air Midwest also operates an independent division, doing business as Mesa Airlines, from Albuquerque, New Mexico and select EAS markets. Approximately 98% of the Company's consolidated passenger revenues for 2007 were derived from operations associated with code-share agreements.

The financial arrangements between Mesa and its code-share partners involve either a revenue-guarantee or pro-rate arrangement. Under a revenue-guarantee arrangement, the major airline generally pays a monthly guaranteed amount. The US Airways jet and Dash-8 code-share agreement, the Delta agreements, and the United code-share agreement are revenue-guarantee flying agreements. Under the terms of these flying agreements, the major carrier controls marketing, scheduling, ticketing, pricing and seat inventories. The Company receives a guaranteed payment based upon a fixed minimum monthly amount plus amounts related to departures and block hours flown plus direct reimbursement for expenses such as fuel, landing fees and insurance. Among other advantages, revenue-guarantee arrangements reduce the Company's exposure to fluctuations in passenger traffic and fare levels, as well as fuel prices. The US Airways and the Pre-Merger US Airways Beechcraft 1900 agreements and the Midwest Airlines agreement are pro-rate agreements, for which the Company receives an allocated portion of the passengers' fare and pays all of the costs of transporting the passenger.

In addition to carrying passengers, the Company carries freight and express packages on its passenger flights and has interline small cargo freight agreements with many other carriers. Mesa also has contracts with the U.S. Postal Service for carriage of mail to the cities it serves and occasionally operates charter flights when its aircraft are not otherwise used for scheduled service.

Renewal of one code-share agreement with a code-share partner does not guarantee the renewal of any other code-share agreement with the same code-share partner. The agreements with US Airways expire in 2012; the regional jet revenue-guarantee agreements with Delta expire between January 2017 and January 2018, but can be terminated earlier in November 2012; the agreement with United expires between 2010 and 2018. The pro-rate agreement with Pre-Merger US Airways was scheduled to terminate in October 2006, but has been extended as the terms of a new agreement are negotiated. The Company expects to enter into a new agreement on substantially similar terms. The pro-rate agreement with Midwest can be terminated by either party upon six months prior written notice. Although the provisions of the code-share agreements vary from contract to contract, generally each agreement is subject to cancellation should the Company's subsidiaries fail to meet certain operating performance standards, and breach other contractual terms and conditions.

In the fourth quarter of fiscal 2007, the Company committed to a plan to sell Air Midwest or certain assets thereof. Air Midwest consists of turboprop operations, which includes our independent Mesa operations, Midwest Airlines code-share operations, and our Beechcraft 1900D turboprop code-share operations with US Airways. In connection with this decision, the Company began soliciting bids for the sale of the twenty Beechcraft 1900D aircraft in operation and began to take the necessary steps to exit the EAS markets that we serve. Accordingly, this operation has been presented as a discontinued operation within the consolidated financial statements in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". See note 2 "Discontinued Operations."

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted Cash

At September 30, 2007, the Company had $12.2 million in restricted cash on deposit with two financial institutions. We have an agreement with a financial institution for a $15.0 million letter of credit facility and to issue letters of credit for landing fees, workers compensation insurance and other business needs. Pursuant to the agreement, $11.4 million of outstanding letters of credit are required to be collateralized by amounts on deposit. The Company also must maintain $5.0 million on deposit with another financial institution to collateralize its direct deposit payroll.

Expendable Parts and Supplies

Expendable parts and supplies are stated at the lower of cost using the first-in, first-out method or market, and are charged to expense as they are used. The Company provides for an allowance for obsolescence over the useful life of its aircraft after considering the useful life of each aircraft fleet, the estimated cost of expendable parts expected to be on hand at the end of the useful life and the estimated salvage value of the parts. The Company reviews the adequacy of this allowance on a quarterly basis.

Property and Equipment

Property and equipment are stated at cost and depreciated over their estimated useful lives to their estimated salvage values, which are estimated to be 20% for flight equipment, using the straight-line method.

Estimated useful lives of the various classifications of property and equipment are as follows:

Buildings	30 years
Flight equipment	7-20 years
Equipment	5-12 years
Furniture and fixtures	3-5 years
Vehicles	5 years
Rotable inventory	Life of the aircraft or term of the lease, whichever is less
Leasehold improvements	Life of the asset or term of the lease, whichever is less

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may be impaired. Under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company records an impairment loss if the undiscounted future cash flows are found to be less than the carrying amount of the asset. If an impairment loss has occurred, a charge is recorded to reduce the carrying amount of the asset to fair value. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. See note 2 below.

In accordance with SFAS NO. 34 "Interest Capitalization", the Company capitalizes interest on required deposits related to airplane purchase contracts. The Company capitalized approximately $1.0 million, $1.1 million and $0.9 million of interest in fiscal 2007, 2006 and 2005, respectively.

Other Long-Term Assets

Other long-term assets primarily consist of the upfront payments associated with establishing financing for aircraft, contract incentive payments, prepaid maintenance, notes receivable received pursuant to rotable spare parts financings and debt issuance costs associated with the senior convertible notes. The financing costs are amortized over the lives of the associated aircraft leases which are primarily 16-18.5 years. Contract incentive payments are amortized over the term or the modified term of the code-share agreements. These amounts were found to be impaired and were written off in the second quarter of fiscal 2007. Prepaid maintenance is amortized over the term of the related maintenance contract based upon the hours flown by the related aircraft. The debt issuance costs are amortized over the life of the senior convertible notes.

Air Traffic Liability

Air traffic liability represents the cost of tickets sold but not yet used. The Company records the revenue associated with these tickets in the period the passenger flies. Revenue from unused tickets is recognized when the tickets expire.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in future years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company and its consolidated subsidiaries file a consolidated federal income tax return.

Notes Payable for Aircraft on Interim Financing

Aircraft under interim financing are recorded as a purchase with interim debt financing provided by the manufacturer. As such, the Company reflects the aircraft in property and equipment and the debt financing in short-term debt on its balance sheet during the interim financing period. Upon permanent financing, the proceeds from the financing or the sale and leaseback transaction are used to retire the notes payable to the manufacturer. Any gain recognized on a sale and leaseback transaction is deferred and amortized over the life of the lease.

Deferred Credits

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

Revenue Recognition

The Delta, United and US Airways regional jet code-share agreements are revenue-guarantee flying agreements. Under a revenue-guarantee arrangement, the major airline generally pays a fixed monthly minimum amount, plus certain additional amounts based upon the number of flights and block hours flown. The contracts also include reimbursement of certain costs incurred by Mesa in performing flight services. These costs, known as "pass-through costs," may include aircraft ownership costs, passenger and hull insurance, aircraft property taxes as well as, fuel, landing fees and catering. The Company records reimbursement of pass-through costs as revenue. In addition, the Company's code-share partners also provide, at no cost to Mesa, certain ground handling and customer service functions, as well as airport-related facilities and gates at their hubs and other cities. Services and facilities provided by code-share partners at no cost to the Company are presented net in the Company's financial statements, hence no amounts are recorded for revenue or expense for these items. The contracts also include a profit component that may be determined based on a percentage of profits on the Mesa flown flights, a profit margin on certain reimbursable costs as well as a profit margin based on certain operational benchmarks. The Company recognizes revenue under its revenue-guarantee agreements when the transportation is provided. The majority of the revenue under these contracts is known at the end of the accounting period and is booked as actual. The Company performs an estimate of the profit component based upon the information available at the end of the accounting period. All revenue recognized under these contracts is presented at the gross amount billed.

Under the Company's revenue-guarantee agreements with US Airways, United and Delta, the Company is reimbursed under a fixed rate per block-hour plus an amount per aircraft designed to reimburse the Company for certain aircraft ownership costs. In accordance with Emerging Issues Task Force Issue No. 01-08, "Determining Whether an Arrangement Contains a Lease," the Company has concluded that a component of its revenue under the agreements discussed above is rental income, inasmuch as the agreement identifies the "right of use" of a specific type and number of aircraft over a stated period of time. The amount deemed to be rental income during fiscal 2007, 2006 and 2005 was $261.8 million, $248.5 million and $235.5 million, respectively, and has been included in passenger revenue on the Company's consolidated statements of operations. Beginning in fiscal 2007, for certain large stations and code-share partners, the Company obtains fuel via a direct supply arrangement. Under such an arrangement, neither revenue nor expense is recorded.

In connection with providing service under the Company's revenue-guarantee agreement with Pre-Merger US Airways, the Company's fuel reimbursement was capped at $0.85 per gallon. Under this agreement, the Company had the option to purchase fuel from a subsidiary of US Airways at the capped rate. As a result, amounts included in revenue for fuel reimbursement and expense for fuel cost may not have represented market rates for fuel for the Company's Pre-Merger US Airways flying. The Company purchased 12.7 million gallons and 67.4 million gallons of fuel under this arrangement in fiscal 2006 and 2005, respectively. The Company did not purchase any fuel under this arrangement in fiscal 2007.

The US Airways, Pre-Merger US Airways and Midwest Airlines turboprop code-share agreements are pro-rate agreements. Under a pro-rate agreement, the Company receives a percentage of the passenger's fare based on a standard industry formula that allocates revenue based on the percentage of transportation provided. Revenue from the Company's pro-rate agreements and the Company's independent operation is recognized when transportation is provided. Tickets sold but not yet used are included in air traffic liability on the consolidated balance sheets.

During the second quarter of fiscal 2007, as part of Delta's bankruptcy, we reached an agreement with Delta for an amendment to and assumption of our existing code-sharing agreement ("Amended DCA"), as well as for a new code-sharing agreement ("Expansion DCA"). The compensation structure for the Expansion DCA is similar to the structure in the Amended DCA, except that the CRJ-900 aircraft will be owned by Delta and leased to us for a nominal amount and no mark-up or incentive compensation will be paid on fuel costs above a certain level or on fuel provided by Delta. Additionally, certain major maintenance expense items (engine and airframe) will be reimbursed based on actual expenses incurred. As a result, our revenue and expenses attributable to flying the CRJ-900's will be substantially less than if we provided the aircraft.

The Company also receives subsidies for providing scheduled air service to certain small or rural communities. Such revenue is recognized in the period in which the air service is provided. The amount of the subsidy payments is determined by the United States Department of Transportation on the basis of its evaluation of the amount of revenue needed to meet operating expenses and to provide a reasonable return on investment with respect to eligible routes. EAS rates are normally set for two-year contract periods for each city. See note 2 regarding discontinued operations.

Aircraft Leased to Other Airlines

The Company currently leases four Beechcraft 1900D aircraft to Gulfstream International Airlines and ten Beechcraft 1900D aircraft to Big Sky Transportation Co. These leases have a five-year term and are accounted for as operating leases. Aircraft under operating leases are recorded at cost, net of accumulated depreciation. Income from operating leases is recognized ratably over the term of the leases. As of September 30, 2007, the cost and accumulated depreciation of aircraft under operating leases was approximately $26.9 million and $6.3 million, respectively.

Minimum future rentals under noncancelable operating leases are as follows (in millions):

2008	$ 2.9
2009	2.9
2010	1.2
Total	$ 7.0

Maintenance Expense

The Company charges the cost of engine and aircraft maintenance to expense as incurred.

Earnings (Loss) Per Share

The Company accounts for earnings (loss) per share in accordance with SFAS No. 128, "Earnings per Share." Basic net income (loss) per share is computed by dividing net income by the weighted average number of common shares outstanding during the periods presented. Diluted net income (loss) per share reflects the potential dilution that could occur if outstanding common stock equivalents such as stock options and warrants were exercised using the treasury stock method. In addition, dilutive convertible securities are included in the denominator of the computation while interest on convertible debt, net of tax, is added back to the numerator. A reconciliation of the numerator and denominator used in computing income (loss) per share is as follows:

	Years Ended September 30,		
	2007	2006	2005
		(In thousands)	
Share calculation:			
Weighted average shares outstanding — basic	30,990	33,487	29,215
Effect of dilutive outstanding stock options and warrants	*	1,095	127
Effect of restricted stock	*	82	286
Effect of dilutive outstanding convertible debt	*	10,704	16,931
Weighted average shares outstanding — diluted	30,990	45,368	46,559
Adjustments to net income (loss):			
Net income (loss) from continuing operations	$ (71,538)	$ 37,103	$ 61,563
Interest expense on convertible debt, net of tax	*	4,251	6,097
Adjusted net income (loss) from continuing operations	$ (71,538)	$ 41,354	$ 67,660

***** Excluded from the calculation of dilutive earnings per share because the effect would have been antidilutive.

Options to purchase 3,615,488, 41,544 and 2,890,756 shares of common stock were outstanding during fiscal 2007, 2006 and 2005, respectively, but were excluded from the calculation of dilutive earnings per share because the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would have been anti-dilutive. For purposes of calculating basic and diluted loss per share from discontinued operations, basic weighted average shares were used in both calculations because the effect of common stock equivalents would have been antidilutive. As a result, the sum of dilutive earnings per share for continued and discontinued operations do not equal total net income per share for fiscal 2006 and fiscal 2005.

Stock Based Compensation

Effective October 1, 2005, the Company accounts for all stock-based compensation in accordance with the fair value recognition provisions in SFAS No. 123(R), "Share-Based Payment." Under the fair value recognition provisions of SFAS No. 123(R), stock-based compensation cost is measured at the grant date based on the value of the award and is recognized on a straight-line basis as expense over the vesting period. Under SFAS No. 123(R), the Company is required to use judgment in estimating the amount of stock-based awards that are expected to be forfeited. If actual forfeitures differ significantly from the original estimate, stock-based compensation expense and the results of operations could be materially impacted.

Prior to the adoption of SFAS No. 123(R), the Company accounted for stock-based employee compensation plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and its related interpretations ("APB No. 25"), and followed the pro forma net income, pro forma income per share and stock-based compensation plan disclosure requirements set forth in SFAS No. 123, "Accounting for Stock-Based Compensation."

The fair values of all stock options granted were estimated using the Black-Scholes-Merton option pricing model. The Black-Scholes-Merton model requires the input of highly subjective assumptions.

Use of Estimates in the Preparation of Financial Statements

The preparation of the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements. Actual results could differ from those estimates.

Segment Reporting

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," requires disclosures related to components of a company for which separate financial information is available that is evaluated regularly by a company's chief operating decision maker in deciding the allocation of resources and assessing performance. The Company has three airline operating subsidiaries, Mesa Airlines, Freedom Airlines and Air Midwest, as well as various other subsidiaries organized to provide support for the Company's airline operations. As discussed further in note 2 below, in the fourth quarter of fiscal 2007, we committed to a plan to sell certain assets used by Air Midwest and to discontinue our Air Midwest turboprop operations, which includes our independent Mesa operations, Midwest Airlines code-share operations, and our Beechcraft 1900D 19-seat turboprop code-share operations with US Airways. Accordingly, all assets and liabilities and results of operations associated with these operations have been presented in the consolidated financial statements as discontinued operations separate from continuing operations. After taking into consideration the discontinuance of Air Midwest operations, the Company has aggregated these subsidiaries into three reportable segments: Mesa Airlines / Freedom, ***go!*** and Other. Operating revenues in the Other segment are primarily sales of rotable and expendable parts to the Company's operating subsidiaries and ground handling services performed by employees of RAS for Mesa Airlines.

Recent Accounting Pronouncements

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

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are in the process of evaluating the impact FIN 48 will have on our financial condition and results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements." This standard defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosure about fair value measurements. This pronouncement applies to other accounting standards that require or permit fair value measurements. Accordingly, this statement does not require any new fair value measurement. This statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company will be required to adopt SFAS No. 157 in the first quarter of fiscal year 2009. Management has not yet determined the impact of adopting this statement.

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

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 108 ("SAB 108"). Due to diversity in practice among registrants, SAB 108 expresses SEC staff views regarding the process by which misstatements in financial statements are evaluated for purposes of determining whether financial statement restatement is necessary. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB 108 did not have a material impact on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115" ("SFAS 159"). Under SFAS 159, companies have an opportunity to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact SFAS 159 will have on our financial condition and results of operations.

2. Discontinued operations

In the fourth quarter of fiscal 2007, the Company committed to a plan to sell Air Midwest or certain assets thereof. Air Midwest consists of turboprop operations, which includes our independent Mesa operations, Midwest Airlines code-share operations, and our Beechcraft 1900D turboprop code-share operations with US Airways. In connection with this decision, the Company began soliciting bids for the sale of the twenty Beechcraft 1900D aircraft in operation and began to take the necessary steps to exit the EAS markets that we serve. Within the next fiscal year, the Company expects to sell Air Midwest in its entirety or sell certain operating assets thereof, primarily the twenty Beechcraft 1900's. Accordingly, all assets and liabilities and results of operations associated with these assets have been presented in the consolidated financial statements as discontinued operations separate from continuing operations in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets".

Revenues, loss before taxes, income tax benefit and net losses generated by discontinued operations were as follows:

	Years Ended September 30,		
	2007	2006 (In thousands)	2005
Revenue	$ 57,597	$ 52,294	$ 60,263
Loss before income taxes	$ (14,326)	$ (5,236)	$ (7,234)
Income tax benefit	(4,303)	(2,100)	(2,538)
Net loss from discontinued operations	$ (10,023)	$ (3,136)	$ (4,696)

Only interest expense directly associated with the debt outstanding in connection with the owned aircraft is included in discontinued operations. No general overhead or interest expense not directly related to the Air Midwest turboprop operation has been included within discontinued operations. The carrying value of all assets and liabilities of the discontinued operation approximated fair market value, therefore no adjustments related thereto have been recorded. In addition, no costs associated with exit or disposal activities as contemplated by SFAS No. 146 have been recorded. As discussed in note 12, we receive certain operating subsidies from Raytheon related to Beechcraft 1900D aircraft. This operating subsidy will decrease proportionally with the reduction of each aircraft.

Assets, including assets held for sale, and liabilities associated with the Air Midwest turboprop operation have been segregated from continuing operations and presented as assets and liabilities of discontinued operations in the consolidated balance sheets for all periods presented. In accordance with SFAS 144, depreciation and amortization related to assets held for sale will cease as of September 30, 2007. Assets and liabilities of the discontinued operations were as follows:

	September 30, 2007	September 30, 2006
	(In thousands)	
Current assets	$ 7,332	$ 7,559
Property and equipment, net	33,916	35,758
Other assets	126	1,346
Current liabilities	(9,306)	(7,043)
Current portion of long-term debt	(4,126)	(3,842)
Long-term debt excluding current portion	(38,080)	(42,206)
Net assets of discontinued operations	$ (10,183)	$ (8,428)

3. Concentrations

The Company has code-share agreements with Delta Air Lines, US Airways and United. Approximately 98%, 98% and 99% of the Company's consolidated passenger revenue for fiscal 2007, 2006 and 2005, respectively, were derived from these agreements. Accounts receivable from the Company's code-share partners were 42% and 45% of total gross accounts receivable at September 30, 2007 and 2006, respectively.

Passenger revenue from continuing operations received from US Airways amounted to 44%, 53% and 75% of the Company's total passenger revenue in fiscal 2007, 2006 and 2005, respectively. A termination of the US Airways revenue-guarantee code-share agreements would have a material adverse effect on the Company's business prospects, financial condition, results of operations and cash flows.

United, a subsidiary of UAL Corp., accounted for approximately 35%, 36% and 24% of the Company's passenger revenue in fiscal 2007, 2006 and 2005, respectively. A termination of the United agreement would have a material adverse effect on the Company's business prospects, financial condition, results of operations and cash flows.

Delta accounted for approximately 19% and 9% of the Company's passenger revenue in fiscal 2007 and 2006, respectively. A termination of the Delta agreement would have a material adverse effect on the Company's business prospects, financial condition, results of operations and cash flows.

4. Marketable Securities

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

SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," requires that all applicable investments be classified as trading securities, available for sale securities or held-to-maturity securities. At September 30, 2007, the Company had $124.0 million in marketable securities that include US Treasury notes, government bonds and corporate bonds. These investments are classified as trading securities during the periods presented and accordingly, are carried at market value with changes in value reflected in the current period operations. Unrealized losses relating to trading securities held at September 30, 2007 and 2006, were $3.8 million and $0.3 million, respectively.

The Company has determined that investments in auction rate securities ("ARS") should be classified as short-term investments. ARS generally have long-term maturities; however, these investments have characteristics similar to short-term investments because at predetermined intervals, generally every 28 days, there is a new auction process. As such, the Company classifies ARS as short-term investments. The balance of marketable securities at September 30, 2006 includes investments in ARS of $17.4 million. The Company did not have any investments in ARS at September 30, 2007.

5. Property and Equipment

Property and equipment consists of the following:

	September 30, 2007	September 30, 2006
	(In thousands)	
Flight equipment, substantially pledged	$ 748,395	$ 709,014
Other equipment	28,208	24,416
Leasehold improvements	3,736	3,576
Furniture and fixtures	1,127	1,141
Buildings	2,768	2,768
Vehicles	1,435	1,329
	785,669	742,244
Less accumulated depreciation and amortization	(158,533)	(108,090)
Net property and equipment	$ 627,136	$ 634,154

See note 2 regarding discontinued operations.

6. Short-Term Debt

At September 30, 2006, the Company had $123.1 million in notes payable to an aircraft manufacturer for aircraft on interim financing. At September 30, 2007 the Company did not have any aircraft under interim financing. Under interim financing arrangements, the Company takes delivery and title to the aircraft prior to securing permanent financing and the acquisition of the aircraft is accounted for as a purchase with debt financing. Accordingly, the Company reflects the aircraft and debt under interim financing on its balance sheet during the interim financing period. After taking delivery of the aircraft, it is the Company's intention to permanently finance the aircraft through long-term financings or as an operating lease through a sale and leaseback transaction with an independent third-party lessor. Upon permanent financing, the proceeds are used to retire the notes payable to the manufacturer. Any gain recognized on a sale and leaseback transaction is deferred and amortized over the life of the lease. These interim financing agreements are typically six months in length and provide for monthly interest only payments at LIBOR plus 3%. The current interim financing agreement with the manufacturer provides for the Company to have a maximum of 15 aircraft on interim financing at a given time.

7. Rotable Spare Parts Financings

In June 2004, the Company entered into an agreement with LogisTechs, Inc., a wholly-owned subsidiary of GE Capital Aviation Services ("GECAS"), whereby GECAS provided financing to the Company and the Company agreed to pay GECAS for the management and repair of certain of the Company's CRJ-200 aircraft rotable spare parts inventory. Under the agreement, the Company received $15.0 million in cash and a $6 million promissory note from GECAS. In August 2005, Mesa notified GECAS of its intent to terminate the agreement in order to enter into the AAR Agreement (discussed below), and as such, the Company was required to repay the $19.7 million of outstanding financing at September 30, 2005. The liability was retired with cash of $15.9 million and included offsetting $3.8 million in notes receivable from GECAS. The agreement was terminated and this amount was repaid in November 2005.

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

Future minimum payments under the agreement are as follows:

	Years Ending September 30, (In thousands)
2008	$ 31,036
2009	33,738
2010	36,832
2011	37,201
2012	37,748
Thereafter	116,551
	$ 293,106

In June 2006, the Company entered into a separate two-year agreement with AAR, for the management and repair of the Company’s CRJ-200 aircraft rotable spare parts inventory associated with its ***go!*** operations. Under the agreement, the Company sold certain existing spare parts inventory to AAR for $1.2 million in cash. AAR was required to purchase an additional $2.9 million in rotable spare parts to support the agreement. Under the agreement, the Company is required to pay AAR a monthly fee based upon flight hours for access to and maintenance of the inventory. As of September 30, 2007, the remaining minimum fees payable over the term of the agreement totaled $5.8 million. At termination, the Company has guaranteed the fair value of the underlying rotables. Based on this arrangement, the Company accounts for the transaction as a financing arrangement, thus recording both the rotable spare parts inventory as an asset and the related payable to AAR in other noncurrent liabilities.

8. Deferred Credits

The Company accounts for purchase incentives provided by aircraft manufacturers as deferred credits. These credits are amortized over the life of the related aircraft lease as a reduction of lease expense, which is included in flight operations in the statements of operations. Purchase incentives include credits that may be used to purchase spare parts, pay for training expenses or reduce other aircraft operating costs. Deferred credits also include deferred gains on the sale and leaseback of interim financed aircraft. These deferred gains are also amortized over the life of the related leases as a reduction of lease expense, which is included in flight operations in the statements of operations.

9. Long-Term Debt

During January 2007, the Company permanently financed three CRJ-900 and three CRJ-700 aircraft with a combination of senior and subordinated debt totaling $135.4 million. The senior debt, totaling $120.3 million, bears interest at the monthly LIBOR plus 2.25% and requires monthly principal and interest payments. The subordinated debt, totaling $15.1 million, bears interest at a fixed rate of 8.31%, and requires monthly principal and interest payments.

In October 2004, the Company permanently financed five CRJ-900 aircraft with $118.0 million in debt. The debt bears interest at the monthly LIBOR plus 3% and requires monthly principal and interest payments. These aircraft had originally been financed with interim debt financing from the manufacturer.

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

In January and March 2004, the Company permanently financed five CRJ-700 and six CRJ-900 aircraft with $254.7 million in debt. The debt bears interest at the monthly LIBOR plus 3% and requires monthly principal and interest payments.

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

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

In June 2003, the Company completed the private placement of senior convertible notes (the "June 2003 Notes") due 2023, which resulted in gross proceeds of $100.1 million ($96.9 million net). Cash interest is payable on these notes at a rate of 2.4829% per year on the aggregate amount due at maturity, payable semiannually in arrears on June 16 and December 16 of each year, beginning December 16, 2003, until June 16, 2008. After that date, the Company will not pay cash interest on these notes prior to maturity, and the notes will begin accruing compounded interest at a rate of 6.25% until maturity. On June 16, 2023, the maturity date of these notes, the principal amount of each note will be $1,000. The aggregate amount due at maturity, including interest accrued from June 16, 2008, would have been $252 million (see subsequent partial conversion below). The June 2003 Notes and the note guarantees are senior unsecured obligations and rank equally with the Company's existing and future senior unsecured indebtedness. These notes and the note guarantees are junior to any secured obligations of the Company and any of its wholly owned subsidiaries to the extent of the collateral pledged.

The June 2003 Notes were sold at an issue price of $397.27 per note and are convertible into shares of the Company's common stock at a conversion rate of 39.727 shares per note, which equals a conversion price of $10 per share. This conversion rate is subject to adjustment in certain circumstances. Holders of these notes may convert their notes only if: (i) the sale price of the Company's common stock exceeds 110% of the accreted conversion price for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding quarter; (ii) prior to June 16, 2018, the trading price for these notes falls below certain thresholds; (iii) these notes have been called for redemption; or (iv) specified corporate transactions occur. As the sale price of our common stock exceeded 110% of the accreted conversion price for at least 20 trading days in the 30 consecutive trading day period ending September 30, 2003, these notes became convertible September 30, 2003. The Company may redeem these notes, in whole or in part, beginning on June 16, 2008, at a redemption price equal to the issue price, plus accrued original issue discount, plus any accrued and unpaid cash interest. The holders of these notes may require the Company to repurchase the notes on June 16, 2008 at a price of $397.27 per note ($37.8 million in aggregate) plus accrued and unpaid cash interest, if any, on June 16, 2013 at a price of $540.41 per note plus accrued and unpaid cash interest, if any, and on June 16, 2018 at a price of $735.13 per note plus accrued and unpaid cash interest, if any. Since the holders may require the Company to repurchase the notes on June 16, 2008, the remaining liability, or $37.8 million has been included within "Current portion of long-term debt" in the accompanying Consolidated Balance Sheets at September 30, 2007. The Company may pay the purchase price of such notes in cash, common stock, or a combination thereof.

During fiscal 2006, holders of $156.8 million in aggregate principal amount at maturity ($62.3 million carrying amount) of the June 2003 notes converted their notes into shares of Mesa common stock. In connection with these conversions, the Company issued an aggregate of 6,227,845 shares of Mesa common stock in accordance with the terms of the indenture and also paid approximately $11.3 million to these Noteholders. The Company also wrote off $1.8 million in debt issue costs related to these notes. Amounts paid to Noteholders and the write-off of debt issue costs were recorded as Other Expense in the consolidated statements of operations. Under the terms of the Notes, each $1,000 of aggregate principal amount at maturity of Notes is convertible into 39.727 shares of Mesa common stock at the option of the Noteholders. The shares of common stock issuable upon conversion of the Notes have previously been included in the calculation of diluted earnings per share. Consequently, issuance of the shares will not be further dilutive to reported diluted earnings per share.

Repayment of the February 2004 and June 2003 Notes (collectively, the "Notes") is jointly and severally guaranteed on an unconditional basis by the Company's wholly-owned subsidiaries. Except as otherwise specified in the indentures pursuant to which the Notes were issued, there are no restrictions on the ability of such subsidiaries to transfer funds to the Company in the form of cash dividends, loans or advances. General provisions of applicable state law, however, may limit the ability of any subsidiary to pay dividends or make distributions to the Company in certain circumstances.

Separate financial statements of the Company's subsidiaries are not included herein because the aggregate assets, liabilities, earnings, and equity of the subsidiaries are substantially equivalent to the assets, liabilities, earnings, and equity of the Company on a consolidated basis; the parent company does not contain any material assets or operations except for the loss contingency related to the Hawaiian litigation recorded in the fourth quarter of fiscal 2007, the subsidiaries are jointly and severally liable for the repayment of the notes and the separate financial statements and other disclosures concerning the subsidiaries are not deemed by the Company to be material to investors.

Long-term debt consists of the following:

	September 30, 2007	September 30, 2006
	(In thousands)	
Notes payable to bank, collateralized by the underlying aircraft, due 2019	$ 309,646	$ 329,478
Senior convertible notes due June 2023	37,834	37,834
Senior convertible notes due February 2024	100,000	100,000
Notes payable to manufacturer, principal and interest due monthly through 2011, interest at LIBOR plus 1.8% (7.12% at September 30, 2007), collateralized by the underlying aircraft	30,544	33,242
Note payable to financial institution due 2013, principal and interest due monthly at 7% per annum through 2008 converting to 12.5% thereafter, collateralized by the underlying aircraft	21,384	22,831
Notes payable to financial institution, principal and interest due monthly through 2022, interest at LIBOR plus 2.25% (7.57% at September 30, 2007), collateralized by the underlying aircraft	117,609	—
Notes payable to financial institution, principal and interest due monthly through 2012, interest at 8.3% per annum, collateralized by the underlying aircraft	14,167	—
Note payable to manufacturer, principal due semi-annually, interest at 7% due quarterly through 2007	—	1,792
Mortgage note payable to bank, principal and interest at 7.5% due monthly through 2009	837	882
Other	104	121
Total debt	632,125	526,180
Less current portion	(70,179)	(25,817)
Long-term debt	$ 561,946	$ 500,363

Principal maturities of long-term debt for each of the next five years and thereafter are as follows (1):

	Years Ending September 30, (In thousands)
2008	$ 70,179
2009	34,447
2010	40,944
2011	48,773
2012	41,837
Thereafter	395,945
	$ 632,125

(1) See note 2 for long-term debt associated with discontinued operations.

10. Common Stock Purchase and Retirement

The Company's Board of Directors has authorized the Company to purchase up to 29.4 million shares of the Company's outstanding common stock. As of September 30, 2007, the Company has acquired and retired approximately 15.9 million shares of its outstanding common stock at an aggregate cost of approximately $106.8 million, leaving approximately 13.5 million shares available for purchase under the current Board authorizations. Purchases are made at management's discretion based on market conditions and the Company's financial resources.

11. Income Taxes

Income tax expense (benefit) consists of the following:

	Years Ended September 30, 2007	2006 (In thousands)	2005
Current:			
Federal	$ —	$ 642	$ 1,844
State	2,461	680	1,608
	2,461	1,322	3,452
Deferred:			
Federal	(37,933)	22,054	31,294
State	(1,912)	1,463	3,091
	(39,845)	23,517	34,385
	$ (37,384)	$ 24,839	$ 37,837

The difference between the actual income tax expense and the statutory tax expense (computed by applying the U.S. federal statutory income tax rate of 35% to income or loss before income taxes) is as follows:

	Years Ended September 30, 2007	2006 (In thousands)	2005
Computed "expected" tax expense (benefit)	$ (38,123)	$ 21,680	$ 34,790
Increase (reduction) in income taxes resulting from:			
State taxes, net of federal taxes	549	2,094	3,217
Nondeductible stock compensation expense	13	406	62
Nondeductible compensation		204	6
Other	177	455	(238)
	$ (37,384)	$ 24,839	$ 37,837

Elements of deferred income tax assets (liabilities) are as follows:

	September 30, 2007	September 30, 2006
	(In thousands)	
Deferred tax assets:		
Net operating loss carryforwards	$ 55,321	$ 41,900
Deferred credits	42,936	28,834
Other accrued expenses	1,357	5,085
Deferred gains	2,573	2,786
Other	1,400	2,758
Alternative minimum tax	3,247	3,174
Expendable parts	—	1,038
Other reserves and estimated losses	39,229	—
Equity method investments	2,040	958
Allowance for doubtful receivables	2,132	613
Intangibles	175	275
Unrealized trading losses	1,438	116
Equity and deferred compensation	2,821	—
Excess tax benefits in NOLs not yet reducing current tax	(2,653)	—
Valuation allowance	(1,763)	(567)
Total deferred tax assets	$ 150,253	$ 86,970
Deferred tax liabilities:		
Property and equipment	$ (143,488)	$ (123,634)
Other	(2,960)	(3,752)
Total deferred tax liabilities	$ (146,448)	$ (127,386)

Deferred tax assets include benefits expected to be realized from the utilization of alternative minimum tax credit carryforwards of approximately $3.2 million that do not expire and gross federal net operating loss carryforwards of approximately $141 million that expire in years 2017 through 2027. The Company also has gross state net operating loss carryforwards of approximately $130 million that expire in years 2008 through 2027. Due to requirements under SFAS 123R, a portion of recognized equity compensation included in the NOL carryovers previously noted are not yet recorded by the Company as an adjustment to Additional Paid in Capital in the amount of $2.7 million. Recording of this asset will occur when the deductions to which it relates actually reduce current tax payable. The Company has a valuation allowance of $1.8 million for certain state net operating loss carryforwards that are expected to expire unutilized in the future. Realization of the remaining deferred tax assets is dependent upon generating sufficient taxable income prior to expiration of any net operating loss carryforwards. Although realization is not assured, management believes it is more likely than not that the recorded deferred tax asset, net of the valuation allowance provided, will be realized.

12. Stockholders' Equity

In February 2002, the Company entered into an agreement with Raytheon Aircraft Company (the "Raytheon Agreement") to, among other things, reduce the operating costs of the Company's Beechcraft 1900D fleet. In connection with the Raytheon Agreement and subject to the terms and conditions contained therein, Raytheon agreed to provide up to $5.5 million in annual operating subsidy payments to the Company contingent upon the Company continuing, in part, to fly such aircraft and remaining current on its payment obligations to Raytheon.

Approximately $5.2 million, $5.3 million and $5.3 million was recorded as a reduction to flight operations during fiscal 2007, 2006 and 2005, respectively. In return, the Company granted Raytheon a warrant to purchase up to 233,068 shares of our common stock at a per share exercise price of $10. The Company recorded the issuance of the warrant at a value of $0.4 million within stockholders' equity as a debit and credit to common stock. The contra equity value of the warrant was being amortized to expense over the vesting period of three years. Raytheon must pay a purchase price of $1.50 per common share underlying the warrant. The warrant was exercisable at any time over a three-year period following its date of purchase. Raytheon is completely vested in the 233,068 shares of common stock underlying the warrant. As of September 30, 2005, Raytheon has exercised its option to purchase all components of the warrant. As discussed in note 2, the Company is attempting to sell Air Midwest or certain assets thereof, and began soliciting bids for the sale of the 20 Beechcraft 1900D aircraft used in operations by Air Midwest. This operating subsidy will decrease proportionally with the reduction of each aircraft.

13. Stock-Based Compensation

Prior to October 1, 2005, the Company accounted for stock-based compensation plans under the recognition and measurement provisions of Accounting Principles Board Opinion ("APB") No. 25, *"Accounting for Stock Issued to Employees"*, and related interpretations, as permitted by SFAS No. 123, *"Accounting for Stock-Based Compensation"*. Effective October 1, 2005, the Company adopted the fair value recognition provisions of SFAS No. 123(R), *"Share-Based Payments"*, using the modified prospective transition method: option awards granted, modified, or settled after the date of adoption are required to be measured and accounted for in accordance with SFAS No. 123(R). Unvested equity-classified awards that were granted prior to the effective date will continue to be accounted for in accordance with SFAS No. 123, and compensation amounts for awards that vest will now be recognized in the Statements of Operations as an expense.

Stock-based compensation costs recognized in the financial statements for the year ended September 30, 2007 include: (a) compensation cost for all share-based payments granted prior to October 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted subsequent to September 30, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R).

As of September 30, 2007, the Company had seven stock-based incentive plans, which are described below. Generally, options are granted with an exercise price equal to the market price of the Company's stock at the date of grant. Options and restricted stock granted to employees generally vest over a three to five year period and have a contractual term of ten years. Options and restricted stock granted to directors vest over varying periods following the date of grant and have a contractual term of ten years.

The compensation cost that has been charged against income for stock options and restricted shares issued under these plans was $0.8 million and $1.2 million, respectively, for fiscal 2007, and $2.3 million and $1.3 million, respectively, for fiscal 2006. The total income tax benefit recognized in the consolidated statements of operations for share based compensation arrangements was $0.7 million for fiscal 2007.

Prior to the adoption of SFAS No. 123(R), the Company presented all tax benefits resulting from the exercise of stock options as operating cash flows in the consolidated statement of cash flows. SFAS No. 123(R) requires cash flows resulting from excess tax benefits to be classified as financing cash flows. Excess tax benefits result from tax deductions in excess of the compensation cost recognized for those options. For the fiscal year ended September 30, 2007 the Company did not recognize any excess tax benefits due to federal and state net operating losses.

In March 1993, and December 1994, the Company adopted stock option plans for outside directors. These plans originally provided for the grant of options to purchase up to 450,000 shares of the Company's common stock at fair value on the date of grant. At September 30, 2007, there were 13,000 options outstanding under this plan. There are no options available for grant under this plan.

In April 1996, the Company adopted an employee stock option plan under the new management incentive program (the “1996 Stock Option Plan”) that provides for the granting of options to purchase up to 2,800,000 shares of the Company’s common stock at the fair value on the date of grant. On July 24, 1998, an additional 1,500,000 options were approved by the stockholders to be granted under this plan. At September 30, 2007, there were 1,045,624 options outstanding. No future grants will be made under this plan.

In June 1998, the Company adopted a Key Officer Stock Option Plan for compensating the Company’s Chief Executive Officer and Chief Operating Officer, which provided for the grant of options to purchase up to 1,600,000 shares of the Company’s common stock at the fair value on the date of grant. At September 30, 2007 there were 1,112,533 options outstanding. There are no options available for grant under this plan.

In July 1998, the Company adopted a second stock option plan for outside directors (the “Outside Directors Plan”). This plan, as amended, provides for the grant of options to purchase up to 275,000 shares of the Company’s common stock at the fair value on the date of the grant. On February 11, 2003 an additional 200,000 options were approved by the stockholders to be granted under this plan. On February 6, 2007, the stockholders approved an Amended and Restated Director Incentive Plan (the “Director Incentive Plan”), which does not increase the number of shares available for issuance under the existing Outside Directors Plan. The Director Incentive Plan replaced the Outside Directors Plan and provides for the possibility of granting restricted stock as well as options. At September 30, 2007, there were 130,645 options outstanding, 21,978 unvested restricted stock awards outstanding and 112,816 options or restricted stock awards available for future grants under this plan.

In June 1999, the Company adopted the 1999 Non-Qualified Stock Option Plan. At September 30, 2007, there were 12,428 options outstanding and there are no options available for future grants under this plan.

In October 2001, the Company adopted a Key Officer Stock Option Plan for compensating the Company’s Chief Executive Officer and Chief Operating Officer, which provided for the grant of options to purchase up to 2,000,000 shares of the Company’s common stock at the fair value on the date of grant. At September 30, 2007, there were 836,000 options outstanding and no options available for future grants under this plan.

In February 2005, the Company’s stockholders approved the adoption of the 2005 Employee Stock Incentive Plan. The plan provides for the granting of options to purchase or the issuance of restricted stock of up to 1,500,000 shares of common stock to officers and key employees. At September 30, 2007, there were 465,258 options outstanding, 530,594 unvested restricted stock awards outstanding and 824,123 options or restricted stock awards available for future grants under this plan, which includes 428,297 options authorized but not issued under the 1996 Option Plan.

In March 2004, the Company granted 428,297 shares of restricted shares to the Company’s Chief Executive Officer and the Company’s President and Chief Operating Officer in connection with their new employment agreements. The restricted stock shares vest in one-third increments over a three-year period beginning on April 1, 2004. As of September 30, 2007, these shares are fully vested.

During fiscal 2007 the Company granted 475,538 shares of restricted shares to employees under the 2005 Employee Stock Incentive Plan. In addition, the Company granted 21,978 shares of restricted stock to outside directors under the stock incentive plan for outside directors discussed above.

The following table summarizes the restricted stock activity as of September 30, 2007:

	Number of Shares (000s)	Weighted-Average Grant Date Fair Value
Restricted shares unvested at beginning of year	266,858	$ 8.76
Granted	497,516	6.54
Vested	(184,129)	8.49
Cancelled	(27,670)	8.28
Restricted shares unvested at end of year	552,575	$ 6.88

A summary of stock option award activity under the stock-based compensation plans as of September 30, 2007, 2006 and 2005 and changes during the years then ended are summarized as follows:

	2007		2006		2005	
	Shares (000)	Weighted Average Exercise Price	Shares (000)	Weighted Average Exercise Price	Shares (000)	Weighted Average Exercise Price
Outstanding at beginning of year	3,917	$ 7.44	5,338	$ 6.98	4,792	$ 7.05
Granted	—	—	69	10.61	947	6.58
Exercised	(101)	5.49	(1,146)	5.39	(166)	4.75
Forfeited	(167)	9.38	(140)	7.11	(49)	7.12
Expired	(33)	4.51	(204)	8.24	(186)	8.31
Outstanding at end of year	3,616	$ 7.43	3,917	$ 7.44	5,338	$ 6.98
Exercisable at end of year	3,334	$ 7.51	3,185	$ 7.48	3,806	$ 7.07

The Company estimates the fair value of stock options issued using the Black-Scholes-Merton option pricing model. The Company uses historical data to estimate option exercises and employee terminations within the valuation model. Historically the Company has not paid any dividends and does not anticipate paying dividends in the near future. Expected volatilities are based on historical volatility of the Company's stock. The risk-free rates for the periods within the contractual life of the option are based on the U.S. Treasury yield curve in effect at the time of the grant. The forfeiture rate is based on historical information and managements best estimate of future forfeitures. The expected term of options granted is derived from historical exercise experience and represents the period of time the Company expects options granted to be outstanding. Option valuation models require the input of subjective assumptions including the expected volatility and lives. Actual values of grants could vary significantly from the results of the calculations. The following assumptions were used to value stock option grants during the following periods:

	Year Ended September 30,		
	2007(1)	2006	2005
Dividend yield	—	0.0%	0.0%
Expected volatility	—	67.7%	62.4%
Risk-free interest rate	—	5.1%	4.2%
Forfeiture rate(2)	9.0%	12.2%	—
Expected term (in years)	—	6.1	6.1

(1) Certain assumptions not provided as there were no options granted in fiscal 2007

(2) Prior to the adoption of SFAS No. 123(R), forfeitures were recognized as they occurred.

A summary of option activity under the stock option plans as of September 30, 2007, and changes during the year then ended is presented below:

	Shares (000)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (000)
Outstanding at beginning of year	3,917	$ 7.44		
Granted	0	—		
Exercised	(101)	5.49		
Forfeited	(167)	9.38		
Expired	(33)	4.51		
Outstanding at end of year	3,616	$ 7.43	4.0	$ 41
Exercisable at end of year	3,334	$ 7.51	3.7	$ 41

The weighted average grant date fair value of options granted during fiscal 2006 and 2005 was $6.72, and $4.26, respectively. There were no options granted during fiscal 2007. The total intrinsic value of options exercised during the years ended September 30, 2007, 2006 and 2005 was $0.2 million, $3.9 million and $0.4 million, respectively.

A summary of the status of the Company's unvested options as of September 30, 2007 and changes during the year ended September 30, 2007, is presented below:

	Shares (000)
Nonvested at October 1, 2006	731
Granted	—
Vested	(250)
Forfeited	(167)
Expired	(33)
Nonvested at September 30, 2007	281

As of September 30, 2007, there was $3.1 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plans. That cost is expected to be recognized over a weighted average period of 3.3 years. During fiscal year 2007 the Company did not modify any of its outstanding stock-based compensation plans.

The following table summarizes information concerning options outstanding at September 30, 2007:

	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 3.16 - $ 5.50	617,141	4.3 Years	$ 4.94	583,379	$ 4.94
$ 5.55 - $ 6.65	684,518	4.5 Years	6.01	603,823	6.05
$ 6.72 - $ 8.06	655,597	6.6 Years	7.21	500,149	7.23
$ 8.25 - $ 8.31	1,168,260	1.5 Years	8.25	1,168,260	8.25
$ 8.36 - $12.21	381,320	4.9 Years	10.44	369,936	10.47
$12.24 - $12.56	108,652	6.1 Years	12.54	108,652	12.54
Options at September 30, 2007	3,615,488	4.0 Years	7.43	3,334,199	7.51

Compensation cost for options granted prior to October 1, 2005 was recognized on an accelerated amortization method over the vesting period of the options. Compensation cost for options granted after September 30, 2005 was recognized on a straight-line basis over the vesting period. Compensation cost for restricted stock awards are recognized on a straight-line basis over the vesting period. The following amounts were recognized for stock-based compensation for fiscal 2007, 2006 and 2005 (in thousands):

General and administrative expenses:

	2007	2006	2005
Stock options expense	$ 805	$ 2,313	$ —
Restricted stock expense	1,165	1,261	1,178
Total	$ 1,970	$ 3,574	$ 1,178

The Company applied the provisions of APB Opinion No. 25 and related interpretations in accounting for its stock-based compensation plans prior to October 1, 2005. Accordingly, no compensation cost was recognized for awards made pursuant to its stock option plans. Had the compensation cost for the Company's stock-based compensation plans been determined consistent with the measurement provision of SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," the Company's net income and net income per share would have been as indicated by the pro forma amounts indicated below:

	2005 (In thousands, except per share amounts)
Net income reported	$ 56,868
Stock option compensation expense determined under fair value based method, net of related tax effects	(968)
Pro forma net income	$ 55,900
Income per share — basic:	
As reported	$ 1.95
Pro forma	$ 1.91
Net income per share — diluted:	
As reported	$ 1.35
Pro forma	$ 1.33

14. Benefit Plans

The Company has a 401(k) plan covering all employees (the "Plan"). Under the Plan, employees may contribute up to 15% of their annual compensation. Employer contributions are made at the discretion of the Board of Directors. During fiscal 2007, the Company made matching contributions of 25-30% of employee contributions up to 10% of annual employee compensation. Employees are eligible to participate in the Plan upon completion of one year of service. The employee vests 20% per year in employer contributions. Employees become fully vested in employer contributions after completing six years of employment. The Company has the right to terminate the Plan at any time. Contributions by the Company to the Plan for the years ended September 30, 2007, 2006 and 2005 were approximately $1.3 million, $1.2 million and $0.9 million, respectively.

15. Lease Commitments

At September 30, 2007, the Company leased 157 aircraft under non-cancelable operating leases with remaining terms of up to 16.5 years. The aircraft leases require the Company to pay all taxes, maintenance, insurance and other operating expenses. The Company has the option to terminate certain of the leases at various times throughout the lease. Aggregate rental expense under all operating leases totaled approximately $217.8 million, $237.4 million and $194.7 million for the years ended September 30, 2007, 2006 and 2005, respectively.

Future minimum lease payments under non-cancelable operating leases are as follows:

	Years Ending September 30, (In thousands)
2008	$ 222
2009	197
2010	196
2011	202
2012	205
Thereafter	1,071
Total	$ 2,093

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities* ("FIN 46"), which requires the consolidation of variable interest entities. The majority of the Company's leased aircraft are owned and leased through trusts whose sole purpose is 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. As a result, the Company is not required to consolidate any of these trusts in applying FIN 46. Management believes that the Company's maximum exposure under these leases is the remaining lease payments.

Under the Company's leveraged lease agreements, the Company typically agrees to indemnify the equity/owner participant against liabilities that may arise due to changes in benefits from tax ownership of the respective leased aircraft. The terms of these contracts range up to 18.5 years. The Company did not accrue any liability relating to the indemnification to the equity/owner participant because the probability of this occurring is remote.

As of September 30, 2007, we owned 34 Beechcraft 1900D aircraft and were operating 20 of these aircraft. During fiscal year 2005, the Company leased four of its Beechcraft 1900D aircraft to Gulfstream International Airlines, a regional turboprop air carrier based in Ft. Lauderdale, Florida for a term of five years. In January 2005, we entered into an agreement to lease ten of our Beechcraft 1900D aircraft to Big Sky Transportation Co. ("Big Sky"), a regional turboprop carrier based in Billings, Montana for a term of five years.

16. Commitments and Contingencies

In connection with a June 2007 agreement modifying certain Canadair Regional Jet purchase obligations, the Company committed to purchase 10 new CRJ-700 NextGen aircraft (with an option to purchase an eleventh aircraft), with deliveries scheduled to begin in September 2008. In conjunction with this purchase agreement, Mesa had $6.5 million on deposit with BRAD that was included in lease and equipment deposits at September 30, 2007. The remaining deposits are expected to be returned upon completion of permanent financing on each of the ten aircraft.

The Company accrues for potential income tax contingencies when it is probable that a liability has been incurred and the amount of the contingency can be reasonably estimated. The Company's accrual for income tax contingencies is adjusted for changes in circumstances and additional uncertainties, such as amendments to existing tax law, both legislated and concluded through the various jurisdictions' tax court systems. At September 30, 2007, the Company had an accrual for income tax contingencies of approximately $2.9 million. If the amounts ultimately settled are greater than the accrued contingencies, the Company would record additional income tax expense in the period in which the assessment is determined. To the extent amounts are ultimately settled for less than the accrued contingencies, or the Company determines that a liability is no longer probable, the liability is reversed as a reduction of income tax expense in the period the determination is made.

The Company also has long-term contracts for the performance of engine maintenance on some of its aircraft. A description of each of these contracts is as follows:

In January 1997, we entered into a 10-year engine maintenance contract with General Electric Aircraft Engines ("GE") for CRJ-200 aircraft engines. The agreement, which covers 66 GE CF34-3B1 jet engines operated by the Company, was most recently amended in the third quarter of fiscal 2007. The amended contract provided for a one-time payment, equal monthly payments for the remainder of the contract's term and sets out a reduced base rate hourly fee. The contract expires in December 2008, at which time the engines that were covered by such contract are expected to transition to and be covered by the DTO (as defined below) maintenance program (as contemplated by the MOU with DTO referenced below).

During the second quarter of fiscal year 2007, we entered into a memorandum of understanding ("MOU") with Delta's Technical Operations division ("DTO") for its previously uncovered General Electric Aircraft Engines ("GE") engines. As referenced above, the MOU contemplates that the GE CF334-3B1 engines, currently covered by the GE contract (scheduled to expire in December 2008), will be transitioned to and covered by the DTO maintenance program. The MOU requires a monthly payment based upon the prior month's flight hours incurred by the covered engines. The hourly rate increases over time based upon the engine overhaul costs that are expected to be incurred in that year and is subject to escalation based on changes in certain price indices. Maintenance expense is recognized based upon the product of flight hours flown and the rate in effect for the applicable period. Negotiations are continuing between the Company and DTO and we anticipate executing a final definitive agreement in the first or second quarter of fiscal year 2008.

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

During the second quarter of fiscal 2007, the Company amended a five-year heavy equipment maintenance agreement with a vendor. The agreement provides a rebate based upon annual volumes up to $10.0 million over the next five years. The agreement also includes penalties in the event our annual volumes fall below certain levels. The maximum penalty possible would be $19.0 million if our annual volumes were zero for all five years. Rebates of approximately $3.0 million have been recognized in fiscal 2007.

MESA AIR GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

In May 2002, the Company entered into a five-year fleet management program with PWC to provide maintenance for the Company’s Beechcraft 1900D turboprop engines. The contract requires a monthly payment based upon flight hours incurred by the covered aircraft. The hourly rate is subject to annual adjustment based on changes in certain price indices and is guaranteed to increase by no less than 1.5% per year. The monthly charges are made for seventy-two months and services are covered for sixty months. Services provided in the last year are on a time and materials basis. Pursuant to the agreement, the Company sold certain assets of its Desert Turbine Services unit, as well as all spare PT6 engines to PWC for $6.8 million, which approximated the net book value of the assets. Pursuant to the agreement, the Company provided a working capital loan to PWC for the same amount, which is to be repaid through a reduced hourly rate being charged for maintenance. The loan had a balance of $0, $2.0 million and $2.8 million at September 30, 2007, 2006 and 2005, respectively. The agreement covers all of the Company’s Beechcraft 1900D turboprop aircraft and engines. The agreement also contains a termination clause and look back provision to provide for any shortfall between the cost of maintenance incurred by the provider and the amount paid up to the termination date by the Company and provides for return of a pro-rated share of the prepaid amount upon early termination. The Company does not anticipate an early termination under the contract.

In connection with a Master Purchase Agreement between the Company and Bombardier certain payments totaling $18.7 million are required to be repaid to Bombardier during the six years ending fiscal 2014.

In February 2006, Hawaiian Airlines, Inc. (“Hawaiian”) filed a complaint against the Company in the United States Bankruptcy Court for the District of Hawaii (the “Bankruptcy Court”) alleging that Mesa had breached the terms of a Confidentiality Agreement entered into in April 2004 with the Trustee in Hawaiian’s bankruptcy proceedings. Hawaiian’s complaint alleged, among other things, that the Company breached the Confidentiality Agreement by (a) using certain evaluation material in deciding to enter the Hawaiian inter-island market, and (b) failing to return or destroy any evaluation materials after being notified by Hawaiian on or about May 12, 2004 after the Company had not been selected as a potential investor for a transaction with Hawaiian. Hawaiian, in its complaint, sought unspecified damages, requested that the Company turn over to Hawaiian any evaluation material in our possession, custody or control, and also sought an injunction preventing the Company’s subsidiary ***go!*** from providing inter-island transportation services in the State of Hawaii for a period of two years from the date of such injunctive relief.

On October 30, 2007, the Bankruptcy Court found that the Company had violated the terms of a Confidentiality Agreement with Hawaiian Airlines and awarded Hawaiian $80 million in damages and ordered the Company to pay Hawaiian’s cost of litigation, reasonable attorneys’ fees and interest. The Company filed a notice of appeal to this ruling in November 2007 and we were required to post a $90.0 million bond as security for the judgment amount by placing such amount with a surety acceptable to the Bankruptcy Court pending the outcome of this litigation. As a result, the Company recorded $86.9 million as a charge to the Statements of Operations in the fourth quarter of fiscal 2007.

On January 9, 2007, Aloha Airlines filed suit against the Company in the United States District Court for the District of Hawaii. The complaint seeks damages and injunctive relief. Aloha alleges that Mesa’s inter-island air fares are below cost and that Mesa is, therefore, violating specific provisions of the Sherman Act and alleges breach of contract and fraud by Mesa in connection with two confidentiality agreements, one in 2005 and the other in 2006.

Mesa denies any attempt at monopolization of the inter-island market and further denies any improper use of the data furnished by Aloha while Mesa was considering a bid for Aloha during its bankruptcy. The case is in its incipient stages and a tentative trial date of October 28, 2008 has been scheduled by the court.

In accordance with the terms our joint venture agreement in China (as discussed in greater detail in note 21 below), we are obligated to contribute an additional RMB 196,000,000 (approximately $26.5 million at December 10, 2007) to Kunpeng in accordance with Kunpeng's operational requirements as determined by Kunpeng's board of directors, but in any event, prior to May 16, 2009.

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

17. Financial Instruments

The carrying amount of cash and cash equivalents, receivables, accounts payable, accrued compensation and other liabilities approximates fair value due to the short maturity periods of these instruments. The fair value of the Company's marketable securities is based on quoted marked prices. The Company's variable rate long-term debt had a carrying value of approximately $457.8 million at September 30, 2007, which approximates fair value because these borrowings have variable interest rate terms that approximate market interest rates for similar debt instruments. The Company's fixed rate long-term debt, having a carrying value of approximately $174.3 million at September 30, 2007, had a fair value of approximately $167.2 million. The Company uses market prices and a financial model to calculate the fair value of its senior convertible debt.

18. Related Party Transactions

In addition to our joint venture interest in Kunpeng Airlines, the Company currently subleases three regional jets to Kunpeng and are in negotiations to sublease additional aircraft in the future. Total sublease income, which is recorded as a reduction to our lease expense, totaled $0.1 million in fiscal 2007

In February 1999, the Company entered into an agreement with Barlow Capital, LLC ("Barlow"), whereby Barlow agreed to provide the Company with financial advisory services related to aircraft leases, mergers and acquisitions, and certain other financing arrangements. Under this agreement, the Company paid fees totaling $0.6 million and $2.5 million to Barlow in fiscal 2005 and 2004, respectively, arranging for leasing companies to participate in the Company's various aircraft financings. At September 20, 2004, Jonathan Ornstein, the Company's Chairman of the Board and Chief Executive Officer and the Company's then Executive Vice President and Chief Financial Officer were each members of Barlow and each held 25% membership interest therein. Mr. Murnane's employment with the Company was terminated on November 2, 2007. Messrs. Ornstein and Murnane disposed of their membership interest at the end of the first quarter of fiscal 2005. Distributions to the members of Barlow were determined by the members on a year-to-year basis. Substantially all of Barlow's revenues were derived from its agreement with the Company.

Prior to September 2006, the Company provided reservation services to Europe-By-Air, Inc. The Company billed Europe-By-Air approximately $53,000 and $57,000 for these services during fiscal 2006 and 2005, respectively. The Company did not have any billings in fiscal year 2007. The Company had receivables from Europe-By-Air of $5,500 at September 30, 2006. There were no amounts due as of September 30, 2007 and 2005. Mr. Ornstein is a major shareholder of Europe-By-Air. In September 2006, Europe-By-Air stopped using the Company's reservation services.

The Company uses the services of the law firms of Baker & Hostetler and Piper Rudnick for labor related legal services. The Company paid the firms an aggregate of $0.2 million, $0.3 million and $0.3 million for legal-related services in fiscal 2007, 2006 and 2005, respectively. Mr. Joseph Manson, a member of the Company's Board of Directors, is a partner with Baker & Hostetler and a former partner with Piper Rudnick.

In fiscal 2001, the Company established Regional Airline Partners ("RAP"), a political interest group formed to pursue the interests of regional airlines, communities served by regional airlines and manufacturers of regional airline equipment. RAP has been involved in various lobbying activities related to maintaining funding for the Essential Air Service program under which the Company operates the majority of its Beechcraft 1900 aircraft. Mr. Maurice Parker, a member of the Company's Board of Directors, is the Executive Director of RAP. During fiscal 2007, 2006 and 2005, the Company paid RAP's operating costs totaling approximately $250,000, $284,000 and $312,000, respectively. Included in these amounts are the wages of Mr. Parker, which amounted to $113,000, $119,000 and $120,000 in fiscal 2007, 2006 and 2005, respectively. Since inception, the Company has financed 100% of RAP's operations.

The Company will enter into future business arrangements with related parties only where such arrangements are approved by a majority of disinterested directors and are on terms at least as favorable as available from unaffiliated third parties.

19. Bankruptcy Settlements

In fiscal 2007, the Company received 48,000 shares of US Airways common stock from its Pre-Merger US Airways bankruptcy claim. These shares were sold, and proceeds of approximately $2.4 million were received. In fiscal 2006, the Company received 351,456 shares of US Airways common stock from its Pre-Merger US Airways bankruptcy claim. The Company sold the stock in the fourth quarter of fiscal 2006, and realized proceeds of $17.6 million. Proceeds of $5.5 million were first applied to existing receivables that were previously reserved and the remaining amount of $12.1 million was recorded as a bankruptcy settlement in the consolidated statements of operations.

In connection with an amendment to and assumption of our existing Delta Connection Agreement, we received a general unsecured claim of $35.0 million as part of Delta's bankruptcy proceeding. During the third quarter of 2007 the Company received 787,261 shares of Delta stock representing approximately 89% of the total award. These shares were sold in the same quarter for approximately $16.5 million. The resulting gain was deferred and is being amortized over the remainder of the Amended DCA as these amounts are viewed as a piece of the ongoing Delta contract taken as a whole.

20. Impairment of Long-Lived Assets

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company continually considers events or changes in circumstances that indicate the carrying amount of a long-term asset may not be recoverable. During the second quarter of 2007 the Company evaluated two such cases. In each instance the gross undiscounted cash flows related to a long-term asset were computed and found to be less than the carrying value of the long-lived asset. The fair market value of the two assets was then determined and an impairment charge, equal to the excess of the carrying value over fair value, was recorded totaling $37.7 million during the second quarter.

The first impairment charge, totaling $31.7 million, related to the unamortized balance of a $30.0 million nonrefundable cash incentive ("Incentive") paid to United prior to fiscal 2007, upon amending our code-share agreement with United (the "Amendment") and leasehold improvements relating to certain aircraft operating under the United code-share agreement. The Amendment primarily allowed us to place 30 additional aircraft with United, bringing the total aircraft under the United code share agreement to 70 and to extend the expiration dates under the existing code-share agreement with respect to certain of the other aircraft. The Incentive was included in other assets and was being amortized as a reduction to revenue over the term of the amended code share agreement. Beginning with the second quarter of fiscal 2006 we began experiencing declining margins related to this code-share and management initiated an operational analysis in the fourth quarter of fiscal 2006, which was completed in the second quarter of fiscal 2007. During the second quarter of fiscal 2007 the margins deteriorated further, resulting in management concluding that the Company will incur operating losses over the remaining term of the amended code-share agreement. The analysis determined that these losses were due primarily to increases in (1) maintenance costs from certain contractual increases in maintenance support agreements that went into effect in the second quarter of fiscal 2007; (2) lower total completion factors primarily attributable to the locations from which we operate the additional 30 aircraft added in the amended code-share agreement, resulting in higher operational costs and higher labor costs resulting from employee turnover and; (3) other underlying costs increasing at greater rates than we had originally anticipated when we entered into the amended code-share agreement. In order to determine whether or not this asset was impaired, we estimated the future gross undiscounted cash flows related to this code-share agreement and found them to be less than the asset's unamortized balance. The fair value of the asset was determined to be zero. Accordingly, an impairment charge was taken for $25.3 million during the second quarter. In addition, leasehold improvements related to certain aircraft under the United code-share agreement were evaluated for recoverability and were determined to be impaired and accordingly an impairment charge was taken for $6.4 million during the second quarter. Management is evaluating various alternatives to address the situation, however there can be no assurance that we will be successful in our efforts.

During fiscal 2007, we parked 12 Dash-8 aircraft, associated with the Delta code-share agreement. Due to higher than anticipated costs associated with our Delta Dash-8 fleet related to our JFK operations, the Company and Delta developed a joint plan to eliminate the Dash-8 fleet from the JFK operations. The agreement reached with Delta called for service to conclude by August 21, 2007. Losses are accrued as each aircraft is removed from operations for early termination penalties, lease settle up and other charges. The estimated costs associated with the parking and early termination of the lease agreements totaling approximately $11.6 million have been recorded in our Statement of Operations in fiscal 2007. Subsequent to September 30, 2007, we began to deploy regional jet aircraft to service JFK operations for Delta.

21. Equity Method Investments

In fiscal 2006, our wholly-owned subsidiary, Ping Shan, entered into a joint venture agreement (the "Joint Venture Agreement") with Shan Yue SRL ("Shan Yue") and Shenzhen Airlines, pursuant to which the parties agreed to form Kunpeng, an equity joint venture company organized under the laws of China. Ping Shan holds a 25% share of the registered capital of Kunpeng. Additionally, Shan Yue, a Barbados society with restricted liability, holds 24% of the registered capital of Kunpeng. Shan Yue holds 5% of the 24% interest in Kunpeng for the exclusive benefit of an unaffiliated third party. Wilmington Trust Company holds 100% of the outstanding equity of Shan Yue as trustee of Shan Yue Trust, a Delaware statutory trust. We are the sole beneficiary of Shan Yue Trust. Kunpeng's fiscal year ends on December 31st. Pursuant to the Joint Venture Agreement, Ping Shan and Shan Yue will receive 25% and 24%, respectively, of the after-tax net profit of Kunpeng, if any, at the end of the fiscal year unless Kunpeng's board of directors determines that such profits should be reinvested. Additionally, the amount of profit available for distribution will be reduced by an amount equal to allocations to a reserve fund and expansion fund of Kunpeng and a bonus and welfare fund for Kunpeng's employees, as determined by Kunpeng's board of directors. No profit will be distributed unless any cumulative deficit carried forward for previous years is made up. Kunpeng's board consists of seven members, four of whom are appointed by Shenzhen Airlines, two are appointed by Ping Shan and one is appointed by Shan Yue. As of September 30, 2007, the Company has made capital contributions totaling $6.5 million, which represents a 25% direct ownership and 19% beneficial ownership of the joint venture. On September 28, 2007 Kunpeng commenced common carrier service in China.

In fiscal 2007, we participated with a private equity fund in making an investment, through a limited liability limited partnership, in the preferred shares of a closely held emerging markets payment processing related business (the "2007 Investee"). Through our subsidiary Patar, Inc., we invested $1.3 million, which represents approximately 19.6% of the Investee's preferred stock.

In fiscal 2006, the Company participated with a private equity fund in making an investment in the common stock and notes of a closely held airline related business (the "2006 Investee"). The Company, through its subsidiary

Nilchii, invested $15 million, which represents approximately 20% and 11.8% of the 2006 Investee's common stock and notes, respectively.

The Company accounts for these investments using the equity method of accounting. Under the equity method, the Company adjusts the carrying amount of its investment for its share of the earnings or losses of the 2006 Investee subsequent to the date of investment and reports the recognized earnings or losses in the consolidated statements of operations. The Company's share of the 2006 Investee's losses subsequent to the date of investment have exceeded the carrying value of the common stock investment, which has been reduced to zero. In accordance with EITF Issue No. 99-10, "Percentage Used to Determine the Amount of Equity Method Losses," the Company recognizes equity method losses based on the ownership level of the 2006 Investee capital held by the Company. If the carrying value of its investment in the common or preferred stock is reduced to zero, as is the case with its' 2006 airline related business investment, then equity method losses are based on the ownership level of the 2006 Investee notes held by the Company. During fiscal 2007, the Company recorded equity method losses from these investments of $3.9 million.

22. Segment Reporting

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," requires disclosures related to components of a company for which separate financial information is available that is evaluated regularly by a company's chief operating decision maker in deciding the allocation of resources and assessing performance. The Company has three airline operating subsidiaries, Mesa Airlines, Freedom Airlines and Air Midwest, as well as various other subsidiaries organized to provide support for the Company's airline operations. The Company has aggregated these subsidiaries into three reportable segments: Mesa Airlines / Freedom, ***go!*** and Other. Operating revenues in the Other segment are primarily sales of rotable and expendable parts to the Company's operating subsidiaries and ground handling services performed by employees of RAS for Mesa Airlines. In the fourth quarter of fiscal 2007, the Company committed to a plan to sell Air Midwest or certain assets thereof. Air Midwest consists of turboprop operations, which includes our independent Mesa operations, Midwest Airlines code-share operations, and our Beechcraft 1900D turboprop code-share operations with US Airways. As such, the assets and liabilities and results of operations associated with the Air Midwest are not included within the segment information table below, and ***go!*** is presented independently for all periods presented.

Mesa Airlines and Freedom Airlines provide passenger service under revenue-guarantee contracts with United Airlines, Inc. ("United"), Delta Air Lines, Inc. ("Delta") and US Airways, Inc. ("US Airways"). As of September 30, 2007, Mesa Airlines and Freedom Airlines operated a fleet of 157 aircraft — 105 CRJs, 36 ERJs and 16 Dash-8's. Prior to operating ERJ 145 aircraft, Freedom most recently operated Beechcraft 1900D under a pro-rate agreement with US Airways.

go!, provides independent inter-island Hawaiian passenger service where revenue is derived from ticket sales. As of September 30, 2007, ***go!*** operated a fleet of five CRJ-200 aircraft.

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

In fiscal 2006, Freedom began operating under a revenue-guarantee code-share agreement with Delta utilizing ERJ-145 aircraft that were transitioned from Mesa Airlines. As such, the Company has aggregated Freedom with Mesa Airlines beginning in the first quarter of fiscal 2006.

MESA AIR GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Year Ended September 30, 2007 (000's)	Mesa/ Freedom	go!	Other	Eliminations	Total
Total net operating revenues	$ 1,278,239	$ 25,654	$ 274,320	$ (280,149)	$ 1,298,064
Depreciation and amortization	33,109	2,167	4,078	—	39,354
Operating income (loss)	32,817	(13,933)	(54,249)	(38,407)	(73,772)
Interest expense	(30,339)	—	(9,630)	589	(39,380)
Interest income	10,171	184	4,548	(589)	14,314
Income (loss) before income tax	7,431	(13,737)	(64,208)	(38,407)	(108,921)
Income tax provision (benefit)	1,272	(4,564)	(21,332)	(12,760)	(37,384)
Total assets	1,409,592	13,137	614,794	(852,601)	1,184,922
Capital expenditures (including non-cash)	58,923	1,001	1,780	(13,251)	48,453

Year Ended September 30, 2006 (000's)	Mesa/ Freedom	go!	Other	Eliminations	Total
Total net operating revenues	$ 1,272,206	$ 9,165	$ 247,474	$ (243,942)	$ 1,284,903
Depreciation and amortization	29,520	566	4,853	—	34,939
Operating income (loss)	103,816	(5,845)	38,093	(33,675)	102,389
Interest expense	(24,143)	—	(10,650)	584	(34,209)
Interest income	11,069	37	1,554	(584)	12,076
Income (loss) before income tax	88,366	(5,808)	13,059	(33,675)	61,942
Income tax provision (benefit)	35,435	(2,327)	5,235	(13,504)	24,839
Total assets	1,387,724	9,029	503,864	(707,067)	1,193,550
Capital expenditures (including non-cash)	93,700	—	22,109	—	115,809

Year Ended September 30, 2005 (000's)	Mesa/ Freedom	go!	Other	Eliminations	Total
Total net operating revenues	$ 1,064,014	$ —	$ 300,261	$ (288,270)	$ 1,076,005
Depreciation and amortization	37,211	—	5,228	(385)	42,054
Operating income (loss)	134,670	—	41,753	(43,424)	132,999
Interest expense	(29,171)	—	(12,727)	574	(41,324)
Interest income	2,859	—	603	(574)	2,888
Income (loss) before income tax	113,392	—	29,432	(43,424)	99,400
Income tax provision (benefit)	43,014	—	(5,177)	—	37,837
Total assets	1,272,196	—	336,408	(491,845)	1,116,759
Capital expenditures (including non-cash)	377,741	—	15,270	—	393,011

23. Valuation and Qualifying Accounts

	Balance at Beginning of Year	Additions / Subtractions Charged to Costs and Expenses	Deductions	Balance at End of Year
		(In thousands)		
Allowance for Obsolescence Deducted from Expendable Parts and Supplies				
September 30, 2007	$ 2,706	$ 2,071	$ (986)	$ 3,791
September 30, 2006	2,147	559	—	2,706
September 30, 2005	1,481	1,195	(529)	2,147
Allowance for Doubtful Accounts Deducted from Accounts Receivable				
September 30, 2007	$ 1,598	$ 4,565	$ (608)	$ 5,555
September 30, 2006(1)	8,855	(6,607)	(650)	1,598
September 30, 2005	7,077	6,915	(5,137)	8,855

(1) See note 19 — Bankruptcy Settlement.

24. Selected Quarterly Financial Data (Unaudited)

The following table presents selected unaudited quarterly financial data (in thousands):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2007(2)(3)(4)				
Net Operating revenues	$ 333,533	$ 296,315	$ 340,373	$ 327,843
Operating income (loss)	19,815	(23,484)	13,613	(83,716)
Net income (loss) from continuing operations	8,886	(22,634)	4,366	(62,156)
Loss from discontinued operations	(874)	(1,352)	(1,761)	(6,036)
Basic income (loss) per common share:				
Income (loss) from continuing operations	$ 0.26	$ (0.71)	$ 0.15	$ (2.16)
Loss from discontinued operations	$ (0.02)	$ (0.04)	$ (0.06)	$ (0.21)
Net income (loss) per share	$ 0.24	$ (0.75)	$ 0.09	$ (2.37)
Diluted income (loss) per common share:				
Income (loss) from continuing operations	$ 0.22	$ (0.71)	$ 0.13	$ (2.16)
Loss from discontinued operations	$ (0.02)	$ (0.04)	$ (0.05)	$ (0.21)
Net income (loss) per share	$ 0.20	$ (0.75)	$ 0.08	$ (2.37)
2006(1)(3)				
Operating revenues	$ 310,594	$ 299,479	$ 325,983	$ 348,847
Operating income	29,261	28,139	27,429	17,560
Net income from continuing operations	13,696	6,272	11,370	5,765
Loss from discontinued operations	(705)	(984)	(441)	(1,006)
Basic income per common share:				
Income from continuing operations	$ 0.47	$ 0.18	$ 0.31	$ 0.17
Loss from discontinued operations	$ (0.02)	$ (0.03)	$ (0.01)	$ (0.03)
Net income per share	$ 0.45	$ 0.15	$ 0.30	$ 0.14
Diluted income per common share:				
Income from continuing operations	$ 0.32	$ 0.16	$ 0.26	$ 0.14
Loss from discontinued operations	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.02)
Net income per share	$ 0.31	$ 0.14	$ 0.25	$ 0.12

(1) — Third quarter amounts include bankruptcy settlement of $12.1 million (pretax).

(2) — Second quarter amounts include impairment of contract incentives of $37.7 million (pretax).

(3) — The sum of quarterly earnings per share may not equal annual earnings per share due to rounding.

(4) — Fourth quarter includes an $86.9 million loss contingency related to our Hawaiian litigation.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

There were no disagreements with accountants on accounting and financial disclosure.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures.

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 as amended (the "Exchange Act"), as of the end of the period covered by this *Annual Report on Form 10-K*, the Company's management evaluated, with the participation of the Company's principal executive officer and principal financial officer, the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act). Disclosure controls and procedures are defined as those controls and other procedures of an issuer that are designed to ensure that the information required to be disclosed by the issuer in the reports it files or submits under the Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(a) Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Our management, including our Chief Executive Officer and Principal Accounting Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting as of September 30, 2007. In making this assessment, our management used the criteria established in Internal Control — Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The Company identified a material weakness in its internal control over financial reporting as of September 30, 2007, based on the following:

> The Company's finance and accounting resources were inadequate due to significant turnover in key positions throughout fiscal 2007. Accordingly, accounting control activities were not performed consistently, and timely, and as a result timely review of accounting matters and analysis of financial information was not consistently performed. This resulted in the untimely filing of the Company's Form 10-K with the Securities and Exchange Commission.

As a result of the material weakness described above, management has concluded that the Company did not maintain effective internal control over financial reporting as of September 30, 2007, based on the criteria established in COSO's Internal Control — Integrated Framework.

Deloitte & Touche, LLP, an independent registered public accounting firm, has issued a report on the Company's internal control over financial reporting.

(b) Changes in Internal Control Over Financial Reporting

Other than for the material weakness noted above, there was no change in our 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 quarter ended September 30, 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Subsequent to September 30, 2007, we have begun taking steps to remediate the material weakness noted in (a) above. We have begun an aggressive recruiting campaign and have hired interim professional consultants to fill key positions until permanent replacements are hired. We believe these steps will provide adequate short-term solutions as we recruit and hire the appropriate full time personnel.

Management's assessment of the effectiveness of internal control over financial reporting as of September 30, 2007 has been audited by Deloitte & Touche, LLP, an independent registered public accounting firm, as stated in their report that is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Mesa Air Group, Inc.
Phoenix, Arizona

We have audited the internal control over financial reporting of Mesa Air Group, Inc. and subsidiaries (the "Company") as of September 30, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on that risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. The Company's finance and accounting resources were inadequate due to significant turnover in key positions throughout fiscal year 2007. Accordingly, accounting control activities were not performed consistently, and timely, and as a result timely review of accounting matters and analysis of financial information was not consistently performed. This resulted in the untimely filing of the Company's Form 10-K with the Securities and Exchange Commission. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended September 30, 2007, of the Company and this report does not affect our report on such financial statements.

In our opinion, because of the effect of the material weakness identified above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of September 30, 2007, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended September 30, 2007 of the

Company and our report dated January 14, 2008 expressed an unqualified opinion on those financial statements and included an explanatory paragraph relating to the Company's adoption of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment*, an explanatory paragraph related to discontinued operations, an explanatory paragraph relating to the Company's significant code-sharing agreements, and an explanatory paragraph relating to a judgment against the Company in a lawsuit.

/s/ DELOITTE & TOUCHE LLP

Phoenix, Arizona
January 14, 2008

Item 9B. ***Other Information***

None.

PART III

All items in Part III are incorporated herein by reference as indicated below to our definitive proxy statement for our 2008 annual meeting of stockholders anticipated to be held April 17, 2008, which will be filed with the SEC, except for information relating to executive officers which can be found in Item 10 below.

Item 10. ***Directors, Executive Officers and Corporate Governance***

The information required by Item 10 is incorporated herein by reference to the information contained under the headings "Election of Directors" and "Executive Officers" as set forth in our definitive proxy statement for our 2008 annual meeting of stockholders.

The following table sets forth the names and ages of the executive officers of the Company and certain additional information:

Name	Age	Position
Jonathan G. Ornstein	50	Chief Executive Officer
Michael J. Lotz	47	President, Chief Operating Officer and Principal Accounting Officer
William L. Hoke	46	Vice President of Finance and Interim Chief Financial Officer
Michael Ferverda	63	Senior Vice President — Operations
Brian S. Gillman	38	Executive Vice President, General Counsel and Secretary
David K. Butler	52	Senior Vice President, Administration & Human Resources

Jonathan G. Ornstein was appointed President and Chief Executive Officer of Mesa Air Group, Inc. effective May 1, 1998. Mr. Ornstein relinquished his position as President of the Company in June 2000. From April 1996 to his joining the Company as Chief Executive Officer, Mr. Ornstein served as President and Chief Executive Officer and Chairman of Virgin Express S.A./N.V., a European airline. From 1995 to April 1996, Mr. Ornstein served as Chief Executive Officer of Virgin Express Holdings, Inc. Mr. Ornstein joined Continental Express Airlines, Inc., as President and Chief Executive Officer in July 1994 and, in November 1994, was named Senior Vice President, Airport Services at Continental Airlines, Inc. Mr. Ornstein was previously employed by the Company from 1988 to 1994, as Executive Vice President and as President of the Company's WestAir Holding, Inc. subsidiary.

Michael J. Lotz, President and Chief Operating Officer, joined the Company in July 1998. In January 1999, Mr. Lotz became Chief Operating Officer. In August 1999, Mr. Lotz became the Company's Chief Financial Officer and in January 2000 returned to the position of Chief Operating Officer. On June 22, 2000, Mr. Lotz was appointed President of the Company. Prior to joining the Company, Mr. Lotz served as Chief Operating Officer of Virgin Express, S.A./N.V., a position he held from October 1996 to June 1998. Previously, Mr. Lotz was employed by

Continental Airlines, Inc., most recently as Vice President of Airport Operations, Properties and Facilities at Continental Express.

William L. Hoke, Vice President of Finance and interim Chief Financial Officer, joined the Company in March 2007. In November 2007, Mr. Hoke was appointed interim Chief Financial Officer following the termination of his predecessor. Most recently he was the Vice President of Finance for Insight Enterprises, Inc., a publicly traded company, located in Tempe, Arizona from April 2001 to November 2006. Mr. Hoke received his Bachelor of Science in Accounting from the University of Northern Iowa in 1983 and is a certified public accountant.

Michael Ferverda, Senior Vice President — Operations and Chief Deputy General Manager of Kunpeng, joined the Company in 1990. He was appointed President of Freedom Airlines in May 2002 and Senior Vice President — Operations in February 2003. Prior to the appointments, Mr. Ferverda served as the Senior Vice President of Operations for Mesa Airlines, Inc. Mr. Ferverda has served the Company in various capacities including pilot, Flight Instructor/Check Airman, Assistant Chief Pilot, FAA Designated Examiner, FAA Director of Operations and Divisional Vice President. Mr. Ferverda was a pilot with Eastern Airlines from 1973 to 1989. Prior to joining Eastern Airlines, Mr. Ferverda served as an Aviator in the United States Navy. Mr. Ferverda is a graduate of Indiana University.

Brian S. Gillman, Executive Vice President, General Counsel and Secretary, joined the Company in February 2001. From July 1996 to February 2001, he served as Vice President, General Counsel and Secretary of Vanguard Airlines, Inc. in Kansas City, Missouri. From September 1994 to July 1996, Mr. Gillman was a corporate associate in the law firm of Stinson, Mag & Fizzell, P.C., Kansas City, Missouri. Mr. Gillman received his Juris Doctorate and B.B.A. in Accounting from the University of Iowa in 1994 and 1991, respectively.

David K. Butler, Senior Vice President, Administration & Human Resources, joined the Company in November 2006. From August 2003 to November 2006, he served as Vice President for Human Resources of Arizona State University in Tempe, Arizona. From May 1999 to August 2003, he served as Vice President for Human Resources for the Durham and Manchester campuses of the University of New Hampshire. Mr. Butler received his Master of Arts in Organizational Management from the University of Phoenix in 1998 and he received his Bachelor of Arts in Human Services from California State University in 1980.

Item 11. *Executive Compensation*

The information required by Item 11 relating to our directors is incorporated herein by reference to the information under the heading “Compensation of Directors” and the information relating to our executive officers is incorporated herein by reference to the information under the heading “Executive Compensation” as set forth in our definitive proxy statement for our 2008 annual meeting of stockholders.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by Item 12 is incorporated herein by reference to the information under the headings “Election of Directors”, “Equity Compensation Plan Information”, and “Security Ownership of Certain Beneficial Owners and Management” as set forth in our definitive proxy statement for our 2008 annual meeting of stockholders.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by Item 13 is incorporated herein by reference to the information under the heading “Certain Relationships and Related Transactions” as set forth in our definitive proxy statement for our 2008 annual meeting of stockholders.

Item 14. *Principal Accountants Fees and Services*

Information regarding principal accounting fees and services is incorporated herein by reference to the information under the heading “Disclosure Of Audit And Non-Audit Fees” contained in the Proxy Statement for our 2008 annual meeting of stockholders.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules***

(A) Documents filed as part of this report:

1. Reference is made to Item 8 hereof.

2. Exhibits

The following exhibits are either filed as part of this report or are incorporated herein by reference from documents previously filed with the Securities and Exchange Commission:

Exhibit Number	Description	Reference
3.1	Articles of Incorporation of Registrant dated May 28, 1996	Filed as Exhibit 3.1 to Registrant's Form 10-K for the fiscal year ended September 30, 1996, incorporated herein by reference
3.2	Bylaws of Registrant as amended	Filed as Exhibit 3.3 to Registrant's Form 10-Q for the quarterly period ended June 30, 2007, incorporated herein by reference
4.1	Form of Common Stock certificate	Filed as Exhibit 4.5 to Amendment No. 1 to Registrant's Form S-18, Registration No. 33-11765 filed March 6, 1987, incorporated herein by reference
4.2	Form of Common Stock certificate (issued after November 12, 1990)	Filed as Exhibit 4.8 to Form S-1, Registration No. 33-35556 effective December 6, 1990, incorporated herein by reference
4.3	Indenture dated as of June 16, 2003 between the Registrant, the guarantors signatory thereto and U.S. Bank National Association, as Trustee, relating to Senior Convertibles Notes due 2023	Filed as Exhibit 4.1 to Form 10-Q for the quarterly period ended June 30, 2003, incorporated herein by reference
4.4	Registration Rights Agreement dated as of June 16, 2003 between the Registrant, the subsidiaries of the Registrant listed on the signature pages thereto, and Merrill Lynch & Co., as representatives of the Initial Purchasers of Senior Convertibles Notes due 2023	Filed as Exhibit 4.2 to Form 10-Q for the quarterly period ended June 30, 2003, incorporated herein by reference
4.5	Form of Guarantee (Exhibit A-2 to Indenture filed as Exhibit 4.3 above)	Filed as Exhibit 4.3 to Form 10-Q for the quarterly period ended June 30, 2003, incorporated herein by reference
4.6	Form of Senior Convertible Note due 2023 (Exhibit A-1 to Indenture filed as Exhibit 4.3 above)	Filed as Exhibit 4.3 to Form 10-Q for the quarterly period ended June 30, 2003, incorporated herein by reference
4.7	Indenture, dated as of February 10, 2004 between Mesa Air Group, Inc., the guarantors named therein and U.S. Bank National Association, as Trustee, relating to Senior Convertible Notes due 2024	Filed as Exhibit 4.1 to Form S-3 filed on May 7, 2004, incorporated herein by reference
4.8	Registration Rights Agreement dated as of February 10, 2004 between Mesa Air Group, Inc., the subsidiaries of Mesa Air Group, Inc. listed on the signature pages thereto, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Initial Purchaser of the Senior Convertible Notes due 2024	Filed as Exhibit 4.2 to Form S-3 filed on May 7, 2004, incorporated herein by reference

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Exhibit Number	Description	Reference
4.9	Form of Guarantee (included in Exhibit 4.7)	Filed as Exhibit 4.1 to Form S-3 filed on May 7, 2004, incorporated herein by reference
4.10	Form of Senior Convertible Notes due 2024 (included in Exhibit 4.7)	Filed as Exhibit 4.1 to Form S-3 filed on May 7, 2004, incorporated herein by reference
10.1	1998 Key Officer Stock Option Plan	Filed as Appendix A to Registrant's Definitive Proxy Statement, dated June 17, 1998 and incorporated herein by reference
10.2	2001 Key Officer Stock Option Plan, as amended	Filed as Exhibit 5.2 to Form 10-K for fiscal year ended September 30, 2003 and incorporated herein by reference
10.3	Outside Directors' Stock Option Plan, as amended	Filed as Exhibit 5.3 to Form 10-K for fiscal year ended September 30, 2003 and incorporated herein by reference
10.4	1996 Employee Stock Option Plan, as amended	Filed as Exhibit 5.4 to Form 10-K for fiscal year ended September 30, 2003 and incorporated herein by reference
10.5	2005 Employee Stock Incentive Plan	Filed as Exhibit 10.5 to Form 10-K for fiscal year ended September 30, 2005 and incorporated herein by reference
10.6	Deferred Compensation Plan, adopted July 13, 2001	Filed as Exhibit 10.6 to Form 10-K for fiscal year ended September 30, 2005 and incorporated herein by reference
10.7	2005 Deferred Compensation Plan, adopted February 7, 2005	Filed as Exhibit 10.7 to Form 10-K for fiscal year ended September 30, 2005 and incorporated herein by reference
10.8	Form of Directors' and Officers' Indemnification Agreement	Filed as Exhibit 10.1 to Form 10-K for fiscal year ended September 30, 2002 and incorporated herein by reference
10.9(1)	Code Share and Revenue Sharing Agreement, dated as of March 20, 2001, by and between Mesa Airlines, Inc. and America West, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.1 to Form 10-Q for the period ended March 31, 2001, incorporated herein by reference
10.10	First Amendment to Code Share and Revenue Sharing Agreement dated as of April 27, 2001, by and between Mesa Airlines, Inc. and America West, Inc.	Filed as Exhibit 10.10 to Form 10-K for fiscal year ended September 30, 2002 and incorporated herein by reference
10.11(1)	Second Amendment to Code Share and Revenue Sharing Agreement dated as of October 24, 2002, by and between Mesa Airlines, Inc. and America West, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.4 to Form 10-K for fiscal year ended September 30, 2003 and incorporated herein by reference
10.12(1)	Third Amendment to Code Share and Revenue Sharing Agreement dated as of December 2, 2002, by and between Mesa Airlines, Inc., Freedom Airlines, Inc. and America West, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.5 to Form 10-K for fiscal year ended September 30, 2003 and incorporated herein by reference

Exhibit Number	Description	Reference
10.13(1)	Fourth Amendment to Code Share and Revenue Sharing Agreement dated as of September 5, 2003, by and between Mesa Airlines, Inc., Freedom Airlines, Inc., Air Midwest, Inc. and America West, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.6 to Form 10-K for fiscal year ended September 30, 2003 and incorporated herein by reference
10.14(1)	Fifth Amendment to Code Share and Revenue Sharing Agreement dated as of January 28, 2005, by and between Mesa Airlines, Inc., Freedom Airlines, Inc., Air Midwest, Inc. and America West, Inc.	Filed as Exhibit 10.14 to Form 10-K for fiscal year ended September 30, 2005 and incorporated herein by reference
10.15(1)	Sixth Amendment to Code Share and Revenue Sharing Agreement dated as of July 27, 2005, by and between Mesa Airlines, Inc., Freedom Airlines, Inc., Air Midwest, Inc. and America West, Inc.	Filed as Exhibit 10.15 to Form 10-K for fiscal year ended September 30, 2005 and incorporated herein by reference
10.16(1)	Seventh Amendment to Code Share and Revenue Sharing Agreement, dated as of September 10, 2007, by and between Mesa Airlines, Inc., Freedom Airlines, Inc., Air Midwest, Inc. and America West, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed herewith
10.23(1)	Joint Venture Contract as of December 22, 2006, by and between Shenzhen Airlines Co., Ltd, Ping Shan SRL and Shan Yue SRL. (Certain portions deleted pursuant to confidential treatment.)	Filed herewith
10.24(1)	Service Agreement between US Airways, Inc. and Air Midwest, Inc. dated as of May 14, 2003 (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.14 to the Form 10-K for fiscal year ended September 30, 2003 and incorporated herein by reference
10.25(1)	Amended and Restated United Express Agreement dated as of January 28, 2004, between United Airlines, Inc. and Mesa Air Group, Inc. (Certain portions deleted pursuant to confidential treatment.)	Previously filed as Exhibit 10.17 to the Form 10-K for the year ended September 30, 2004 and incorporated herein by reference
10.26(1)	Amendment to United Express Agreement, dated as of June 3, 2005, between Mesa Air Group, Inc. and United Airlines, Inc. (Certain portions deleted pursuant to confidential treatment.)	Previously filed as Exhibit 10.1 to the Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference
10.27(1)	Third Amendment to United Express Agreement, dated as of August 28, 2007, between Mesa Air Group, Inc. and United Airlines, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed herewith
10.28(1)	Fourth Amendment to United Express Agreement, dated as of August 28, 2007, between Mesa Air Group, Inc. and United Airlines, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed herewith
10.29(1)	Delta Connection Agreement, dated May 3, 2005, between Mesa Air Group, Inc. and Delta Air Lines, Inc. (Certain portions deleted pursuant to confidential treatment.)	Previously filed as Exhibit 10.2 to the Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference

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Exhibit Number	Description	Reference
10.30(1)	Reimbursement Agreement dated May 3, 2005, between Mesa Air Group, Inc. and Delta Air Lines, Inc. (Certain portions deleted pursuant to confidential treatment.)	Previously filed as Exhibit 10.3 to the Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference
10.31	Amendment Number One to Delta Connection Agreement dated as of March 31, 2007, between Freedom Airlines, Inc. and Delta Air Lines, inc.	Filed as Exhibit 10.1 to Registrant’s Form 10-Q for the quarter ended March 31, 2007
10.32(1)	Delta Connection Agreement dated as of March 13, 2007 between Freedom Airlines, Inc. and Delta Air Lines, Inc.	Filed as Exhibit 10.2 to Registrant’s Form 10-Q for the quarter ended March 31, 2007
10.33(1)	Master Purchase Agreement between Bombardier, Inc. and the Registrant Dated May 18, 2001 (Certain portions deleted pursuant to confidential treatment)	Filed as exhibit 10.1 to the Form 10-Q for the quarter ended June 30, 2001 and incorporated herein by reference
10.34	Employment Agreement dated as of March 31, 2004, between the Registrant and Jonathan G. Ornstein	Filed as Exhibit 10.1 to the Form 10-Q for the quarter ended March 31, 2004 and incorporated herein by reference
10.35	Amendment to Employment Agreement, dated as of November 15, 2007 between Registrant and Jonathan G. Ornstein	Filed herewith
10.36	Employee Agreement, dated as of March 31, 2004, between the Registrant and Michael J. Lotz	Filed as Exhibit 10.2 to Form 10-Q for the quarter ended March 31, 2004 and incorporated herein by reference
10.37	Amendment to Employment Agreement, dated as of November 15, 2007 between Registrant and Michael J. Lotz	Filed herewith
10.38	Employment Agreement, dated April 30, 2005, entered into by and between the Registrant and Brian S. Gillman	Filed as Exhibit 10.34 to Form 10-K for fiscal year ended September 30, 2005 and incorporated herein by reference
10.39	Amendment to Employment Agreement, dated as of November 15, 2007 between Registrant and Brian S. Gillman	Filed herewith
10.40	Three Gateway Office Lease between Registrant and DMB Property Ventures Limited Partnership, dated October 16, 1998, as amended, including Amendments 1 through 4	Filed as Exhibit 10.29 to Registrant’s Form 10-K for fiscal year ended September 30, 2002 and incorporated herein by reference
10.41(1)	Amendments Number 5 through 8 to Three Gateway Office Lease between Registrant and DMB Property Ventures Limited Partnership, dated October 16, 1998	Filed as Exhibit 10.36 to Form 10-K for fiscal year ended September 30, 2005 and incorporated herein by reference
18.1	Letter regarding change in accounting principle	Filed as exhibit 18.1 to Registrant’s Form 10-K for fiscal year ended September 30, 2000 and incorporated herein by reference
21.1	Subsidiaries of the Registrant	Filed herewith
23.1	Consent of Independent Registered Public Accounting Firm	Filed herewith
31.1	Certification Pursuant to Rule 13a-14(a)/ 15d-14(a) of the Securities Exchange Act of 1934, as amended	Filed herewith

Exhibit Number	Description	Reference
31.2	Certification Pursuant to Rule 13a-14(a)/ 15d-14(a) of the Securities Exchange Act of 1934, as amended	Filed herewith
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith

(1) The Company has sought confidential treatment of portions of the referenced exhibits.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MESA AIR GROUP, INC.

By: /s/ JONATHAN G. ORNSTEIN

Jonathan G. Ornstein
Chairman and Chief Executive Officer
(Principal Executive Officer)

By: /s/ MICHAEL J. LOTZ

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

Dated: January14, 2008

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints JONATHAN G. ORNSTEIN, BRIAN S. GILLMAN and MICHAEL J. LOTZ, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution for him in his name, place and stead, in any and all capacities, to sign any and all amendments to this Form 10-K Annual Report, and to file the same, with all exhibits thereto, and other documents in connection therewith with the Securities and Exchange Commission, granting onto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises as fully and to all intent and purposes as he might or could do in person hereby ratifying and confirming all that said attorneys-in-fact and agents, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ JONATHAN G. ORNSTEIN Jonathan G. Ornstein	Chairman of the Board, Chief Executive Officer and Director	January 14, 2008
/s/ DANIEL J. ALTOBELLO Daniel J. Altobello	Director	January 14, 2008
/s/ MAURICE A. PARKER Maurice A. Parker	Director	January 14, 2008
/s/ JOSEPH L. MANSON Joseph L. Manson	Director	January 14, 2008
/s/ ROBERT BELESON Robert Beleson	Director	January 14, 2008
/s/ PETER F. NOSTRAND Peter F. Nostrand	Director	January 14, 2008
/s/ CARLOS BONILLA Carlos Bonilla	Director	January 14, 2008
/s/ RICHARD THAYER Richard Thayer	Director	January 14, 2008

EXHIBIT INDEX

Exhibit Number	Description	Reference
3.1	Articles of Incorporation of Registrant dated May 28, 1996	Filed as Exhibit 3.1 to Registrant's Form 10-K for the fiscal year ended September 30, 1996, incorporated herein by reference
3.2	Bylaws of Registrant as amended	Filed as Exhibit 3.3 to Registrant's Form 10-Q for the quarterly period ended June 30, 2007, incorporated herein by reference
4.1	Form of Common Stock certificate	Filed as Exhibit 4.5 to Amendment No. 1 to Registrant's Form S-18, Registration No. 33-11765 filed March 6, 1987, incorporated herein by reference
4.2	Form of Common Stock certificate (issued after November 12, 1990)	Filed as Exhibit 4.8 to Form S-1, Registration No. 33-35556 effective December 6, 1990, incorporated herein by reference
4.3	Indenture dated as of June 16, 2003 between the Registrant, the guarantors signatory thereto and U.S. Bank National Association, as Trustee, relating to Senior Convertibles Notes due 2023	Filed as Exhibit 4.1 to Form 10-Q for the quarterly period ended June 30, 2003, incorporated herein by reference
4.4	Registration Rights Agreement dated as of June 16, 2003 between the Registrant, the subsidiaries of the Registrant listed on the signature pages thereto, and Merrill Lynch & Co., as representatives of the Initial Purchasers of Senior Convertibles Notes due 2023	Filed as Exhibit 4.2 to Form 10-Q for the quarterly period ended June 30, 2003, incorporated herein by reference
4.5	Form of Guarantee (Exhibit A-2 to Indenture filed as Exhibit 4.3 above)	Filed as Exhibit 4.3 to Form 10-Q for the quarterly period ended June 30, 2003, incorporated herein by reference
4.6	Form of Senior Convertible Note due 2023 (Exhibit A-1 to Indenture filed as Exhibit 4.3 above)	Filed as Exhibit 4.3 to Form 10-Q for the quarterly period ended June 30, 2003, incorporated herein by reference
4.7	Indenture, dated as of February 10, 2004 between Mesa Air Group, Inc., the guarantors named therein and U.S. Bank National Association, as Trustee, relating to Senior Convertible Notes due 2024	Filed as Exhibit 4.1 to Form S-3 filed on May 7, 2004, incorporated herein by reference
4.8	Registration Rights Agreement dated as of February 10, 2004 between Mesa Air Group, Inc., the subsidiaries of Mesa Air Group, Inc. listed on the signature pages thereto, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Initial Purchaser of the Senior Convertible Notes due 2024	Filed as Exhibit 4.2 to Form S-3 filed on May 7, 2004, incorporated herein by reference
4.9	Form of Guarantee (included in Exhibit 4.7).	Filed as Exhibit 4.1 to Form S-3 filed on May 7, 2004, incorporated herein by reference
4.10	Form of Senior Convertible Notes due 2024 (included in Exhibit 4.7).	Filed as Exhibit 4.1 to Form S-3 filed on May 7, 2004, incorporated herein by reference
10.1	1998 Key Officer Stock Option Plan	Filed as Appendix A to Registrant's Definitive Proxy Statement, dated June 17, 1998 and incorporated herein by reference
10.2	2001 Key Officer Stock Option Plan, as amended	Filed as Exhibit 5.2 to Form 10-K for fiscal year ended September 30, 2003 and incorporated herein by reference

Exhibit Number	Description	Reference
10.3	Outside Directors' Stock Option Plan, as amended	Filed as Exhibit 5.3 to Form 10-K for fiscal year ended September 30, 2003 and incorporated herein by reference
10.4	1996 Employee Stock Option Plan, as amended	Filed as Exhibit 5.4 to Form 10-K for fiscal year ended September 30, 2003 and incorporated herein by reference
10.5	2005 Employee Stock Incentive Plan	Filed as Exhibit 10.54 to Form 10-K for fiscal year ended September 30, 2005 and incorporated herein by reference
10.6	Deferred Compensation Plan, adopted July 13, 2001	Filed as Exhibit 10.6 to Form 10-K for fiscal year ended September 30, 2005 and incorporated herein by reference
10.7	2005 Deferred Compensation Plan, adopted February 7, 2005	Filed as Exhibit 10.7 to Form 10-K for fiscal year ended September 30, 2005 and incorporated herein by reference
10.8	Form of Directors' and Officers' Indemnification Agreement	Filed as Exhibit 10.1 to Form 10-K for fiscal year ended September 30, 2002 and incorporated herein by reference
10.9(1)	Code Share and Revenue Sharing Agreement, dated as of March 20, 2001, by and between Mesa Airlines, Inc. and America West, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.1 to Form 10-Q for the period ended March 31, 2001 and incorporated herein by reference
10.10(1)	First Amendment to Code Share and Revenue Sharing Agreement dated as of April 27, 2001, by and between Mesa Airlines, Inc. and America West, Inc.	Filed as Exhibit 10.10 to Form 10-K for fiscal year ended September 30, 2002 and incorporated herein by reference
10.11(1)	Second Amendment to Code Share and Revenue Sharing Agreement dated as of October 24, 2002, by and between Mesa Airlines, Inc. and America West, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.4 to Form 10-K for fiscal year ended September 30, 2003 and incorporated herein by reference
10.12(1)	Third Amendment to Code Share and Revenue Sharing Agreement dated as of December 2, 2002, by and between Mesa Airlines, Inc., Freedom Airlines, Inc. and America West, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.5 to Form 10-K for fiscal year ended September 30, 2003 and incorporated herein by reference
10.13(1)	Fourth Amendment to Code Share and Revenue Sharing Agreement dated as of September 5, 2003, by and between Mesa Airlines, Inc., Freedom Airlines, Inc., Air Midwest, Inc. and America West, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.6 to Form 10-K for fiscal year ended September 30, 2003 and incorporated herein by reference
10.14(1)	Fifth Amendment to Code Share and Revenue Sharing Agreement dated as of January 28, 2005, by and between Mesa Airlines, Inc., Freedom Airlines, Inc., Air Midwest, Inc. and America West, Inc.	Filed as Exhibit 10.14 to Form 10-K for fiscal year ended September 30, 2005 and incorporated herein by reference

Exhibit Number	Description	Reference
10.15(1)	Sixth Amendment to Code Share and Revenue Sharing Agreement dated as of July 27, 2005, by and between Mesa Airlines, Inc., Freedom Airlines, Inc., Air Midwest, Inc. and America West, Inc.	Filed as Exhibit 10.15 to Form 10-K for fiscal year ended September 30, 2005 and incorporated herein by reference
10.16(1)	Seventh Amendment to Code Share and Revenue Sharing Agreement, dated as of September 10, 2007, by and between Mesa Airlines, Inc., Freedom Airlines, Inc., Air Midwest, Inc. and America West, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed herewith
10.23(1)	Joint Venture Contract as of December 22, 2006, by and between Shenzhen Airlines Co., Ltd, Ping Shan SRL and Shan Yue SRL. (Certain portions deleted pursuant to confidential treatment.)	Filed herewith
10.24(1)	Service Agreement between US Airways, Inc. and Air Midwest, Inc. dated as of May 14, 2003 (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.14 to the Form 10-K for fiscal year ended September 30, 2003 and incorporated herein by reference
10.25(1)	Amended and Restated United Express Agreement dated as of January 28, 2004 between United Airlines, Inc. and Mesa Air Group, Inc. (Certain portions deleted pursuant to confidential treatment.)	Previously filed as Exhibit 10.17 to the Form 10-K for the year ended September 30, 2004 and incorporated herein by reference
10.26(1)	Amendment to United Express Agreement, dated as of June 3, 2005, between Mesa Air Group, Inc. and United Airlines, Inc. (Certain portions deleted pursuant to confidential treatment.)	Previously filed as Exhibit 10.1 to the Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference
10.27(1)	Third Amendment to United Express Agreement, dated as of August 28, 2007, between Mesa Air Group, Inc. and United Airlines, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed herewith
10.28(1)	Fourth Amendment to United Express Agreement, dated as of August 28, 2007, between Mesa Air Group, Inc. and United Airlines, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed herewith
10.29(1)	Delta Connection Agreement, dated May 3, 2005, between Mesa Air Group, Inc. and Delta Air Lines, Inc. (Certain portions deleted pursuant to confidential treatment.)	Previously filed as Exhibit 10.2 to the Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference
10.30(1)	Reimbursement Agreement, dated May 3, 2005, between Mesa Air Group, Inc. and Delta Air Lines, Inc. (Certain portions deleted pursuant to confidential treatment.)	Previously filed as Exhibit 10.3 to the Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference
10.31	Amendment Number One to Delta Connection Agreement dated as of March 31, 2007, between Freedom Airlines, Inc. and Delta Air Lines, inc.	Filed as Exhibit 10.1 to Registrant’s Form 10-Q for the quarter ended March 31, 2007
10.32(1)	Delta Connection Agreement dated as of March 13, 2007 between Freedom Airlines, Inc. and Delta Air Lines, Inc.	Filed as Exhibit 10.2 to Registrant’s Form 10-Q for the quarter ended March 31, 2007

Exhibit Number	Description	Reference
10.33(1)	Master Purchase Agreement between Bombardier, Inc. and the Registrant dated May 18, 2001 (Certain portions deleted pursuant to confidential treatment)	Filed as exhibit 10.1 to the Form 10-Q for the quarter ended June 30, 2001 and incorporated herein by reference
10.34	Employment Agreement dated as of March 31, 2004, between the Registrant and Jonathan G. Ornstein	Filed as Exhibit 10.1 to the Form 10-Q for the quarter ended March 31, 2004 and incorporated herein by reference
10.35	Amendment to Employment Agreement, dated as of November 15, 2007 between Registrant and Jonathan G. Ornstein	Filed herewith
10.36	Employee Agreement, dated as of March 31, 2004, between the Registrant and Michael J. Lotz	Filed as Exhibit 10.2 to Form 10-Q for the quarter ended March 31, 2004 and incorporated herein by reference
10.37	Amendment to Employment Agreement, dated as of November 15, 2007 between Registrant and Michael J. Lotz	Filed herewith
10.38	Employment Agreement, dated April 30, 2005, entered into by and between the Registrant and Brian S. Gillman	Filed as Exhibit 10.34 to Form 10-K for fiscal year ended September 30, 2005 and incorporated herein by reference
10.39	Amendment to Employment Agreement, dated as of November 15, 2007 between Registrant and Brian S. Gillman	Filed herewith
10.40	Three Gateway Office Lease between Registrant and DMB Property Ventures Limited Partnership, dated October 16, 1998, as amended, including Amendments 1 through 4	Filed as Exhibit 10.29 to Registrant's Form 10-K for fiscal year ended September 30, 2002 and incorporated herein by reference
10.41(1)	Amendments Number 5 through 8 to Three Gateway Office Lease between Registrant and DMB Property Ventures Limited Partnership, dated October 16, 1998	Filed as Exhibit 10.36 to Form 10-K for fiscal year ended September 30, 2005 and incorporated herein by reference
18.1	Letter regarding change in accounting principle	Filed as exhibit 18.1 to Registrant's Form 10-K for fiscal year ended September 30, 2000 and incorporated herein by reference
21.1	Subsidiaries of the Registrant	Filed herewith
23.1	Consent of Independent Registered Public Accounting Firm	Filed herewith
31.1	Certification Pursuant to Rule 13a-14(a)/ 15d-14(a) of the Securities Exchange Act of 1934, as amended	Filed herewith
31.2	Certification Pursuant to Rule 13a-14(a)/ 15d-14(a) of the Securities Exchange Act of 1934, as amended	Filed herewith
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith

(1) The Company has sought confidential treatment of portions of the referenced exhibits.

Exhibit 10.16

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

**SEVENTH AMENDMENT TO CODE SHARE AND
REVENUE SHARING AGREEMENT AND SETTLEMENT, ASSIGNMENT
AND ASSUMPTION AGREEMENT**

THIS SEVENTH AMENDMENT TO CODE SHARE AND REVENUE SHARING AGREEMENT AND SETTLEMENT, ASSIGNMENT AND ASSUMPTION AGREEMENT ("Seventh Amendment") is made and entered into as of September 10, 2007 (the "Effective Date") by and among AMERICA WEST AIRLINES, INC., a Delaware corporation ("AWA"), US AIRWAYS, INC., a Delaware corporation ("US Airways"), MESA AIRLINES, INC., a Nevada corporation ("Mesa"), AIR MIDWEST, INC. a Kansas corporation ("AM"), and FREEDOM AIRLINES, INC., a Nevada corporation ("Freedom"). Mesa, AM and Freedom are referred to collectively as the "Mesa Group".

RECITALS:

WHEREAS, AWA and the Mesa Group are parties to that certain Code Share and Revenue Sharing Agreement, dated to be effective February 1,2001, as amended by that certain First Amendment to Code Share and Revenue Sharing Agreement, dated to be effective April 27, 2001, that certain Second Amendment to Code Share and Revenue Sharing Agreement, dated to be effective October 24, 2002, that certain Third Amendment to Code Share and Revenue Sharing Agreement, dated to be effective January 29, 2003, that certain Fourth Amendment to Code Share and Revenue Sharing Agreement, dated to be effective September 5, 2003, that certain Fifth Amendment to Code Share and Revenue Sharing Agreement, dated to be effective January 28, 2005, that certain Fifth Amendment to Code Share and Revenue Sharing Agreement, dated to be effective January 28,2005 and that certain Sixth Amendment to Code Share and Revenue Sharing Agreement, dated to be effective July 27, 2005 (collectively, the "Code Share Agreement");

WHEREAS, the Code Share Agreement requires the Mesa Group to provide certain Flight Services and Other Services for AWA, pursuant to the terms and conditions of the Code Share Agreement;

WHEREAS, the Mesa Group and AWA desire to amend the Code Share Agreement pursuant to the terms and conditions of this Seventh Amendment;

WHEREAS, the Mesa Group and AWA desire to settle certain amounts payable to each other pursuant to certain claims under the Code Share Agreement;

WHEREAS, as part of the integration of AWA's and US Airways' operations, AWA and US Airways will combine their operating certificates into one operating certificate under US Airways;

WHEREAS, AWA wishes to assign, transfer and convey to US Airways its rights, title and interest in and to the Code Share Agreement and US Airways wishes to accept and assume

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from AWA, all of AWA's rights, interests, liabilities, duties and obligations in, to and under the Code Share Agreement; and

WHEREAS, AWA, US Airways and the Mesa Group have agreed to enter into this Agreement for the purpose of giving effect to such assignment to US Airways of AWA's rights and interests in, to and under the Code Share Agreement.

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

Section 1. Definitions and Interpretation.

1.1 Unless otherwise defined or the context otherwise requires, capitalized terms used in this Seventh Amendment shall have the same meanings as in the Code Share Agreement (whether by reference to another document or otherwise) and the following terms shall have the following meanings:

"Effective Time" means the date AWA relinquishes its FAA operating certificate.

Section 2. Amendments.

2.1 AWA, US Airways and the Mesa Group agree that Exhibit C of the Code Share Agreement is amended by: (i) deleting the reference to $[****] in the "Ownership" line under the CRJ 900 column and replacing such number with a reference to Note 6 and (ii) adding the following Note 6:

"$[****] per CRJ 900 per month for [****] months from [****] through [****] and

$[****] per CRJ 900 per month for the remainder of the Term."

Section 3. Settlement. AWA, US Airways and the Mesa Group agree to the following settlement of certain outstanding liabilities, duties and obligations contained in the Code Share Agreement and disputes between Mesa and AWA and US Airways:

3.1 AWA, US Airways and the Mesa Group agree that US Airways shall pay and has paid to Mesa the sum of $7,464,008 in settlement of outstanding claims Mesa has against AWA for CRJ Model 900 "Ownership" Guaranteed Non-Maintenance Costs payable through July 2007 pursuant to Section 7.2(a) of the Code Share Agreement (the "CRJ 900 Claims"). The Mesa Group hereby acknowledges receipt of this settlement payment in full on August 9, 2007. The parties agree that only the CRJ 900 Claims are being settled hereby and no other claims any party may have against any other party under the Code Share Agreement shall be settled or affected hereby (other than the release of AWA pursuant to Section 4.1(d) below upon the assumption hereunder by US Airways of all of AWA's obligations, duties and liabilities under the Code Share Agreement).

Section 4. Assignment and Assumption.

4.1 At the Effective Time:

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(a) AWA hereby conveys, assigns, transfers and sets over to US Airways all of the rights, title and interests of AWA in, to and under the Code Share Agreement (including, without limitation, in respect of rights and interests accruing, arising or pertaining to, and matters occurring during, the period prior to the Effective Time).

(b) US Airways hereby accepts the conveyance, assignment and transfer contained in sub-section (a) of this Section 4.1 and assumes and agrees to discharge, perform and satisfy all of the obligations, duties and liabilities of AW A under the Code Share Agreement, in each case arising prior to, at and after the Effective Time for the benefit of the Mesa Group in the time and manner required by the Code Share Agreement to the same extent as if US Airways had executed and delivered the Code Share Agreement. US Airways further agrees that it shall be deemed to be a party to the Code Share Agreement and shall be bound by the terms and provisions of the Code Share Agreement, and further agrees to observe and perform in favor of and for the benefit of the Mesa Group all obligations, duties and liabilities of AW A under the Code Share Agreement arising prior to, at and after the Effective Time.

(c) The Mesa Group hereby consents to and accepts the conveyance, assignment and transfer by AWA and the assumption by US Airways of all of the rights, title, interests, duties, liabilities and obligations of AWA in, to and under the Code Share Agreement, and US Airways' agreement to be bound by the terms and provisions of the Code Share Agreement and to perform all of AWA's obligations, duties and liabilities under the Code Share Agreement pursuant to sub-sections (a) and (b) of this Section 4.1.

(d) The Mesa Group releases AWA from its obligations, duties and liabilities to the Mesa Group arising at or after the Effective Time under the Code Share Agreement.

(e) AWA releases the Mesa Group from its obligations, duties and liabilities to AWA arising at or after the Effective Time under the Code Share Agreement.

(f) The Mesa Group agrees to observe and perform in favor of and for the benefit of US Airways all its obligations, duties and liabilities arising at or after the Effective Time under the Code Share Agreement.

(g) At the Effective Time, all references to "America West Airlines, Inc." and "AWA" shall be deleted and replaced with "US Airways, Inc." and "US Airways", respectively.

(h) At the Effective Time, the notice address for AWA in Section 15.1 of the Code Share Agreement will be amended as follows:

"If to US Airways: US Airways, Inc.
4000 E. Sky Harbor Blvd.
Phoenix, AZ 85034
Attn: General Counsel
Telephone: (480) 693-3760
Facsimile: (480)693-5155

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Each of the foregoing events and agreements in this Section 4.1 is conditional upon the happening of the others and shall occur simultaneously. It is hereby agreed and acknowledged that the above-described assignment and assumption of the Code Share Agreement and the resulting releases and discharges of AWA by the Mesa Group, and of the Mesa Group by AWA, are without prejudice to any and all rights, obligations, claims and demands, including, without limitation, rights to indemnification under the Code Share Agreement, which AWA or the Mesa Group may have against each other in respect of acts, omissions, events and circumstances arising prior to the Effective Time. Notwithstanding anything contained herein, none of the parties' respective obligations, duties and liabilities under the Code Share Agreement shall be increased, nor shall such parties' rights and privileges under the Code Share Agreement be reduced, by reason of the transactions contemplated hereby.

Section 5. Effect. Except as set forth in this Seventh Amendment, all of the terms and conditions of the Code Share Agreement shall remain in full force and effect and be applicable to this Seventh Amendment.

Section 6. Counterparts. This Seventh Amendment may be executed in counterparts, all of which when taken together shall be one and the same document.

Section 7. Entire Agreement. This Seventh Amendment constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior understandings with respect thereto.

Section 8. References to Agreement. The Code Share Agreement and any and all other agreements, documents or instruments now or hereafter executed and delivered pursuant to the terms hereof, or pursuant to the terms of the Code Share Agreement as amended hereby, are hereby amended so that any reference therein to the Code Share Agreement shall mean a reference to the Code Share Agreement as amended hereby.

Section 9. Agreement Remains in Effect. The Code Share Agreement, as amended hereby, remains in full force and effect and each of the parties ratifies and confirms its agreements and covenants contained therein.

[Signature Pages Follow]

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IN WITNESS WHEREOF, the parties have duly executed this Seventh Amendment as of the date first above written.

AMERICA WEST AIRLINES, INC.

By: ____________________
Name: ____________________
Title: ____________________

US AIRWAYS, INC.

By: ____________________
Name: ____________________
Title: ____________________

MESA AIRLINES, INC.

By: ____________________
Name: ____________________
Title: ____________________

FREEDOM AIRLINES, INC.

By: ____________________
Name: ____________________
Title: ____________________

AIR MIDWEST, INC.

By: ____________________
Name: ____________________
Title: ____________________

[Signature Page — Seventh Amendment to Code Share Agreement]

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

JOINT VENTURE CONTRACT

THIS CONTRACT ("Contract") is made in Beijing, the People's Republic of China on this twenty second day of December, 2006 by and between **Shenzhen Airlines Co., Ltd.** (hereinafter referred to as "Party A"), **Ping Shan SRL** (hereinafter referred to as "Party B"), and **Shan Yue SRL** (hereinafter referred to as "Party C"). Party A, Party B, and Party C shall hereinafter be referred to individually as a "Party" and collectively as the "Parties".

RECITALS

Whereas, per friendly consultations under the principles of equality and mutual benefit, the Parties have agreed to establish an equity joint venture (hereinafter referred to as the "Company") in accordance with the EJV Law and the EJV Implementing Regulations, other Applicable Laws and regulations of the People's Republic of China (hereinafter referred to as the "PRC");

Whereas, the Parties intended to establish the Company as the legal entity to establish, develop, own, operate and manage the Company, a PRC-registered airline with a regional jet fleet to offer common carrier passenger service to the public on PRC domestic and international markets;

Whereas, for the purpose stated in the immediately above paragraph, the Parties had entered into a Letter of Intent on July 25, 2006 to set forth the general principles of understanding between, as well as the undertakings by, the Parties to achieve the above indicated objectives.

Now, with such a goal, the JV Parties agree:

1. DEFINITIONS AND INTERPRETATION

Unless the terms or context of this Contract otherwise provide, this Contract shall be interpreted in accordance with, and each of the terms used herein shall have the meaning ascribed to it in, Schedule A.

2. PARTIES TO THE CONTRACT

2.1 Particulars of Parties

The Parties to this Contract are:

(a) Party A, Shenzhen Airlines, Ltd. (in Chinese:深圳航空有限责任公司),), a corporation limited by shares established and existing under the laws of the People's Republic of China, with its main office at Shenzhen Bao'an International Airport, Shenzhen, the People's Republic of China, 518128;

Legal Representative of Party A:

Name: Zhao Xiang

Title: Chairman of the Board

Nationality: Chinese

(b) Party B, Ping Shan SRL, a society with restricted liability organized and existing under the laws of the Barbados, with its main office at Citco Corporate Management (Barbados) Limited, Whitepark House, White Park Road, Bridgetown, Barbados

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Legal Representatives of Party B:

Name: Jonathan Ornstein

Title: Chief Executive Officer

Nationality: USA

Name: George P. Murnane III

Title: Vice President and Assistant Secretary

Nationality: USA

Name: Brian Gillman

Title: Assistant Secretary and Assistant Treasure

Nationality: USA

and

(c) Party C, Shan Yue SRL, a society with restricted liability organized and existing under the laws of Barbados, with its main office at Citco Corporate Management (Barbados) Limited, Whitepark House, White Park Road, Bridgetown, Barbados

Legal Representative of Party C:

Name: Mo Garfinkle

Title: President and Assistant Secretary

Nationality: USA

2.2 Parties' Legal or Authorized Representatives

Each Party shall have the right to change its legal or authorized representative and shall promptly notify the other Party of such change and the name, position and nationality of its new legal or authorized representative.

3. **ESTABLISHMENT OF THE COMPANY**

3.1 Establishment of Company

The Parties hereby agree to establish the Company promptly after the Effective Date in accordance with the EJV Law, the EJV Implementing Regulations, other Applicable Laws and regulations of the PRC.

3.2 Name of Company

The name of the Company shall be 鲲鹏航空有限公司 in Chinese, and "Kun Peng Airlines, Co., Ltd." in English.

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3.3 Company's Legal Address

The legal address of the Company shall be New China Insurance Building, No 8, Lianhuachi Xili, Fengtai District, Beijing, the PRC (in Chinese: 北京市丰台区莲花池西里8号新华保险大厦).

3.4 Company Branch Offices

The Company may establish branch offices inside the PRC and/or overseas with the consent of the Board and the approval from the relevant governmental authorities.

3.5 Limited Liability Company

The form of organization of the Company shall be a limited liability company.

4. **PURPOSE AND SCOPE OF OPERATION**

4.1 Purpose of Joint Venture

The purpose of the joint venture shall be to utilize the combined technological, management, operational and marketing strengths of the Parties within the approved scope of business of the Company to achieve worthwhile economic results and a return on investment satisfactory to the Parties.

4.2 Scope of Business

The scope of business of the Company shall be to offer common carrier passenger service to the public on PRC domestic and international markets.

4.3 Independent Entity

The Company shall conduct its business as an independent economic entity and will operate autonomously.

5. **TOTAL INVESTMENT AND REGISTERED CAPITAL**

5.1 Total Investment Amount

The total amount of investment required by the Company is presently estimated by the Parties to be [****] Renminbi Yuan (RMB [****]).

5.2 Registered Capital Amount

The Company's registered capital shall be [****] Renminbi (RMB [****]).

5.3 Contributions to Capital

(a) Party A's contribution to the registered capital of the Company shall be [****] Renminbi Yuan (RMB [****]), representing a fifty-one percent (51%) share of the registered capital of the Company.

(b) Party B's contribution to the registered capital of the Company shall be [****] Renminbi Yuan (RMB [****]), representing a twenty-five percent (25%) share of the registered capital of the Company.

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(c) Party C's contribution to the registered capital of the Company shall be [****] Renminbi Yuan (RMB [****]): representing a twenty-four percent (24%) share of the registered capital of the Company.

5.4 Payment of Registered Capital; Conditions Precedent

(a) Subject to Article 5.4(c) below, each Party shall make its contribution to the registered capital of the Company in accordance with Schedule B to this Contract.

(b) Subject to Article 5.4(c) below, in the event that a Party fails to make its capital contribution, in whole or in part, in accordance with the provisions of this Contract, such Party shall be liable to pay simple interest to the Company at a rate equal to [****] percent ([****]%) per annum on the unpaid amount from the time due until the time the full outstanding amount including penalty interest is paid to and received by the Company.

(c) No Party shall have any obligation to make its contribution to the Company's registered capital until it has received each of the following documents:

(i) a copy of the Approval Letter and the Approval Certificate approving this Contract and the Articles of Association issued by the Ministry of Commerce or its local counterpart and General Administration of Civil Aviation;

(ii) a copy of the Business License incorporating the business scope set out in Article 4.2; and

(iii) the approval of each Party's board of directors; provided, however, if the Company has obtained the items listed in (i) and (ii) above, the approval of each Party's board of directors shall not be a condition to such Party's obligation to make its applicable contribution to the Company's registered capital.

(d) In the event that:

(i) any Approval Document is not issued within ninety (90) days of the date of submission of the relevant application in respect thereof, or

(ii) the Examination and Approval Authority rejects any of the documents submitted for approval and the Parties cannot agree on the changes needed to obtain such approval within ninety (90) days of the notification of such rejection to the Parties,

then any Party shall have the right to issue written notice to the other Party(ies) declaring this Contract and the Articles of Association immediately null and void, whereupon the Parties shall apply for the cancellation of the Business License (if issued) and, where any capital contributions have been made to the Company, the liquidation of the Company pursuant to Article 16.4. In such case, no Party shall have any right whatsoever to require the other Party(ies) to make any further contribution to the registered capital of the Company or otherwise to require any other performance of this Contract or (except in cases of willful misconduct) to claim any damages from the other Party.

5.5 Investment Certificates

(a) When a Party has made all or any part of its contribution to the registered capital of the Company, a Chinese registered accountant appointed by the Board shall verify such contribution and issue a capital contribution verification report in the form required under Applicable Laws of the PRC.

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(b) In accordance with such report, the Parties shall cause the Company to issue an Investment Certificate to the relevant Party. An interim certificate shall be issued in respect of each partial contribution made by a Party. Upon completion of all capital contributions by a Party, any interim certificate(s) shall be returned to the Company for cancellation and a final Investment Certificate shall be issued

(c) Any interim or final Investment Certificate shall be signed by the Chairman and the Vice Chairman of the Board and stamped with the Company seal, and shall certify the amount of registered capital contributed by such Party and the date on which such capital contribution was made.

5.6 Assignment of Registered Capital

(a) A Party may sell, transfer, pledge, encumber or otherwise dispose of (each a "transfer") all or any part of its interest in the registered capital of the Company to any third party only with the prior written consent of the other two Parties, the unanimous approval of the Board and the approval of the Examination and Approval Authority, and any transfer of an interest in the Company must not result in the Company or the ownership thereof to be in violation of the Applicable Laws in effect at the time of such transfer.

(b) Upon receipt of approval from the Examination and Approval Authority, the Parties shall cause the Company to register the change in ownership with the SAIC. All transfers shall be handled in compliance with the Applicable Laws in effect at the time of such transfers.

(c) Unless a Party is transferring its interest in the registered capital of the Company to an Affiliate Assignee (defined in 5.6(f)), if either (i) Party A or (ii) Party B, or (iii) the aggregate of Party B and Party C (the "Assigning Party", as applicable) propose(s) to transfer all or any part of its or their interest in, the registered capital of the Company to a third party, the other Parties (which is Party B if Party A is the Assigning Party or which is Party A if Party B or the aggregate of Party B and Party C is/are the Assigning Party) shall have a right of first refusal to purchase or have a designee which does not violate any Applicable Laws relating to the ownership of the Company purchase such interest at the price offered to the third party. The Assigning Party shall notify the other Parties in writing on the terms and conditions of the proposed transfer. If the other Party does not exercise its right of first refusal of purchase or to have its designee purchase within thirty (30) days after delivery of such notice, such other Party shall be deemed to have consented to such transfer and covenants that it will sign all necessary documents in connection therewith and will cause the directors appointed by it to attend in person, by proxy or by telecommunications any Board meeting at which such transfer is to be voted in favor of a resolution approving such transfer or to sign a written resolution circulated in lieu of such a meeting of the Board, as the case may be. Unless Party C is transferring its interest in the registered capital of the Company to an Affiliate Assignee, if Party C (the "Assigning Party") propose(s) to transfer all or any part of its interest in the registered capital of the Company to a third party, Party B shall have a right of first refusal to have a designee purchase such interest at the price offered to the third party. The Assigning Party shall notify the other Parties in writing on the terms and conditions of the proposed transfer (the "Transferring Notice"). If Party B does not exercise its right of first refusal of purchase within thirty (30) days after receipt of the Transferring Notice, Party A shall have a right of refusal to have a designee purchase such interest at the price offered to the third party. If Party B and/or Party A do/does not exercise their/its right of refusal of purchase, such Party(ies) shall be deemed to have consented to such transfer and covenants that it/they will sign all necessary documents in connection therewith and will cause the directors appointed by it/them to attend in person, by proxy or by telecommunications any Board meeting at which such transfer is to be voted in favor of a resolution approving such transfer or to sign a written resolution circulated in lieu of such a meeting of the Board, as the case may be.

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(d) If a Party desires to sell all or part of its interest in the registered capital of the Company to the other Party(ies), and the other Party(ies) desire to purchase such interest, the Parties, including the Selling Party, shall jointly request an Independent Appraiser to conduct a valuation of the Company using the Industry Valuation Method. The Independent Appraiser shall complete the valuation of the Company within forty-five (45) days. The valuation determined by the Independent Appraiser shall be the valuation adopted by the Parties for purposes of this provision. The purchase price for all or part of a Party's share of the registered capital of the Company shall be calculated by multiplying the value of the Company as determined above by the percentage of such Party's share of the registered capital to be transferred.

(e) To the extent permitted by Applicable laws relating to the ownership of the Company, in the event of a transfer by Party A or a transfer by Party B or a transfer by both Party B and Party C, in each case to a non-Affiliate Assignee, any non-transferring Party shall have the right, but not the obligation, to participate in the transfer and to sell to the transferee all or part of such non-transferring Party's share in the registered capital of the Company on the same term and conditions as described in the notice ("Tag Along Right"). Any non-transferring Party that intends to exercise such Tag-Along Right shall, within thirty (30) days following the delivery of the notice of an intent to transfer, deliver a written notice of such intention to the transferring Party(ies), specifying the proportion of its share in the registered capital of the Company with respect to which it has elected to exercise its Tag-Along Right.

If the non-transferring Party, does not exercise its Tag-Along Right in writing within thirty (30) days of the delivery of the notice from this transferring Party, the non-transferring Party shall be deemed to have waived its Tag-Along Right and shall immediately thereafter confirm in writing its consent to the transfer to the transferee as specified in the notice of intent to transfer and, if applicable, cause each of the directors it has appointed to approve such transfer. In such case, the transferring Party(ies) may assign, sell, transfer or otherwise dispose of such share in the registered capital of the Company to the proposed transferee on the terms and conditions set out in the notice of intent to transfer.

(f) Notwithstanding subsections (c), (d) and (e) of this Article 5.6 above, the Assigning Party may transfer all or part of its amount of the registered capital of the Company to an Affiliate (the "Affiliate Assignee") of the Assigning Party under the following conditions:

(i) the Affiliate Assignee shall assume and undertake to perform fully all of the obligations of the Assigning Party under this Contract; and

(ii) the Assigning Party shall acknowledge and agree that to the extent that the Affiliate Assignee fails to perform any obligation hereunder the Assigning Party is not released from, and remains jointly and severally liable with the Affiliate Assignee for, the full performance of the provisions of this Contract and any damages for the breach thereof.

The Affiliate Assignee and the Assigning Party each shall provide to the other Party a written indemnification in respect of the foregoing satisfactory to the other Parties. If a Party intends to transfer its interest or a portion of its interest in the Company to an Affiliate Assignee, such non-transferring Party(ies) shall be deemed to have consented to such transfer and covenant(s) that it/they will sign all necessary documents in connection therewith and will cause the directors appointed by it/them to attend in person, by proxy or by telecommunications any Board meeting at which such transfer is to be voted in favor of a resolution approving such transfer or to sign a written resolution circulated in lieu of such a meeting of the Board, as the case may be. For tho avoidance of doubt, no Party shall have a right of first refusal to purchase or a Tag Along Right should a Party elect to transfer to an Affiliate Assignee.

5.7 Encumbrance of Interests in the Company

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A Party may not mortgage, pledge or otherwise encumber all or any part of its interest in the Company without the unanimous approval by the Board of directors of the Company.

5.8 Increase or Reduction of Registered Capital

(a) Any increase or reduction in the registered capital of the Company must be (i) approved by a unanimous vote of the members of the Board present at a meeting or by unanimous written resolution and (ii) submitted to the Examination and Approval Authority for approval. Upon such approval; the Parties shall cause the Company to register the increase or reduction with the SAIC. Except as provided in clause (b) below in respect of unilateral contributions to increases in the Company's registered capital, each Party shall contribute to any increase or bear its proportionate share of such reduction in proportion to its percentage interest in the registered capital of the Company at the time of the increase or reduction.

(b) The Parties acknowledge that if the Company achieves the operations, revenue and earnings targets anticipated by the Parties, one or more increases in the registered capital of the Company might be required to support the expansion of the Company's business. Each Party desires to facilitate such expansion by contributing its proportionate share of the required increase(s) in the registered capital of the Company. However, if a Party ("Declining Party") for any reason declines to contribute its proportionate share of any required increase, then such Declining Party hereby irrevocably agrees that the other Parties may contribute the full amount of such increase in the registered capital in accordance with the shares of the other Parties in the Company. The resulting changes in the Parties' relative shares of the registered capital shall be handled in accordance with the Applicable Laws of the PRC. The Declining Party hereby covenants that it will sign all necessary documents and cause the directors appointed by it to attend in person, by proxy or by telecommunications any Board meeting at which such matters are considered and to vote in favor of all resolutions necessary or desirable to effect such unilateral contribution to the increase in the registered capital of the Company and the resulting change in the Parties' relative interests in the registered capital of the Company or to sign a written resolution circulated in lieu of such a meeting of the Board, as the case may be.

(c) In the event that the Company's operations are reduced substantially from the scale of operation originally anticipated by the Parties, or the Company experiences substantial and continuing losses resulting in negative retained earnings not anticipated by the Parties in the agreed Business Plan, or in any other circumstance permitted under Applicable Laws of the PRC or agreed by the Parties, the Parties may agree to reduce the registered capital of the Company on a pro rata basis. In determining the amount of any reduction in the Company's registered capital, the Parties may request an Independent Appraiser to perform a valuation of the Company using the Industry Valuation Method, and/or applying such other factors as the Parties mutually deem appropriate.

5.9 Additional Financing

(a) The Company may borrow from commercial banks and financial institutions from time to time as the business operation may require. The Company may obtain loans from sources inside or outside the PRC; provided, however, that any financing sourced from outside the PRC must be in compliance with Applicable Laws.

(b) No external financing raised by the Company shall confer any right on any lender to acquire an interest in the registered capital of the Company or to participate in the Business.

(c) If any guarantee is required as security for any external financing of the Company approved by the Board, and if the Parties agree to provide guarantees in relation to such

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financing, the Parties shall severally guarantee the obligations of the Company under such external financing in proportion to their respective interests in the registered capital of the Company at such time as the guarantee is given (unless otherwise agreed in writing by the Parties). If the Parties agree to provide guarantees, each Party shall provide a non-recourse loan payment guarantee (but shall not be obligated to provide any other type of payment or performance guaranty, collateral or indemnification) to the applicable lender(s).

6. **RESPONSIBILITIES OF THE PARTIES**

6.1 Responsibilities of Party A

In addition to its other obligations under this Contract, Party A shall have the following responsibilities:

(a) assist the Company to procure the office and necessary additional facilities for the Company to run its business, including land, premises, offices and utility supplies;

(b) assist the Company in recruiting qualified employees according to the requirements approved by the Board;

(c) assist the Company with public relations;

(d) assist non-citizen employees of other Parties and the Company to obtain visas to the PRC and/or residence permits and working permits in the PRC;

(e) assist the Company to secure supplies from domestic suppliers;

(f) assist the Company with the importation of materials or other kinds of goods necessary to operate the business of the Company;

(g) assist with the branding and marketing of the Company;

(h) obtain relevant Permits, promptly, and in any event, within three (3) business days provide respectively to Party B and Party C, a copy of the documents received by Party A from any government agencies in respect of any Permits or otherwise in relating to the establishment, operations or business of the Company. After the establishment of the Company, Party A shall deliver all the originals of such documents to the Company.

(i) assist in obtaining amendments to, or renewals of, any of the Permits as required by the business of the Company from time to time;

(j) make its contribution to the registered capital of the Company as provided in Article 5.4 hereof;

(k) handle other matters entrusted to it pursuant to separate written agreement entered into by the Company and Party A from time to time.

6.2 Responsibilities of Party B and Party C

In addition to its other obligations under this Contract, Party B and Party C shall have the following responsibilities:

(a) make contributions to the registered capital of the Company as provided herein;

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(b) handle other matters entrusted to it pursuant to separate written agreement entered into by the Company and Party B or Party C from time to time;

(c) secure aircraft and spare part supplies from foreign suppliers through leases, subleases, purchase agreements or otherwise; and

(d) provide high level executives for the management of the Company and technical support and training for employees of the Company.

7. **BOARD OF DIRECTORS**

7.1 Formation of the Board

(a) The Board shall be formed on the Business License Issuance Date.

(b) The Board shall consist of seven (7) directors, four (4) of whom shall be appointed by Party A, two (2) of whom shall be appointed by Party B, one (1) of whom shall be appointed by Party C.

(c) Each director shall be appointed for a term of four (4) years and may serve consecutive terms if re-appointed by the Party by which such directors were originally appointed. A director can be removed at the pleasure of the Party by which such director was originally appointed. If a seat on the Board is vacated by the retirement, resignation, illness, disability or death of a director or by the removal of such director by the Party by which such director was originally appointed, the Party which originally appointed such director shall appoint a successor to serve out such director's term.

(d) A director appointed by Party A shall serve as the Chairman of the Board ("Chairman") and a director appointed by Party B shall serve as Vice Chairman of the Board ("Vice Chairman"). The Chairman shall be the legal representative of the Company. Whenever the Chairman is unable to perform his responsibilities for any reason, the Chairman shall designate the Vice Chairman to perform his responsibilities temporarily in accordance with this Contract and the Articles of Association.

(e) Directors appointed by a Party shall be individuals of high integrity with appropriate experience as senior business managers, professionals, government officials or other similar qualifications. Directors shall also satisfy all qualification requirements under Applicable Laws of the PRC. The Party appointing a director shall submit written notice of his appointment or removal to the other Party and (following formation of the Board) the Chairman and the Secretary to the Board ("Secretary"). Upon execution of this Contract, each Party shall notify the other Parties in writing of the names, titles and nationalities of the initial slate of directors appointed by such Party. A summary of the qualifications and experience of each proposed new director shall be attached to the notice of appointment. Each appointment or removal of a director shall be submitted to the Board for ratification at the next regular or interim Board meeting. The Secretary shall record such appointment or removal of a director in the Company's books and register the same with the SAIC.

(f) The Chairman, acting in consultation with the Vice Chairman, shall appoint a Secretary for a term of three (3) years. The Secretary shall be a responsible and mature individual who is fluent in written and oral English and Chinese. The Secretary shall perform his duties in accordance with the provisions of this Contract and the Articles of Association under the supervision of the Chairman and the Vice Chairman. The Secretary shall not be appointed from the members of the Board or the Management Personnel but may be an employee of the Company or one of the Parties. The term of the Secretary can be

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extended or the Secretary may be removed or replaced by the Chairman acting in consultation with the Vice Chairman.

(g) The Chairman, Vice Chairman, Secretary and each director shall bear fiduciary responsibilities to the Company in accordance with Applicable Laws of the PRC and such additional ethical policies as the Board may adopt (collectively, "Applicable Ethical Rules"). The Chairman, Vice Chairman, Secretary and the other directors shall serve without remuneration, but all reasonable costs, such as round-trip air fares and reasonable accommodation incurred by the directors in the performance of duties assigned by the Board shall be borne by the Company in accordance with such policies and guidelines as the Board may adopt from time to time.

(h) No director shall bear any personal liability for any acts performed or not performed in good faith in his capacity as a director or as assigned by the Board, except for willful misconduct, and/or acts in violation of Applicable Laws of the PRC or applicable ethical rules. Subject to the foregoing, the Parties shall cause the Company to indemnify each director against any claims that may be brought against such director for acts performed in his capacity as a director of the Company.

7.2 Powers of the Board

(a) The Board shall be the highest authority of the Company.

(b) Adoption of resolutions relating to the following matters shall require the unanimous affirmative vote of each and every director of the Board present in person, by proxy or by telecommunications at a duly convened meeting of the Board:

(i) Any amendment of this Contract and the Articles of Association;

(ii) Any merger of the Company with another legal entity or organization, or the investment of capital or assets by the Company in another legal entity or organization;

(iii) Termination or dissolution of the Company and resulting liquidation thereof or all Parties agree in writing that the termination or dissolution of the Company should occur,

(iv) Increase, reduction or assignment of the registered capital of the Company;

(v) Execution by the Company of any contract with a Party or an Affiliate of such Party other than contracts entered into in the ordinary course of the Company's business on an arm's length basis;

(vi) Any matter which under Applicable Laws requires unanimous Board approval; and

(vii) Any other matter which in accordance with the provisions of this Contract requires unanimous Board approval or which the Board by unanimous affirmative vote determines shall be adopted only by unanimous affirmative Board resolution.

(c) Adoption of resolutions relating to the following matters shall require the affirmative vote of a supermajority (such supermajority being an affirmative vote of two-thirds of the directors) of the directors present in person, by proxy or by telecommunications at a duly convened meeting of the Board:

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(i) Establishment of bank credit facilities or the borrowing of loans in a single transaction or a series of related transactions other than those approved by the Board as part of the annual business plan or operating budget;

(ii) Review and approval of the Company's annual budgets and financial reports, annual profit distribution plan and the amount and timing of allocations to and use of the reserve fund, the expansion fund and the employee bonus and welfare fund, and the amount and timing of allocations of after-tax profit distributions to the Parties;

(iii) Establishment of and changes to Company policies and procedures regarding management of financial accounts, execution of legal documents, applicable ethical rules and ethical practices and other important matters;

(iv) Decisions on the appointment, compensation, discipline and dismissal of the Management Personnel; and

(v) Sale, transfer or other disposition of, or the granting of an Encumbrance over, all or substantially all of the assets of the Company or the giving of any financial guarantee by the Company for the obligations of any third party.

(d) Adoption of resolutions relating to the following matters shall require the affirmative vote of a simple majority of the directors present in person, by proxy or by telecommunications at a duly convened meeting of the Board;

(i) Establishment of Company bank accounts and the appointment of the Company's Independent Auditor;

(ii) Purchase of capital equipment, land use rights, buildings or other assets in a single transaction or a series of related transactions other than such purchases made in accordance with the operating budget approved by the Board;

(iii) Execution of technology license contracts with third parties other than as contemplated in this Contract or any other contract executed by the Parties in connection with this transaction or other than in the ordinary course of business on customary terms and conditions;

(iv) Establishment of branch offices and liaison offices in China and abroad pursuant to Applicable Laws; and

(v) Any other matter which, in accordance with the provisions of this Contract, requires Board approval or which the Board determines shall require Board approval.

7.3 Board Meetings

(a) The first Board meeting shall be held within thirty (30) days from the Business License Issuance Date. Thereafter, meetings shall be held at least once each six (6) months subject to always holding at least four (4) meetings in each calendar year. Meetings generally shall be held at the legal address of the Company or such other address in China or abroad as is designated by the Board.

(b) The date of regular Board meetings shall be set by the Chairman following consultation with the Vice Chairman. Prior to each such regular Board meeting, the Secretary, under the supervision and direction of the Chairman and the Vice Chairman, shall prepare the

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agenda for such Board meeting together with drafts of proposed resolutions and such other supplemental materials to be considered by the Board at such meeting as the Chairman and Vice Chairman deem appropriate. The Chairman and Vice Chairman shall consult with the General Manager in connection with the preparation of the agenda and such resolutions and other materials. The General Manager shall be responsible for the preparation of all reports, plans, policies and procedures to be submitted to the Board for review and approval as provided under Articles 7.2(b) and (c) above and otherwise as requested by the Chairman and Vice Chairman. The Secretary, under the direction of the Chairman and the Vice Chairman, shall give each director at least ten (10) days written notice in advance of each regular Board meeting, specifying the date, time and place of such regular Board meeting. Such written notice shall be accompanied by a copy of the agenda, the proposed draft resolutions and other materials specified above.

(c) An interim Board meeting shall be scheduled upon the written request of one-third (1/3) of total number of directors or more of the directors of the Company. Such request shall specify the matters proposed to be discussed in reasonable detail and shall be delivered to the Chairman, the Vice Chairman, the Secretary and each of the other directors. The Chairman following consultation with the Vice Chairman, shall decide on the timing and location of such interim Board meeting, provided that such interim Board meeting shall be held not less than fifteen (15) days and not more than forty-five (45) days following delivery of such request. The Secretary, under the supervision and direction of the Chairman and the Vice Chairman, shall prepare an agenda covering the matters set out in such request. The Secretary, under the direction of the Chairman and Vice Chairman, shall give each director at least ten (10) days written notice in advance of such interim meeting, specifying the date, time and place of such interim Board meeting. Such written notice shall be accompanied by the agenda and the materials included in the request for meeting.

(d) In extraordinary circumstances requiring immediate action by the Board and otherwise as provided in this Contract, the Chairman and the Vice Chairman acting jointly may call an emergency meeting of the Board. The Secretary, under the direction of the Chairman and Vice Chairman, shall give each director at least twenty-four (24) hours written notice in advance of such emergency meeting, specifying the date, time and place of such emergency Board meeting. Such written notice shall be accompanied by an agenda and such additional materials as the Chairman and Vice Chairman deem appropriate.

(e) The Chairman shall be responsible for convening and presiding over regular, interim and emergency Board meetings. Board meetings may be attended by directors in person by proxy or by telecommunications. Two-third (2/3) of total number of directors present in person, proxy or by telecommunications shall constitute a quorum necessary for the conduct of business at a meeting of the Board.

(f) If a Board member is unable to participate in a Board meeting in person or by telecommunications, he or she may issue a written proxy and entrust a representative to participate in the meeting on his behalf. The representative so entrusted shall have the same rights and powers as the Board member, including the right to be counted in the quorum, to vote or any resolution and to sign relevant documents. Such representative shall present such written proxy to the Secretary prior to the start of the Board meeting, and the Secretary shall attach such proxy to the minutes of the Board meeting.

(g) Management Personnel and other employees of the Company may attend all or part of any Board meeting at the invitation of the Chairman and Vice Chairman. In addition, with the prior approval of the Chairman and Vice Chairman, any director may invite any other person to attend all or part of any Board meeting, provided that such guest shall sign non-disclosure agreements in such form as the Chairman and Vice Chairman deem appropriate. No Management Personnel, any other employee or any guest attending a Board meeting shall have the right to vote on any resolution presented at the Board

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meeting save where acting in their capacity as a director. The Secretary shall note the presence of such guests in the minutes of the meeting.

(h) Board meetings shall be conducted in English and Chinese. The Secretary, under the direction of the Chairman and Vice Chairman, shall arrange for an interpreter to be present at each Board meeting. Such interpreter shall be an employee of the Company or a Party unless it is impractical to do so, and shall be subject to the provisions applicable to guests in the immediately preceding clause.

(i) The Chairman shall present each item on the agenda for discussion in the order listed in the agenda unless otherwise agreed by the Chairman and Vice Chairman. The Chairman shall allow each director to have an opportunity to ask questions and express his opinion in an orderly manner with respect to each matter presented. Following the conclusion of the discussion on each matter, the Chairman shall call for a vote to approve, approve with modifications, reject or defer action on the resolution proposed in respect of such matter. Each director shall have one vote. The Chairman shall not have an extra vote under any circumstances. Resolutions shall be adopted by the affirmative vote of the number of directors present at the meeting in person, by proxy or by telecommunications in accordance with the requirements of Articles 7.2(b) and (c).

(j) The Secretary shall prepare and complete accurate minutes of each Board meeting in accordance with the provisions of this Contract and the Articles of Association. Such minutes shall be in both English and Chinese and shall record all items of business presented and transacted at such Board meeting. A copy of the notice of the Board meeting together with all attachments thereto shall be attached to the minutes. Within fifteen (15) days following the date of the Board meeting, the Secretary shall deliver a draft of the minutes to the Chairman and Vice Chairman for review. Within fifteen (15) days following their receipt of such draft minutes, the Chairman and Vice Chairman shall approve the minutes as drafted or approve the draft with modifications. If either the Chairman or the Vice Chairman does not provide a response within such time period, he shall be deemed to have approved the minutes as drafted. Within five (5) days following review and approval of the minutes by the Chairman and Vice Chairman, the Secretary shall distribute the minutes to all the Directors. Any director who wishes to propose any amendment or addition thereto shall submit the same in writing to the Secretary within five (5) days following receipt of the proposed minutes. If any director does not provide a response within such time period, he shall be deemed to have approved the minutes as drafted. The minutes shall be finalized by the Secretary under the direction of the Chairman and Vice Chairman within five (5) days following the conclusion of the above comment period for directors. The finalized minutes shall be signed by the Secretary and the Chairman and/or the Vice Chairman.

(k) The Secretary shall be responsible for maintaining the Company's minute book. The Secretary shall place the complete original of the finalized and signed minutes of each Board meeting with all attachments thereto into the Company minute book in chronological order. In addition, the Secretary shall maintain separate records of signed and/or chopped originals of the following:

  (i) This Contract, the Articles of Association, the Approval Letter, the Approval Certificate and the Business License;

  (ii) The Additional Permits, the government approvals and registrations (if any) in respect of the Tax Concessions;

  (iii) All amendments to and renewals of any of the foregoing together with the government approvals and registrations in respect of such amendments;

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(iv) All changes in the directors or Management Personnel appointed by either Party together with all registrations in respect thereof; and

(v) All other official correspondence between the Company and any relevant government department and other similar official documents pertaining to the establishment, management, operation, business or assets of the Company.

(l) Each Party shall have the right, during regular Company business hours to inspect the Company minute book and the other Company record books described above and make photocopies of any document contained therein at such Party's own cost and expense.

(m) In lieu of any meeting of the Board, a written resolution may be adopted by the Board if such resolution is sent to all members of the Board then holding office and is affirmatively signed and adopted by the number of directors who could adopt such resolution at a duly convened meeting of the Board in accordance with this Contract. The Secretary shall circulate such written resolutions at the request or direction of the Chairman, Vice Chairman or one-third (1/3) of total number of directors or more of the directors of the Company. Such request shall attach the form of the proposed resolution together with such supporting materials as the requesting party may deem appropriate. If made by one-third (1/3) of total number of directors or more of the directors of the Company, such request shall be delivered to the Chairman, the Vice Chairman and the Secretary. If made by the Chairman or the Vice Chairman, such request shall be delivered to the Secretary and (in the case of a request by the Chairman) the Vice Chairman or (in the case of a request made by the Vice Chairman) the Chairman. The Chairman and/or the Vice Chairman may prepare written comments on the matter addressed in the proposed written resolution. Within ten (10) days following receipt of such request, the Secretary shall circulate the proposed resolution together with all supporting materials supplied by the requesting party and any additional comments thereon provided by the Chairman or the Vice Chairman to each director by hand, fax, email and/or domestic or international courier service to the current mailing or email address and/or fax number(s) for such director registered in the records of the Company. The Secretary, under the direction of the Chairman and Vice Chairman, shall specify the time within which response by the directors is required, provided that unless otherwise approved by the Chairman and the Vice Chairman such response time period shall not be less than fifteen (15) days or more than forty-five (45) days following the delivery of the proposed written resolution by the Secretary to the directors. A director shall signify his approval of the proposed resolution by signing and returning the same to the Secretary in accordance with the instructions given and within the response time designated by the Secretary. Signed resolutions delivered to the Secretary by hand, fax or email photo-image shall be deemed timely if delivered or transmitted prior to the expiration of the response time designated by the Secretary. Signed resolutions delivered to the Secretary by fax or email photo-image shall be followed by delivery of the original signed resolution to the Secretary by hand, post or domestic or international courier as promptly as possible. If a director or his valid proxy fails to sign and return such written resolution within the response time designated by the Secretary, or if he approves the resolution with modifications, such director shall be deemed to have voted against the resolution. Such written board resolution may be signed in counterparts by the approving directors. The Secretary shall inform the Board of the results of the voting on such written resolution within five (5) days of the conclusion of the designated response time. If approved, such written resolution shall be filed with the minutes of the Board proceedings and shall have the same force and effect as a vote taken by members present in person, by proxy or by telecommunications at a duly convened Board meeting. If a non-counterpart original resolution signed by all approving directors is required for submission to any government department, the Secretary will be responsible to arrange for the signature of the same, and all directors shall provide full and timely co-operation in the signature thereof.

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(n) Neither the Chairman nor the Vice Chairman nor any other director or other officer of the Company shall have the power to bind the Company except pursuant to authority expressly granted pursuant to a resolution of the Board approved in accordance with the provisions of this Contract and the Articles of Association.

8. **OPERATION AND MANAGEMENT**

8.1 Management Personnel

Management Personnel shall be individuals of high integrity with appropriate professional qualifications and experience. The General Manager, Deputy General Manager for Sales, and the Chief Financial Officer shall be nominated by Party A, the Chief Deputy General Managers, Deputy General Manager for Safety and Maintenance, and the Deputy Financial Officer of the Company shall be nominated by Party B. All other Management Personnel shall be appointed by the Board of Directors.

8.2 Employment of Management Personnel

Management Personnel shall be employed by the Company in accordance with the terms of individual employment contracts entered into between the Management Personnel and the Company and approved by the Board. The Management Personnel may be rewarded, disciplined or removed by the Board. The General Manager shall have the right to submit recommendations to the Board for the reward, discipline or dismissal of the Deputy General Managers) or the Chief Financial Officer for consideration and action by the Board, and the Board shall give such recommendations of the General Manager due deference and consideration.

8.3 General Manager’s Duties

The General Manager shall be responsible for all of the day-to-day operations and management of the Company other than those matters expressly reserved for decision and action by the Board. The General Manager shall be responsible to the Board and shall carry out all matters under the authority granted to him by the Board. The General Manager shall have the authority at his sole discretion to hire and dismiss all employees of the Company other than the other Management Personnel. The General Manager shall have the power to decide the internal operational structure of the Company. The General Manager shall appoint department managers as appropriate to be responsible for the work of their respective departments. The other Management Personnel and such department managers shall report to and work under the supervision and direction of the General Manager. The General Manager has the power to use funds, within the budgetary parameters approved by the Board of Directors.

8.4 Deputy General Manager(s)

Deputy General Manager(s) shall assist the General Manager in the performance of his responsibilities as requested by the General Manager. The Deputy General Manager(s) shall also oversee and manage all operating, maintenance and flight safety issues associated with the Company.

8.5 Exclusivity

General Manager and the Deputy General Manager(s) shall perform their respective duties on a full time basis and shall not hold posts concurrently as general manager or deputy general manager in any other economic entity.

9. **EQUIPMENT AND SERVICE PROCUREMENT**

9.1 Procurement Policy

The Parties shall cause the Company to purchase, lease or rent equipment, software, material, means of transportation and articles for office use and other supplies in or outside the PRC on the basis of the competitiveness of the terms and conditions of procurement, quality, quantity, pricing, and delivery terms of the

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products and in accordance with the procurement policy formulated by the General Manager and the Deputy General Manager(s) and approved by the Board from time to time.

9.2 Preference for the Parties

Where each Party or any of its respective Affiliates is willing to provide services to the Company, the Parties shall cause the Company to give preference to such respective Affiliates over other service suppliers, provided that the terms, conditions, price and quality offered by such Party or any of their respective Affiliates (as the case may be) are equal to, or more favorable than those offered by the other service suppliers, and the experience and expertise of such Party or any of their respective Affiliates (as the case may be) is equal to or better than that of the other service suppliers.

10. **INTELLECTUAL PROPERTY**

10.1 The Company's Intellectual Property

(a) Any Intellectual Property Rights (other than those owned or licensed by a Party or any third party) arising in the course of the Company's activities or developed by the Company shall belong to the Company. The Parties agree to work together to procure that the Management Personnel and other employees of the Company establish a system for identifying, filing and/or registering all relevant Intellectual Property Rights developed by employees of the Company in the name of the Company.

(b) The Parties shall use their best endeavours to procure that all employees of the Company will enter into standardized employment contracts which shall include customary and reasonable and consistent non-competition and invention assignment provisions, so as to ensure that as far as possible under the Applicable Laws of the PRC, the benefit of all inventions by the employees of the Company shall be reserved to, and shall be the property of, the Company.

10.2 Use of Intellectual Property Rights by the Company

Each Party shall use its best endeavours to procure the Company to:

(a) Use all Intellectual Property Rights of the Company in connection with the Business ("Business IP") solely for the benefit of the Company and not for any other purposes which may directly or indirectly prejudice the Business;

(b) Promptly notify each Party of any circumstance coming to the attention of the Company, any director or any employee of the Company which may constitute an infringement of, or any suspected passing off in respect of, any Business IP;

(c) Not take any action, which, in the opinion of a Party, may bring the interests of such Party or any of its Affiliates into disrepute or damage the interests of such Party or any of its Affiliates in any way; and

(d) Take such action in relation to the use of the Business IP owned by a Party as such Party may require in connection with the protection of that Business IP or any infringement or passing off in relation to that Business IP.

10.3 Trade Secrets

Without prejudice to the generality of the foregoing, where any Party provides to the Company or the other Party documents containing Trade Secrets, it shall mark on the document in a prominent place "Confidential". The General Manager shall formulate internal rules and regulations for the management and

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protection of Trade Secrets which shall be applied by the staff of the Company. Relevant provisions oh the protection of Confidential Information and Trade Secrets shall be included in each of the Company's labor contracts with its employees.

11. **LABOR MANAGEMENT**

11.1 Company Staff

Matters relating to the recruitment, employment, dismissal, resignation, wages and welfare of, and other matters concerning the staff and workers of the Company shall be determined autonomously by the Company without outside interference, in accordance with the Applicable Laws of the PRC and the policies adopted by the Company from time to time.

11.2 Labor Union

Working Personnel of the Company shall have the right to establish a Labor Union under the Applicable Laws of the PRC. Working Personnel shall be employed by the Company via either collective or individual labor contracts between the Company and the Working Personnel.

11.3 General Manager's Discretion

The General Manager shall determine the qualification and number of employees in accordance with the operating needs of the Company.

12. **FINANCIAL AFFAIRS AND ACCOUNTING**

12.1 Accounting System

(a) The Chief Financial Officer, under the direction by the General Manager, shall prepare two accounting systems and procedures in accordance with each of the following and shall cause both to be consistent to the maximum extent possible: (i) the Enterprise Accounting System and supplementary stipulations promulgated by the Ministry of Finance and (ii) any accounting requirements required by Party B and/or Party C, if any, as such Party(ies) or its/their accountants notify the Chief Financial Officer from time to time. The accounting systems and procedures to be adopted by the Company shall be submitted to the Board for approval. Once approved by the Board, the accounting system and procedures described in (i) shall be filed with the relevant local government agencies as required by the Applicable Laws of the PRC.

(b) The Parties shall cause Company to adopt Renminbi as its bookkeeping base currency, but may also adopt United States Dollars or other foreign currencies as supplementary bookkeeping currencies.

(c) All accounting records, vouchers, books and statements of the Company shall be made and kept in both Chinese and English.

(d) For the purposes of preparing the Company's accounts and statements, calculation of declared dividends to be distributed to the Parties, and for any other purposes where it may be necessary to effect a currency conversion, such conversion shall be in accordance with the posted exchange rate, as determined by the median rate for buying and selling announced by the People's Bank of China or other legally recognized rate on the date of actual payment.

12.2 Auditing

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(a) The Parties shall cause the Company to engage an Independent Auditor to examine and verify the annual financial report. The Company's Independent Auditor shall be appointed by the Board.

(b) Quarterly and annual financial statements, and such other reports as the General Manager and Chief Financial Officer may direct, shall be prepared and submitted to the Board. Such statements shall be in both Chinese and English and shall reference both RMB and United States Dollars. The annual financial statements shall include, but not limited to, the following (including footnotes):

(i) balance sheet;

(ii) profit and loss statement;

(iii) cash flow statement;

(iv) statement of changes in financial position; and

(v) profit distribution recommendations.

(c) Quarterly financial statements shall be presented to the General Manager and the Board in sufficient time for the Board to approve and then for the General Manager to arrange for filing with the appropriate authorities. The annual financial statements shall be audited and presented to the Board within the first three (3) months of the succeeding year for approval. The annual financial statements shall be certified by the Independent Auditor. The General Manager shall file the certified annual financial statements with the appropriate authorities prior to the expiration of the fourth month of the succeeding year.

(d) Each Party may, at its own expense, appoint either the internal staff of such Party or an independent accountant (which may be either an accountant registered abroad or in China) to audit the books, accounts and other financial, commercial and legal records of the Company on behalf of such Party. Reasonable access to such records shall be granted to such internal or independent auditor. The Party which conducted such audition shall bear the responsibility of assurance on such auditor's obligation to keep confidential all documents under such auditing.

12.3 Bank Accounts and Foreign Exchange Control

The Parties shall cause the Company to separately open and maintain a foreign exchange account and a Renminbi account at an authorized bank within the PRC approved by the SAFE. With the approval of SAFE, the Company may open a bank account in the name of the Company outside the PRC. The Company's foreign exchange transactions shall be handled in accordance with the Applicable Laws of the PRC.

12.4 Fiscal Year

The Parties shall cause the Company to adopt the calendar year as its fiscal year, which shall begin on January 1 and end on December 31 of the same year except that the first fiscal year of the Company shall commence on the Business License Issuance Date and shall end on the immediately succeeding December 31.

12.5 Profit Distribution

(a) If the Company incurs losses at the end of a fiscal year, the Parties shall share the loss [****].

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(b) If the Company is carrying forward losses from any previous years, the profit of the current year shall first be used to cover any losses from any prior fiscal year. No profit shall be distributed unless the cumulative deficit from the previous years is made up in accordance with Applicable Laws. The profit retained by the Company and carried over from the previous years may be distributed together with the distributable profit of the current year, or after the deficit of the current year is made up therefrom.

(c) After the payment of income tax by the Company, the Board will determine the annual allocation to the reserve fund and expansion fund of the Company and the bonus and welfare fund for the workers and the staff from the after-tax net profits for such fiscal year, if any.

(d) The after-tax net profit of the Company (after the deduction of the allocations to the funds mentioned in subsection (c) of this clause above) shall be distributed in accordance with Applicable Laws and, unless otherwise agreed by the Parties in writing, to the Parties [****] unless the Board determines that such profits should be reinvested in the Company. Losses shall be allocated in accordance with Applicable Laws and in the manner agreed to by the Parties. If for any reason Party B and/or Party C's share of the Company's after-tax net profits for any period cannot be remitted to Party B and/or Party C outside of the PRC in United States dollars or any other foreign currency acceptable to Party B and/or Party C, then the Company shall not make any distribution of profits to Party A for such period until such time as such Party B and/or Party C profit share can be so remitted.

(e) The distribution of profits to any Party shall be subject to offset by any indemnification obligations agreed by the Parties.

13. **TAXATION AND INSURANCE**

13.1 Income Tax, Customs Duties and Other Taxes

(a) The Parties shall cause the Company to timely pay the Company's Taxes under the Applicable Laws of the PRC or any other governing body.

(b) Promptly following the Business License Issuance Date, the Parties shall cause the Company to file all tax-related applications to the relevant government authorities under the Applicable Laws of the PRC.

(c) Chinese and expatriate employees of the Company shall pay tax on their individual income in accordance with the relevant provisions of the Applicable Laws of the PRC.

(d) The Parties shall cause the Company to make all efforts reasonable to assure that Party B and/or Party C is not subject to double taxation by the PRC and any other sovereignty.

13.2 Insurance

(a) The Parties shall cause the Company, at its own cost and expense, at all times to maintain full and adequate insurance for the Company against loss or damage by fire and such other risks as are customarily insured against, including, without limitation, any risks specific to the Company's business, by taking out insurance policies with issuers established in the PRC.

(b) The property, transportation and other items of insurance of the Company will be denominated in Chinese and foreign currencies, as appropriate. The types, scope and amounts of insurance coverage shall be determined by the General Manager and the Deputy General Manager(s).

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(c) The Company shall, at its own cost and expense, at all times maintain full and adequate insurance against loss or damage claims by passengers, under the Applicable Laws of the PRC and international conventions on aviation liability limitation which either the PRC or the United States has ratified.

(d) Insurance against other claims or damages, such as aircraft hull and liability insurance, shall be maintained by the Company under the Applicable Laws of the PRC and international conventions on aviation liability limitation which either the PRC or the United States has ratified.

14. **REPRESENTATIONS AND WARRANTIES**

14.1 Mutual Representations and Warranties

Each Party represents and warrants to the other Parties that on the effective date of this Joint Venture Contract:

(a) It is an independent legal entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its establishment or incorporation;

(b) It has obtained all consents and approvals and taken all actions necessary for it to validly enter into and give effect to this Contract and it has full authority to enter into this Contract and to perform its obligations hereunder;

(c) It duly authorized its legal representative to sign on this Contract, and from and after the Effective Date, the provisions of this Contract shall constitute valid, lawful and legally binding obligations of such Party;

(d) No steps have been taken or legal proceedings commenced or threatened against such Party for winding-up or bankruptcy or insolvent or for a liquidation committee or administrator to be appointed in respect of its assets or business;

(e) Its execution of this Contract and its performance of its obligations hereunder: (i) will not violate any provision of its business license, articles of incorporation, articles of association or similar organizational documents; (ii) will not violate any Applicable Laws or any governmental authorization or approval; (iii) will not violate or result in a default or breach under any other contract or agreement to which it is a party or any unilateral commitment or undertaking which binds it or give any third party a right to take action against such Party or the other Parties; and (iv) will not violate any judgment or arbitration award of any tribunal to which it is subject or the order or ruling of any government or regulatory body to whose jurisdiction it is subject;

(f) No lawsuit, arbitration or other legal or governmental proceeding is pending or, to its knowledge, threatened against it that would affect its ability to perform its obligations under this Contract; and

(g) It has disclosed to the other Parties all documents issued by any governmental department that may have a material adverse effect on its ability to fully perform its obligations under this Contract, or the ability of the Parties to realize the objectives of the Company and the documents previously provided by it to the other Party do not contain any falsehoods, untruths, misstatements or omissions of material facts.

14.2 Consequences of Inaccuracy in Representations and Warranties

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If any of the above representations and warranties of a Party were not accurate in all material respects on any date, then such Party shall be in material breach to this Contract.

14.3 Liability for Breach

If a Party breaches any of the representations or warranties made in this Contact, then in addition to any other remedies available to the other Parties under this Contract or under the Applicable Laws of the PRC, it shall indemnify and keep indemnified the other Parties and the Company against any losses, damages, costs, expenses, liabilities and claims that such Party or Parties or the Company may suffer as a result of such breach.

15. **THE TERMS OF THE JOINT VENTURE**

15.1 Joint Venture Term

The joint venture term of the Company ("Term") shall be [****] ([****]) years, commencing on the Business License Issuance Date.

15.2 Extension

If the Parties unanimously approve the extension of the Term, the Parties shall cause the Company to submit an application to the Examination and Approval Authority for approval no less than six (6) months prior to the expiry of the Term.

16. **TERMINATION, DISSOLUTION, BUYOUT AND LIQUIDATION**

16.1 Termination

(a) This Contract shall terminate upon the expiration of the Term unless extended pursuant to the decision otherwise by the Parties.

(b) This Contract may be terminated at any time prior to expiration of the Term by the mutual written agreement of the Parties.

(c) A Party ("Notifying Party") may notify the other Parties in writing at any time prior to the expiration of the Term that it desires to terminate this Contract if:

(i) Any other Party materially breaches this Contract or materially violates the Articles of Association, and such breach or violation is not cured within sixty (60) days of the Notifying Party's written notice of such breach to the breaching Party; provided that if such breach or violation cannot be cured, no notification or cure period shall be required; or

(ii) Any other Party becomes bankrupt or insolvent, or is the subject of proceedings for liquidation or dissolution, or ceases to carry on business or becomes unable to pay its debts as they come due; or

(iii) The Company becomes bankrupt or insolvent, or is the subject of proceedings for liquidation or dissolution, or ceases to carry on business or becomes unable to pay its debts as they come due; or

(iv) Any Additional Permit is not issued by the relevant government agencies within ninety (90) days of application; or

(v) A Material Modification is made at any time by any government authority to this Contract, the Articles of Association, the Approval Letter, the Approval

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Certificate, the business scope set out in the Business License, any Additional Permit or any Tax Concession and it cannot be resolved to the satisfaction of the Party concerned within sixty (60) days of the issue of the relevant document containing or imposing the Material Modification; or

(vi) The conditions or consequences of Force Majeure (as hereinafter defined) have a material adverse effect on the business, assets or operations of the Company and continue for a period in excess of six (6) months and the Parties have been unable to find an equitable solution; or

(vii) The Company is denied access to foreign exchange for a period in excess of six (6) months, which denial has a material adverse effect on the business, assets or operations of the Company; or

(viii) The Company incurs for [****] ([****]) consecutive years aggregate operating losses in excess of [****] percent ([****]%) of the Company's registered capital; or

(ix) The Company is unable due to Applicable Laws to remit or otherwise pay after-tax profits to Party B and/or Party C; or

(x) Any Party materially breaches any other contract or agreement, including, without limitation, any licensing agreement and service agreement, which was entered into by the Parties and/or their Affiliates and/ or any Party and the Company in connection with the establishment and operation of the Company's business; or

(xi) The legal or beneficial ownership of [****] percent ([****]%) or more of the equity capital of the other Party is acquired by a person or entity which directly, or through its Affiliates, competes against the Company.

The mere submission by the Notifying Party of a notice indicating an intention to terminate this Contract shall not by itself constitute a termination of this Contract. Upon the occurrence of any of the foregoing events, in addition to its other rights under this Contract or under Applicable Laws of the PRC, a Party entitled to give notice of intent to terminate this Contract shall have the right to suspend performance of its obligations under this Contract until such time as such event is resolved.

16.2 Notification and Termination Procedure

(a) In the event that the Notifying Party gives written notice of a desire to terminate this Contract, the Parties shall conduct negotiations for a thirty (30) day period after such notice is given in an effort to resolve the situation which resulted in the giving of such notice. In the event such matters are not resolved to the satisfaction of the Parties within such thirty (30) day period, or such longer period as the Parties may agree in writing, the Notifying Party shall have the right by written notice to the other Party:

(i) to declare this Contract terminated, or

(ii) to initiate the equity buy-out procedures; provided that the equity buy-out procedures do not result in a violation of Applicable Laws associated with ownership restrictions. The Parties agree that if Party B or Party C elects to initiate the equity buy-out procedure, the buy-out shall be of both Party B's and Party C's interest in the Company, unless Party B or Party C otherwise notify Party A in writing to the contrary. If the Parties opt-out of the equity buy-out

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process, then, the Notifying Party again shall have the right to declare this Contract terminated.

(b) As soon as practicable following termination of this Contract upon the expiration of the Term, the early termination of this Contract by the agreement of the Parties, or the Notifying Party's declaration of termination, an emergency Board meeting shall be held at which each Party shall cause the directors appointed by it to attend such Board meeting in person, by proxy or by telecommunications and to vote in favor of an unanimous resolution approving the termination of this Contract or to sign a written resolution circulated in lieu of such a meeting of the Board, as the case may be.

(c) Following such Board approval of the termination of this Contract, the Board shall submit a dissolution application to the original Examination and Approval Authority for approval. Following such approval, such approved dissolution application shall be registered with the SAIC. If the other Party fails to co-operate in such termination and dissolution procedures, then to the extent permitted under Applicable Laws, the Notifying Party shall have the unilateral right to submit an application for termination and dissolution to the Examination and Approval Authority and register such approved termination and dissolution application with the SAIC.

(d) Following such registration with the SAIC, the Parties shall cause the Company to then be dissolved and liquidated in accordance with the relevant procedures under the Applicable Laws of the PRC and this Contract.

16.3 Equity Buy-Out Provision

(a) If the Notifying Party elects to proceed with the equity buy-out provisions in this Contract, then the Parties shall determine the value of the Company in accordance with the following provisions:

(i) The Parties shall conduct negotiations on the valuation of the Company for a period of thirty (30) days after the date of such notice ("negotiation period"). If the Parties are unable to agree on the valuation of the Company by the end of such negotiation period, or such longer period as the Parties may agree in writing; the Parties shall jointly conduct a valuation of the Company in accordance with subsection (ii) below, or

(ii) An Independent Appraiser appointed by the Company, at the cost and expenses of the Company, shall conduct a valuation of the Company using the Industry Valuation Method. The Independent Appraiser shall complete the valuation of the Company within forty-five (45) days. The value determined by the Independent Appraiser shall be the value adopted by the Parties for purposes of this buy-out provision.

(b) The purchase price ("Buy-out Price") for a Party's share of the registered capital of the Company shall be calculated by multiplying the value of the Company as determined by the percentage of such Party's share of the registered capital of the Company at the time of valuation.

(c) Upon completion of the valuation:

(i) The Parties shall conduct negotiations within thirty (30) days to decide whether either a Party or the Parties desire to purchase any or all of the Selling Party's interest in the registered capital of the Company at the applicable Buy-out Price. If so, the Parties shall proceed with the buy-out provisions in this Contract. If

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not, or if at the end of such thirty (30) day period no agreement is reached, then unless the Parties otherwise agree in writing, the Parties shall be deemed to have opted-out of these equity buy-out provisions and the Notifying Party shall have the right to declare this Contract terminated and proceed with dissolution and liquidation of the Company.

(ii) If only one Party has indicated an interest in purchasing any or all of the other Party's share of the registered capital of the Company, then such proposed purchasing Party shall promptly provide written confirmation of such intention to the other Party. If such proposed purchasing Party fails to provide such confirmation to the other Party in writing within thirty (30) days after completion of the valuation of the Company, such purchasing Party shall be deemed to have elected to decline to proceed with such purchase.

(iii) If no Party elects to purchase the other Party's share of the registered capital of the Company at the applicable Buy-out Price, and the Parties are not otherwise able to reach agreement on the purchase by one Party of the other Party's share of the registered capital of the Company, then the Parties shall be deemed to have opted-out of these equity buy-out provisions, and the Notifying Party shall have the right to declare this Contract terminated and proceed with dissolution and liquidation of the Company.

(d) Such sale and purchase of a Party's share of the registered capital of the Company shall comply with the requirements of the Applicable Laws of the PRC. The Buy Out Price shall be paid in accordance with the provisions of the relevant contracts to be signed by the Parties.

(e) Until such time as the sale and purchase of a Party's share of the registered capital of the Company is completed, the Parties shall cause the Company, to the fullest extent possible, to maintain the conduct of its business in the ordinary course and no Party shall hinder the Company from conducting its business.

(f) If the purchasing Party under these equity buy-out provisions cannot complete the buy-out due to ownership restrictions pursuant to Applicable Laws, such purchasing Party may elect to have a designee purchase such Selling Party's interest.

16.4 Liquidation

(a) Within fifteen (15) days following approval and registration of the dissolution application, the Board shall appoint a liquidation committee which shall have the power to represent the Company in all legal matters. The liquidation committee shall perform its responsibilities in accordance with Applicable Laws and the principles set out herein.

(b) The liquidation committee shall consist of at least four (4) numbers of directors of the Board, of whom at least one (1) of director appointed by Party A, Party B, and Party C, respectively shall be included. Members of the liquidation committee may be Board directors, senior employees of the Company or relevant professionals. The members of the liquidation committee shall bear fiduciary responsibilities to the Company and comply in all respects with the requirements of Applicable Laws of the PRC in the discharge of their duties. The liquidation committee shall act by majority vote following consultation save where otherwise required under Applicable Laws of the PRC.

(c) The liquidation committee shall appoint the Independent Appraiser to conduct a valuation of the Company's assets on a current fair market value basis.

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(d) On completion of all liquidation procedures in accordance with Applicable Laws, the liquidation committee shall submit a final report to the Board for confirmation. The Board shall convene an emergency meeting to review and confirm such report. Following such confirmation by the Board the report shall be submitted to the Examination and Approval Authority for the record. The liquidation committee shall then carry out all de-registration procedures in accordance with the Applicable Laws of the PRC. Each Party shall have a right to obtain copies of all of the Company's accounting books and other documents at its own expense but the originals thereof shall be left in the care of Party A.

16.5 Continuing Obligations

The provisions of Article 7 (Board of Directors) (but only in respect of Board action required to be taken following termination of this Contract and prior to de-registration of the Company), Article 15 (The Joint Venture Term), Article 16 (Termination, Dissolution, Buyout and Liquidation), Article 17 (Breach of Contract) (but only with respect to claims arising prior to the termination hereof or with respect to other continuing obligations), Article 18 (Confidentiality) and Article 20 (Dispute Resolution) and the provisions of Schedule A (Definitions and Interpretation) (to the extent required to interpret the aforesaid) shall survive the termination of this Contract and the termination, dissolution, liquidation and de-registration of the Company.

17. **BREACH OF CONTRACT**

17.1 Remedies for Breach of Contract

Except as otherwise provided herein, if a Party ("breaching Party") fails to perform any of its material obligations under this Contact or otherwise is in material breach of this Contract, then the other Parties ("aggrieved Parties") may, collectively or individually:

(a) Give written notice to the breaching Party describing the nature and scope of the breach and demanding that the breaching Party cure the breach at its cost within a reasonable time specified in the notice ("Cure Period") (provided that if any representation and warranty of a Party is not true and correct in all material respects when made, then there shall be no Cure Period); and

(b) If the breaching Party fails to cure the breach within the Cure Period (or, if there is none, at any time following such breach), then in addition to its other rights under this Contort or the Applicable Laws of the PRC, the aggrieved Party may claim direct and foreseeable damages arising from the breach.

17.2 Limitation on Liability

Notwithstanding any other provision of this Contract, except for a breach of confidentiality or infringement of the other Party's IPR, no Party shall be liable to the other Party or Parties for damages for loss of revenues or profits, loss of goodwill or any indirect consequential damages in connection with the performance or non-performance of this Contract. Except for a breach of confidentiality or infringement of the other Party's IPR, the aggregate liability of a Party for all claims for any loss, damage or indemnity whatsoever resulting from such Party's performance or non-performance of this Contract shall in no case exceed [****] United States Dollars (US$[****]) or the RMB equivalent thereof.

18. **CONFIDENTIALITY**

18.1 Confidentiality Obligations

From time to time prior to and during the Term, either Party ("disclosing Party") has disclosed or may disclose Confidential Information to the other Party ("receiving Party"). The receiving Party shall, during the Term of this Contract and for two (2) years thereafter:

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(a) Maintain the confidentiality of Confidential Information;

(b) Not use Confidential Information for any purposes other than those specifically set out in this Contract; and

(c) Not disclose any such Confidential Information to any person or entity, except to its employees or employees of its Affiliates, its agents, attorneys, accountants and other advisors who need to know such information to perform their responsibilities and who have signed written confidentiality agreements containing terms at least as stringent as the terms provided in this Article (collectively "Permitted Disclosure Parties").

18.2 Confidentiality Exceptions

The provisions of Article 18.1 above shall not apply to information that:

(a) Known by the receiving Party;

(b) Is or becomes public knowledge otherwise than through the receiving Party's breach of this Contract; or

(c) Is obtained by the receiving Party from a third party having no obligation of confidentiality with respect to such information.

18.3 Confidentiality Rules

Each Party shall formulate rules and regulations to inform its directors, senior staff, and other employees, and those of their Affiliates of the confidentiality obligation set forth in this Article.

18.4 Return of Materials

Upon the Expiration Date, or upon the disclosing Party's request at any time, the receiving Party shall (i) return to the disclosing Party, or upon such disclosing Party's direction, destroy all materials (including any copies thereof) embodying the other Party's Confidential Information, and (ii) certify in writing to the disclosing Party, within ten (10) days following the disclosing Party's request, that all of such materials have been returned or destroyed.

19. **FORCE MAJEURE**

19.1 Definition of Force Majeure

"Force Majeure" shall mean all events which are beyond the control of the Parties to this Contract, and which are unforeseen, unavoidable and insurmountable, and which prevent total or partial performance by either of the Parties; provided, however, a "Force Majeure" event shall not occur with respect to remittance or distribution of after-tax profits or termination for breach due to the creation, adoption, or existence of Applicable Laws. Such Force Majeure events shall include earthquakes, typhoons, epidemic, flood, fire, war, strikes, riots, acts of governments, changes in law or the application thereof or any other instances which cannot be foreseen, prevented or controlled, including instances which are accepted as Force Majeure in general international commercial practice.

19.2 Consequences of Force Majeure

(a) If an event of Force Majeure occurs, a Party's contractual obligations affected by such an event under this Contract shall be suspended during the period of delay caused by the Force Majeure and shall be automatically extended, without penalty or liability, for a period equal to such suspension.

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(b) The Party claiming Force Majeure shall promptly inform the other Parties in writing and shall furnish within fifteen (15) days thereafter sufficient proof of the occurrence and duration of such Force Majeure. The Party claiming Force Majeure shall also use all reasonable endeavours to terminate the Force Majeure.

(c) In the event of Force Majeure, the Parties shall immediately consult with each other in order to find an equitable solution and shall use all reasonable endeavours to minimize the consequences of such Force Majeure.

20. **DISPUTE RESOLUTION**

20.1 Friendly Consultations

In the event of any dispute, controversy or claim arising out of or relating to this Contract, or the breach, termination or invalidity hereof ("dispute"), any Party may send written notice of such dispute (a "Dispute Notice") to the other applicable Parties. The Parties shall promptly make all reasonable attempts to resolve such dispute through friendly consultations.

20.2 Arbitration

(a) In the event the dispute is not resolved by such friendly consultations, any Party may at any time that is not less than thirty (30) days-after the date of the Dispute Notice, submit the dispute to Singapore International Arbitration Centre ("SIAC") for arbitration in Singapore in accordance with the Arbitration Rules of the SIAC then in force, and as amended by this Article 20.2 ("Arbitration Rules"), including its rules with respect to choice of law and conflict of laws.

(b) The tribunal shall consist of three (3) arbitrators to be appointed by the Chairman of the SIAC. At least one of the three arbiters shall be neither a citizen of the PRC nor of the United States.

(c) The language of the arbitration shall be English.

20.3 Procedural Compliance

The Parties undertake:

(a) To comply strictly with the time limits specified in the Arbitration Rules for the taking of any step or the performance of any act in or in connection with any arbitration; and

(b) To comply with and to carry out, in full and without delay, any procedural orders (including, without limitation to, any interim measures of protection ordered) or any award (interim or final) made by the arbitral tribunal.

20.4 Enforcement of Award

Each Party irrevocably:

(a) Agrees that any arbitral award reached by the Tribunal shall be final and binding with no right of appeal;

(b) Undertakes that it will execute and perform the arbitral award fully and without delay. In the event of judicial acceptance and an order of enforcement, each party expressly waives all rights to object thereto, including any defense of sovereign immunity and any other

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defense based on the fact or allegation that it is an agency or instrumentality of a sovereign state; and

(c) Waives any rights which it may have to contest the validity of the arbitration agreement set forth in this Article or the jurisdiction of the relevant arbitration institution to hear and to determine any arbitration begun pursuant to this Article 20.

When any dispute occurs and is the subject of friendly consultations or arbitration, the Parties shall continue to exercise their remaining respective rights and fulfill their remaining respective obligations under this Contract, except in respect of those matters under dispute.

20.5 Injunctive Relief

Notwithstanding the foregoing, each Party has the right to seek temporary or permanent injunctive or other similar relief in any court or other authority of competent jurisdiction in respect of any claims of breach of order of specific performance or other injunctive relief as permitted under the Applicable Laws of the PRC.

21. **APPLICABLE LAW**

The establishment, effectiveness, validity, interpretation, implementation of, and dispute resolution with respect to, this Contract shall be governed by the laws of the People's Republic of China.

22. **GENERAL PROVISIONS**

22.1 Independent Contractor Relationship

Nothing in this Contract shall be construed or implied as:

(a) Constituting any of the Parties hereto as the agent of the other Party or Parties (except with the other Party's prior written consent); or

(b) Authorizing any Party to incur any expenses or any other form of obligation on behalf of the other Party or the Parties (except with the other Party's prior written consent).

22.2 Binding Effect

This Contract is made for the benefit of the Parties hereto and their respective lawful successors and assignees and is legally binding on them.

22.3 Amendment

In no circumstance can this Contract be amended, modified or changed verbally. No amendment, modification or change to any part of this Contact may be effective unless by written instrument signed by all the Parties under the Applicable Laws of the PRC, and, if required by the Applicable Laws of the PRC, by approval by the relevant Examination and Approval Authority.

22.4 No Publicity

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The contents of this Contract shall be deemed to fall within the scope of Confidential Information and shall be subject to Article 18 and shall not be disclosed in whole or in part to any person or entity, except to (i) Permitted Disclosure Parties, (ii) to authorized securities regulators or exchanges in accordance with the Applicable Laws of the PRC or the relevant rules of the securities exchange to which the Party in question is subject, (iii) to officials in relevant government departments pursuant to the requirements of the Applicable Laws of the PRC, (iv) in order to fulfill any conditions precedent to the effectiveness of this Contract, (v) for the purpose of the performance by a Party of its obligations or exercise of its rights hereunder or relating hereto, (vi) for the other bona fide purposes of the Company after its establishment, (vii) as required under the law of the jurisdiction where any Party is incorporated, or (viii) as otherwise jointly agreed to by the Parties.

22.5 Notices

(a) Any notice or written communication provided for in this Contract by any Party to the other, including but not limited to any and all offers, writings, or notices to be given hereunder, shall be made in Chinese and English either:

(i) By hand delivery; or

(ii) By courier service delivered letter;

(iii) By facsimile, or

(iv) By electronic approach, including e-mail.

(b) Notices shall be deemed to have been delivered at the following times:

(i) If by hand delivery, on reaching the designated address and subject to return receipt or other proof of delivery;

(ii) If by courier, on the date shown the delivery was completed by the courier;

(iii) If by fax, on the next Business Day following the date marked on the confirmation of transmission report by the sender's fax machine, indicating completed, uninterrupted transmission to the relevant facsimile number, and

(iv) If by E-mail or any electronic approach, on the next Business Day following the date on which the message was transmitted as shown on the sending device.

(c) During the Term, each Party may change its particulars for receipt of notices at any time by notice given to the other Party in accordance with this Article.

If Party A;

Shenzhen Airlines

Shenzhen Bao'An International Airport

Shenzhen, People's Republic of China

Facsimile No:

Attention:

If Party B:

Mailing address: Ping Shan SRL

Citco Corporate Management (Barbados) Limited

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	Whitepark House, White Park Road
	Bridgetown, Barbados
Facsimile Number:	1-246-426-8913
With a copy to:	
Mailing Address:	Mesa Air Group, Inc.
	410 N. 44th Street
	Suite 700
	Phoenix, Arizona 85008
	United States of America
Facsimile Number:	1-602-685-4554
Attention:	Mr. George Murnane III
	Executive Vice President and CFO; and
	Mr. Brian Gillman
	Vice President and General Counsel
E-mail address:	peter.murnane@mesa-air.com
	brian.gillman@mesa-air.com
<u>If Party C:</u>	
Mailing address:	Shan Yue SRL
	Citco Corporate Management (Barbados) Limited
	Whitepark House, White Park Road
	Bridgetown, Barbados
Facsimile Number:	1-246-426-8913
With a copy to:	
Mailing address:	Wilmington Trust Company
	Rodney Square North
	1100 North Market Street
	Wilmington, Delaware 19890-0001
	United States of America
Facsimile Number:	l-302-636-4140
Attention:	Corporate Trust Administration

22.6 Severability

Wherever possible, the terms of this Contract shall be construed and interpreted so as to be valid, enforceable, and permissible under Applicable Laws. If any provision of this Contract or any document contemplated hereby shall be deemed invalid, unenforceable, or prohibited under Applicable Laws, such provision shall be invalid, unenforceable, or prohibited only to the extent of such invalidity, unenforceability, or prohibition, and the Parties shall consult and attempt in good faith to agree on a legally acceptable modification that gives effect to the

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commercial objectives of the invalid, unenforceable, or prohibited provision, and every other provision of such document shall remain in full force and effect. Should any provision of this Contract be invalid because of its territorial or factual scope of application or because of its duration, the provision shall be reduced to the maximum allowed by Applicable Laws.

22.7 Entire Agreement

This Contract and the Schedules and Annexes hereto constitute the entire agreement between the Parties hereto with respect to the subject matter of this Contract and supersede all prior discussions, negotiations and agreements between them, including, the Letter of Intent between Shenzhen Airlines and the Mesa Air Group, Inc. Dated on July ___, 2006.

22.8 Waiver

Any Party's failure to exercise or delay in exercising any right, power or privilege under this Contract shall not operate as a waiver thereof, and any single or partial exercise of any right, power or privilege shall not preclude the exercise of any other right, power or privilege.

22.9 Further Endeavour

Each Party shall, at any time, upon the request of the other Party or Parties, execute or procure the execution of such documents, agreements, contracts or deeds and do or procure the doing of such acts and things as may be reasonably necessary to give full effect to the provisions of this Contract.

22.10 Costs

Unless provided otherwise in this Contact, each Party shall bear its own legal and other professional costs in relation to the preparation, negotiation and entry into of this Contract.

22.11 Articles of Association

In case of any inconsistency between the Articles of Association of the Company and this Contract, this Contract shall prevail.

22.12 Schedules and Annexes

The Schedules and Annexes hereto are made integral parts to this Contract and are equally binding with the main body of the Contract. In the event of any conflict between the terms and provisions of the main body of the Contract and the Schedules or Annexes, the terms and provisions of the main body of this Contract shall prevail.

22.13 Language

This Contract is executed in the Chinese language in five (5) originals and in the English language in five (5) originals. Both language versions shall be equally authentic.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

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IN WITNESS WHEREOF, each of the Parties hereto has caused this Contract to be executed by its duly authorized representative on the date first set forth above in Beijing, People's Republic of China.

Shenzhen Airlines as Party A

Signed By:_________________________________
Name in English: Li Kun
Name in Chinese:_________________________________
Title: President

Ping Shan SRL as Party B

Signed By: ____________________________
Name in English: Jonathan Ornstein
Name in Chinese: ______________________
Title: CEO

Shan Yue SRL as Party C

Signed By: ____________________________
Name in English: Mo Garfinkle
Name in Chinese: ______________________
Title: President

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SCHEDULE A — DEFINITIONS AND INTERPRETATION

Part A – Definitions

Unless the terms or context of this Contract otherwise provide, the following terms shall have the meanings set out below:

"Additional Permits" means any other permits, approvals or consents required by Applicable Law or any governing body with authority over the Company in order to establish the Company or enable the Company to operate its business as contemplated under this Contract.

"Affiliate" means any company which, directly or indirectly, is controlled by, under common control with, or in control of, a Party; the term "control" being used in the sense of power to elect or appoint a majority of directors or to direct the management of a company.

"Applicable Laws" means the laws, regulations, rules, notices, and other legislative, executive or judicial decisions or pronouncements binding on either Party, the Company or in relation to the subject matter of this Contract.

"Approval Certificate" means the certificate issued by the Examination and Approval Authority approving the establishment of the Company and this Contract and the Articles of Association.

"Approval Document" means the documents or instruments required pursuant to Article 5.4(c)(i) and (ii) of this Contract.

"Approval Letter" means the approval reply issued by the Examination and Approval Authority approving the establishment of the Company and this Contract and the Articles of Association of the Company.

"Articles of Association" means the Articles of Association of the Company executed by the Parties.

"Board" means the board of directors of the Company, as constituted from time to time.

"Business" means the business undertaken by the Company from time to time in accordance with the Business Plan.

"Business Day" means:

(a) In respect of any action to be taken in the PRC, any day on which companies in the PRC are generally open for business in the PRC, including a Saturday or Sunday which the PRC government temporarily declares to be a working day ("Working Rest Day"), but excluding statutory holiday, or Saturday or Sunday other than a Working Rest Day; and

(b) In respect of any action to be taken in the United States of America, any day on which companies in the United States of America are generally open for business in the United States of America.

"Business License" means the first business license of the Company issued by the SAIC.

"Business License Issuance Date" means the date the Business License is issued to the Company by the SAIC.

"Business Plan" means the business plan for the Company as approved by the Board from time to time.

"Chief Financial Officer" means the Chief Financial Officer or Chief Accountant of the Company.

"China" and "PRC" mean the mainland of the People's Republic of China.

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"Company" means the Sino-foreign Equity Joint Venture Company to be established by the Parties pursuant to this Contract and the Articles of Association.

"Confidential Information" means any business, marketing, technical, scientific or other information disclosed by any Party (or its Affiliates) which, at the time of disclosure, is designated as confidential (or like designation), is disclosed in circumstances of confidence, or would be understood by the Parties, exercising reasonable business judgment, to be confidential.

"Effective Date" means the effective date of this Contract, being the date on which this Contract has been approved by the Examination and Approval Authority.

"EJV Law" means the Law of the PRC on Sino-Foreign Equity Joint Ventures passed on 1 July, 1979, as amended.

"EJV Implementing Regulations" means the Regulations for the Implementation of the Law of the PRC on Equity Joint Ventures promulgated on 20 September 1983, as amended.

"Encumbrance" means any claim, deposit, charge, mortgage, security, pledge, lien, option, equity, power of sale or hypothecation or other third party right, retention of title arrangement, right of pre-emption, right of first refusal of security interest of any kind.

"Enterprise Accounting System" means the general Accounting System for Enterprises promulgated by the MOF on Feb. 15, 2006 to replace the Accounting System for Foreign Investment Enterprises promulgated on 24 June 1992, which was applicable to foreign investment enterprises as of 1 January 2002.

"Examination and Approval Authority" means the MOFCOM or other authority entrusted by it to approve this Contract and the establishment of the Company.

"Independent Appraiser" means a leading independent, competent, and industry recognized appraiser registered in China and authorized to perform appraisals of state-owned and other assets selected by the Company's Independent Auditor at the request of either Party.

"Independent Auditor" means the internationally recognized independent and competent accountant registered in China.

"Industry Valuation Method" means valuation method(s) selected by the Independent Appraiser in consultation with the Parties, including the Selling Party, which shall be valuation methods(s) commonly used in international practice in valuing enterprises in the Company's industry on a going concern basis, but, where the assets or equity interests in question constitute State-owned assets under Applicable Laws, it shall refer to a valuation method which complies with, and satisfies the requirements of Applicable Laws relating to State-owned assets.

"Intellectual Property Rights" or "IPR" means any and all rights in any invention, discovery, improvement, utility, model, copyrightable work, industrial design or mask work, algorithm, data structure, trade secrets or know-how, Confidential Information, or any idea having commercial value. IPR shall include any trademark, trade dress, trade name, domain name, or other marks that serve to identify and distinguish goods or services as coming from, or falling under the control of, a single source. IPR shall include all rights of whatsoever nature in computer software and data, all intangible rights or privileges of a nature similar to any of the foregoing in every case in any part of the world and whether or not registered, and all rights in any applications and granted registrations for any of the foregoing rights.

"Investment Certificate" means a certificate issued by the Company to any person in accordance with the provisions of Article 5.5, in respect of any capital contribution made by that person to the Company.

"Labour Union" means the labour union of the Company established in accordance with the PRC Labour Union Law, the EJV Law and other relevant Applicable Laws and regulations of the PRC.

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“Management Personnel” means the Company’s General Manager, Deputy General Manager, Chief Financial Officer and other personnel designated as such by the Board.

“Material Modification” means a modification (whether by means of the imposition of additional terms and conditions or otherwise) by the relevant government departments to, as the case may be, this Contract, the Articles of Association or the intended business scope of the Company, the Additional Permits or Tax Concessions as agreed or anticipated by the Parties, which in the opinion of either Party, will have a material adverse effect on the ability of Parties to achieve through the Company, their respective economic and operational objectives.

“MOFCOM” means the Ministry of Commerce of China or any of its predecessors.

“MOF” means the Ministry of Finance of China.

“Permits” means all Additional Permits, Pre-Establishment Permits, and a “Permit” means any of them.

“Renminbi” or “RMB” means the lawful currency of China from time to time.

“SAFE” means the State Administration of Foreign Exchange or its local branch.

“SAIC” means the State Administration of Industry and Commerce of China or the relevant local Administration for Industry and Commerce,

“Tax Concessions” means any concessions or incentives with respect to Taxes granted to the Company by the taxing bodies of the PRC.

“Taxes” means any and all applicable tax and taxes (including, but not limited to any value added tax or sales tax, stamp or other duty, levy, impost, charge, fee, deduction, or withholding of any nature and howsoever called or described) by whomsoever and wheresoever imposed, levied, collected or assessed.

“Trade Secrets” means any technology, information or business operation information which is unknown to the public, is capable of bringing about economic benefits to the rightful holder, has practical utility and which is subject to measures in place and carried out in order to keep it secret.

“United States Dollars” or “US$” means the lawful currency of the United States of America.

“Working Personnel” means all employees and staff of the Company other than the Management Personnel and the members of the Board.

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Part B — Interpretation

1. A reference to any Applicable Laws or to any legislation, or to any provision of Applicable Laws or of any legislation includes a reference to such Applicable Laws or legislation as amended or modified from time to time.

2. A reference to a “person” includes any individual or entity (including any company, business or other enterprise or entity, joint venture, institution, state or government department), as the context permits,

3. References in this Contract to contracts, agreements or other documents, shall mean the same as amended from time to time.

4. A reference to any PRC government authority, agency or department includes such authority or department at State, provincial, municipal and other levels.

5. References in this Contract to government ministries, bureau, departments, commissions, agencies, etc. shall include all successor entities thereto.

6. Headings are for convenience of reference only and shall not affect the construction or interpretation of this Contract.

7. The words “includes” or “including” mean “includes without limitation” and “including without limitation” respectively.

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SCHEDULE B — CAPITAL CONTRIBUTION SCHEDULE

1. Party A's Registered Capital Contributions

Party A's total contribution to the registered capital of the Company representing a 51% share in the registered capital of the Company shall be the amount of [****] million Renminbi (RMB [****]).

Party A shall make its contributions to the registered capital of the Company in accordance with the following schedule:

Initial installment in the amount of [****] Renminbi (RMB [****]), or [****] percent ([****]%) of Party A's total registered capital contribution to be made by Party A on or before the First Capital Contribution Date.

Subsequent installments of payments to be made in accordance with the Company's operational requirements as determined by the Board, provided that in any event the full amount of Party A's registered capital contributions shall be made in full no later than the Final Capital Contribution Date.

Subsequent installments of capital contribution by Party A can be made in cash or in kind. If in kind, the value of the property shall be evaluated and certified by an independent auditor, who shall be selected by the Parties from the pool of such auditors under the authorization by the appropriate government agencies of the PRC.

2. Party B's Registered Capital Contributions .

Party B's total contribution to the registered capital of the Company representing a 25% share in the registered capital of the Company shall be the amount of [****] million Renminbi ([****] RMB).

Party B shall make its contributions to the registered capital of the Company in accordance with the following schedule:

Initial installment in the amount of [****] RMB ([****] RMB), or [****] percent ([****]%) of Party B's total registered capital contribution to be made by Party B on or before the First Capital Contribution Date. Such contribution shall be made via wire transfer in United States Dollar at the exchange rate as provided in the Contract.

Subsequent installments to be made in accordance with the Company's operational requirements as determined by the Board, provided that in any event the full amount of Party B's registered capital contributions shall be made in full no later than the Final Capital Contribution Date.

Subsequent installments of capital contribution by Party B can be made in cash or in kind. If in kind, the value of the property shall be evaluated and certified by an independent auditor, who shall be selected by the Parties from the pool of such auditors under the authorization by the appropriate government agencies of the PRC.

3. Party C's Registered Capital Contributions

Party C's total contribution to the registered capital of the Company representing a 24% share in the registered capital of the Company shall be the amount of [****] million Renminbi ([****] RMB).

Party C shall make its contributions to the registered capital of the Company in accordance with me following schedule:

Initial installment in the amount of [****] RMB ([****] RMB), or [****] percent ([****]%) of Party C's total registered capital contribution to be made by Party C on or before the First Capital Contribution Date. Such contribution shall be made via wire transfer in United States Dollar at the exchange rate as provided in the Contract.

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Subsequent installments to be made in accordance with the Company's operational requirements as determined by the Board, provided that in any event the full amount of Party C's registered capital contributions shall be made in full no later than the Final Capital Contribution Date.

Subsequent installments of capital contribution by Party C can be made in cash or in kind. If in kind, the value of the property shall be evaluated and certified by an independent auditor who shall be selected by the Parties from the pool of such auditors under the authorization by the appropriate government agencies of the PRC.

4. Miscellaneous

4.1 To the extent practicable, each Party shall make each of its initial and subsequent registered capital contribution installments at the same time as the corresponding installment to be made by the other Parties

4.2 With respect to the in-kind registered capital contributions (each an "In-kind Contribution Asset") to be made by a Party ("Contributing Party") hereunder, such Contributing Party hereby represents and warrants to the other Parties that as of the date of the signing of this Contract, the Effective Date, the Business License Issuance Date and the date of contribution of each such In-kind Contribution Asset:

(a) The Contributing Party possesses all rights, title and interest in and to each such In-kind Contribution Asset;

(b) No In-kind Contribution Asset is jointly owned by or subject to any Encumbrance in favor of or claim of any third party, and

(c) If in-kind contribution is land or land use rights, the Contributing Party shall provide sufficient legal approval of its right over the land, the duration of the assigned granted land use rights, compliance by the Contributing Party with the terms of the underlying land grant contract, whether the land grant premium and land price have been paid in full, whether the land has any contamination or other environmental issues etc.

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Exhibit 10.27

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

163872-3

THIRD AMENDMENT TO UNITED EXPRESS AGREEMENT

This Amendment to the United Express Agreement (the **"Amendment")** is effective as of August 28, 2007 by and between **UNITED AIR LINES, INC.,** a Delaware corporation, with its operations center located at 1200 East Algonquin Road, Elk Grove Township, Illinois 60007 **("United"),** and **MESA AIR GROUP, INC.,** a Nevada corporation, having its principal mailing address at 410 N 44th St. Suite 700, Phoenix, AZ 85008 **("Mesa"** or "**Contractor").**

WHEREAS, the parties previously entered into that certain Amended and Restated United Express® Agreement, dated as of January 28, 2004 (United Contract # 163872) as amended on June 3, 2005 (the "**First Amendment")** and March 7, 2005 (the "**Second Amendment")** (collectively, the "**Agreement");** and

WHEREAS, pursuant to Article XXXI of the Agreement, the parties may modify or amend the Agreement; and

WHEREAS, Appendix A provides for the schedule of a Fleet Plan; and

WHEREAS, the parties desire to further amend the Agreement to provide for the temporary and permanent reductions of RJ-50 aircraft by Contractor in accordance with the Fleet Plan set forth on Appendix A; and

WHEREAS, pursuant to Section IV of the First Amendment, the parties desire to amend notification requirements of Replacement RJ-70s.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

I. DEFINITIONS

A. Defined Terms. Capitalized terms used in this Amendment and not otherwise defined in this Amendment shall have the meanings assigned to them in the Agreement.

B. Other Terms. The following terms used in this Amendment shall have the meanings given to them in this Section I.B.

"Per Aircraft Funding Requirement" means the calculated rate of $[****] dollars per aircraft, paid by Contractor to United as a funding requirement specified in Section XI of the First Amendment. $[****] dollars equals the $[****] million funding requirement divided by [****] Expansion Aircraft.

II. SCOPE, TERM, and CONDITIONS

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A. Attachment A to this Amendment is the revised iteration of Appendix A to the Agreement (Fleet Plan) and is modified to include details and explanations of temporary and permanent reductions to aircraft in fleet.

B. In addition to the explanation given on Attachment A, notation 4, this Article II.B further details the agreement by Contractor and United to permanently remove two (2) Expansion RJ-50 aircraft effective June 7, 2007. United will pay Contractor [****] of the remaining unamortized Per Aircraft Funding Requirement payment made to United. The unamortized portion of the Per Aircraft Funding Requirement will be calculated from the month the two (2) Expansion RJ-50 aircraft are permanently removed as specified in Attachment A.

- The amount of this unamortized Per Aircraft Funding requirement is agreed to be $[****] per aircraft or $[****] total. This $[****] payment will be made from United to Mesa as previously agreed to as a series of monthly payments for the period of [****] through [****], totaling $[****]. United would increase Mesa's monthly pre-payment by $[****] / [****] = $[****] total or $[****] per aircraft for the months of [****] through [****].
- United would make a 1-time catch up payment in the month following Amendment execution for the prior months.

C. United has agreed to permit Contractor to give United less than 180 days notice of (2) Replacement RJ-70s delivery dates as the aircraft were delivered in June 2007.

III MISCELLANEOUS. Except as otherwise amended herein, the Agreement will remain in full force and effect. The terms of this Amendment are deemed to be incorporated in, and made a part of, the Agreement. This Amendment may be executed in any number of counterparts, by original or facsimile signature, each of which when executed and delivered shall be deemed an original and such counterparts together shall constitute one and the same instrument.

[Signature Page Follows]

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IN WITNESS WHEREOF, the parties hereto have by their duly authorized officers caused this Amendment to be entered into and signed as of the day and year first above written.

UNITED AIRLINES, INC.	MESA AIR GROUP, INC.
By: ______________________	By: ______________________
Peter McDonald	Mike Lotz
Chief Operating Officer	President and Chief Operating Officer

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Attachment A

APPENDIX A

FLEET PLAN

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	Apr 1, '07	Apr 24, '07	May 1, '07	Jun 1, '07	Jun 7, '07	Jul 4, '07	Jul 28, '07	Aug 4, '07	Sep 5, '07	Sep 20, '07	Oct 28, '07	Jan 7, '08
DH2 In Fleet	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**
Total RJ50s In Fleet	**42**	**42**	**42**	**42**	**37**	**35**	**34**	**33**	**32**	**32**	**34**	**35**
CRJs In Fleet (current)	12	12	12	12	9.5(3)(5)	9(6)	9	9	6.5(10)(12)	6.5	7.5(13)	7.5
CRJs In Fleet (expansion)	25	25	27(1)	27	24.5(4)	24	24	24	25.5(11)	25.5	26.5	27.5(14)
ERJs In Fleet (expansion)	5	5	3	3	3	2(7)	1(8)	0(9)	0	0	0	0
Total RJ70s In Fleet	**18**	**18**	**18**	**20**	**20**	**20**	**20**	**20**	**20**	**20**	**20**	**20**
CR7s In Fleet (current)	15	15	15	15(2)	15	15	15	15	15	15	15	15
CR7s In Fleet (replacement)	3	3	3	5	5	5	5	5	5	5	5	5
Total Aircraft In Fleet	**70**	**70**	**70**	**72**	**67**	**65**	**64**	**63**	**62**	**62**	**64**	**65**

Explanation of Change in Fleet

(1) May 1, '07 Exchange 2 ERJs for 2 CRJs as part of plan to phase-out Expansion ERJs and replace with Expansion CRJs.

(2) Jun 1, '07 Add 2 Replacement CR7s in compliance with original contract term.

(3) Jun 7, '07 Remove 2 Current CRJs, which were replaced by 2 CR7s on June 1, 2007 in compliance with original contract term.

(4) Jun 7, '07 Remove 2 Expansion CRJs permanently.

(5) Jun 7, '07 For the June 2007 schedule, temporarily remove 1 CRJ for crew hour shortages. Reduction reflected as 0.5 Current CRJ and 0.5 Expansion CRJ.

(6) Jul 4, '07 For the July 2007 schedule, temporarily remove 2 CRJ for crew hour shortages. Reduction reflected as 0.5 Current CRJ and 0.5 Expansion CRJ in addition to keeping removal of June reduction of 0.5 Current CRJ and 0.5 Expansion CRJ.

(7) Jul 4, '07 Remove 1 ERJ as part of plan to phase-out Expansion ERJs (exchanged CRJ to be delivered September 5, 2007)

(8) Jul 28, '07 Remove 1 ERJ as part of plan to phase-out Expansion ERJs (exchanged CRJ to be delivered September 5, 2007)

(9) Aug 4, '07 Remove 1 ERJ as part of plan to phase-out Expansion ERJs (exchanged CRJ to be delivered January 7, 2008)

(10) Sep 5, '07 For the period of September 5 — June 4, 2008, temporarily remove 2 Current CRJs.

(11) Sep 5, '07 Add 2 Expansion CRJs to replace 2 Expansion ERJs removed on July 4, 2007 and July 28, 2007.

(12) Sep 5, '07 For the period of September 5 — September 4, 2008, temporarily remove 1 CRJ. Reduction reflected as 0.5 Current CRJ and 0.5 Expansion CRJ.

(13) Oct 28, '07 Add 2 CRJs, crew hour shortage over. Addition reflected as 1 Current CRJ and 1 Expansion CRJ

(14) Jan 7, '08 Add 1 Expansion CRJ to replace 1 Expansion ERJ removed on Aug 4, 2007.

(15) Jun 4, '08 Add 2 Current CRJs which were removed on September 5, 2007.

(16) Sep 4, '08 Add 1 CRJ which was removed on September 5, 2007. Addition reflected as 0.5 Current CRJ and 0.5 Expansion CRJ.

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Exhibit 10.28

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

163872-4

FOURTH AMENDMENT TO UNITED EXPRESS AGREEMENT

This Amendment to the United Express Agreement (the **"Amendment")** is effective as of August 28, 2007 by and between **UNITED AIR LINES, INC.,** a Delaware corporation, with its operations center located at 1200 East Algonquin Road, Elk Grove Township, Illinois 60007 **("United"),** and **MESA AIR GROUP, INC.,** a Nevada corporation, having its principal mailing address at 410 N 44th St. Suite 700, Phoenix, AZ 85008 **("Mesa"** or **"Contractor").**

WHEREAS, the parties previously entered into that certain Amended and Restated United Express® Agreement, dated as of January 28, 2004 (United Contract # 163872) as amended on June 3, 2005 (the **"First Amendment"),** March 7, 2005 (the **"Second Amendment",** and August 28, 2007 (the **"Third Amendment")** (collectively, the **"Agreement");** and

WHEREAS, pursuant to Article XXXI of the Agreement, the parties may modify or amend the Agreement; and

WHEREAS, Appendix A provides for the schedule of a Fleet Plan; and

WHEREAS, the parties desire to further amend the Agreement to provide for the permanent reductions of RJ-50 aircraft by Contractor in accordance with the Fleet Plan set forth on Appendix A; and

WHEREAS, the parties desire to further amend the Agreement to provide for the increase of RJ-70 aircraft by Contractor in accordance with the Fleet Plan set forth on Appendix A; and

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

I. DEFINITIONS

A. Defined Terms. Capitalized terms used in this Amendment and not otherwise defined in this Amendment shall have the meanings assigned to them in the Agreement.

II. SCOPE, TERM, and CONDITIONS

A. Attachment A to this Amendment is the revised iteration of Appendix A to the Agreement (Fleet Plan) and is modified to include details and explanations of permanent reductions and increases to aircraft in fleet.

B. In addition to the explanation given on Attachment A, this Article II.B further documents the agreement by Contractor and United to permanently remove eight (8) Expansion RJ-50 aircraft effective on the dates specified in Attachment A to this Amendment.

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C. In addition to the explanation given on Attachment A, this Article II.C further documents the agreement by Contractor and United to increase two (2) RJ-70 aircraft effective on the dates specified in Attachment A to this Amendment.

i. The actual monthly aircraft ownership cost of these (2) RJ-70 aircraft will not exceed $[****] each. All other rates are the same as specified in the Agreement.

ii. These (2) RJ-70 aircraft will have a term of ten years from the delivery date. These aircraft will be removed April 22, 2018 and June 3, 2018.

iii. These (2) RJ-70 aircraft will be delivered and ready to enter the United Express schedule on April 23, 2008 and June 4, 2008 in accordance with United's Decor 5.5 livery specifications. These aircraft will be subject to United's inspection to assure compliance with United's Decor 5.5 specifications before acceptance.

III. MISCELLANEOUS. Except as otherwise amended herein, the Agreement will remain in full force and effect. The terms of this Amendment are deemed to be incorporated in, and made a part of, the Agreement. This Amendment may be executed in any number of counterparts, by original or facsimile signature, each of which when executed and delivered shall be deemed an original and such counterparts together shall constitute one and the same instrument.

[Signature Page Follows]

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IN WITNESS WHEREOF, the parties hereto have by their duly authorized officers caused this Amendment to be entered into and signed as of the day and year first above written.

UNITED AIRLINES, INC.	MESA AIR GROUP, INC.
By: ____________________	By: ____________________
Peter McDonald	Mike Lotz
Chief Operating Officer	President and Chief Operating Officer

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Attachment A

APPENDIX A

FLEET PLAN

THIRD AMENDMENT (SUMMARY)

	28-Oct-07	15-Dec-07	7-Jan-08	23-Apr-08	4-May-08	4-Jun-08	4-Sep-08
DH2 in Fleet	**10.0**	**10.0**	**10.0**	**10.0**	**10.0**	**10.0**	**10.0**
Total RJ50s in Fleet	**34**	**34**	**35**	**35**	**35**	**37**	**38**
CRJs in fleet (current)	7.5	7.5	7.5	7.5	7.5	9.5	10.0
CRJs in fleet (expansion)	26.5	26.5	27.5	27.5	27.5	27.5	28.0
Total RJ70s in Fleet	**20**	**20**	**20**	**20**	**20**	**20**	**20**
CR7s in fleet (current)	15.0	15.0	15.0	15.0	15.0	15.0	15.0
CR7s in fleet (replacement)	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Total Aircraft in Fleet	**64**	**64**	**65**	**65**	**65**	**67**	**68**

FOURTH AMENDMENT (SUMMARY)

	28-Oct-07	15-Dec-07	7-Jan-08	23-Apr-08	4-May-08	4-Jun-08	4-Sep-08
DH2 in Fleet	**10.0**	**10.0**	**10.0**	**10.0**	**10.0**	**10.0**	**10.0**
Total RJ50s in Fleet	**34**	**33**	**33**	**30**	**29**	**29**	**30**
CRJs in fleet (current)	7.5	7.5	7.5	7.5	7.5	9.5	10.0
CRJs in fleet (expansion)	26.5	25.5	25.5	22.5	21.5	19.5	20.0
Total RJ70s in Fleet	**20**	**20**	**20**	**21**	**21**	**22**	**22**
CR7s in fleet (current)	15.0	15.0	15.0	15.0	15.0	15.0	15.0
CR7s in fleet (replacement)	5.0	5.0	5.0	6.0	6.0	7.0	7.0
Total Aircraft in Fleet	**64**	**63**	**63**	**61**	**60**	**61**	**62**

****** Confidential Treatment Requested**

Explanatory Note 1:

On Jan 7, 2008, there are two changes which have a net impact of zero to the fleet: Third Amendment, Change #14: Add 1 Expansion CRJ to replace 1 Expansion ERJ removed on Aug 4, 2007 Fourth Amendment: Remove one Expansion CRJ.

****** Confidential Treatment Requested**

Exhibit 10.35

AMENDMENT NO. 1
TO
EMPLOYMENT AGREEMENT

This AMENDMENT NO. 1 TO EMPLOYMENT AGREEMENT (this “Amendment”) is made and entered into as of November 20, 2007, by and between Mesa Air Group, Inc., a Nevada corporation (the “Company”), and Jonathan G. Ornstein (“Executive”).

RECITALS

The Company and Executive are parties to an employment agreement dated as of March 31, 2004 (the “Original Employment Agreement”). The parties have agreed to enter into this Amendment to the Original Employment Agreement.

AGREEMENT

1. Section 1.3 of the Original Employment Agreement is hereby amended by deleting March 30, 2009 and inserting in its place March 30, 2012.
2. Section 4.5(f) of the Original Employment Agreement is hereby amended by deleting March 30, 2009 and inserting it is place March 30, 2012.
3. Except as otherwise provided herein, all other terms of the Original Employment Agreement shall remain in full force and effect.

COMPANY:

MESA AIR GROUP, INC.

By: ______________________________
Title:

EXECUTIVE:

/s/ Jonathan G. Ornstein
Jonathan G. Ornstein

Exhibit 10.37

AMENDMENT NO. 1
TO
EMPLOYMENT AGREEMENT

This AMENDMENT NO. 1 TO EMPLOYMENT AGREEMENT (this "Amendment") is made and entered into as of November 20, 2007, by and between Mesa Air Group, Inc., a Nevada corporation (the "Company"), and Michael J. Lotz ("Executive").

RECITALS

The Company and Executive are parties to an employment agreement dated as of March 31, 2004 (the "Original Employment Agreement"). The parties have agreed to enter into this Amendment to the Original Employment Agreement.

AGREEMENT

1. Section 1.3 of the Original Employment Agreement is hereby amended by deleting March 30, 2009 and inserting in its place March 30, 2012.
2. Section 4.5(f) of the Original Employment Agreement is hereby amended by deleting March 30, 2009 and inserting it is place March 30, 2012.
3. Except as otherwise provided herein, all other terms of the Original Employment Agreement shall remain in full force and effect.

COMPANY:

MESA AIR GROUP, INC.

By: ______________________________
Title:

EXECUTIVE:

/s/ Michael J. Lotz
Michael J. Lotz

Exhibit 10.39

AMENDMENT NO. 1
TO
EMPLOYMENT AGREEMENT

This AMENDMENT NO. 1 TO EMPLOYMENT AGREEMENT (this “Amendment”) is made and entered into as of November 20, 2007, by and between Mesa Air Group, Inc., a Nevada corporation (the “Company”), and Brian S. Gillman (“Executive”).

RECITALS

The Company and Executive are parties to an employment agreement dated as of April 30, 2005 (the “Original Employment Agreement”). The parties have agreed to enter into this Amendment to the Original Employment Agreement.

AGREEMENT

1. Section 2 of the Original Employment Agreement is hereby amended by deleting the word “three” and inserting in its place the word “six.”
2. Section 3.1 of the Original Employment Agreement is hereby amended by changing the Base Salary to $190,000, effective November 15, 2007.
3. New Section 3.8 is hereby added to the Original Employment Agreement:

“Section 3.8 Deferred Compensation. Upon the execution of this Amendment and on March 31 of each year thereafter during the term of the Original Agreement (as amended hereby), the Company shall contribute $50,000 for the benefit of Executive under a Deferred Compensation Plan mutually acceptable to Executive and the Company.”

4. Section 4 of the Original Employment Agreement is hereby amended to change the term “Vice President” to “Executive Vice President.”
5. Except as otherwise provided herein, all other terms of the Original Employment Agreement shall remain in full force and effect.

COMPANY:

MESA AIR GROUP, INC.

By: ______________________________
Title:

EXECUTIVE:

/s/ Brian S. Gillman
Brian S. Gillman

Exhibit 21.1

Subsidiaries of the Registrant

1.	Mesa Airlines, Inc.	Nevada
2.	Air Midwest, Inc.	Kansas
3.	Freedom Airlines, Inc.	Nevada
4.	MPD, Inc. d.b.a Mesa Pilot Development and MPD	Nevada
5.	Regional Aircraft Services, Inc.	California
6.	MAGI Insurance, Ltd.	Barbados, West Indies
7.	Ritz Hotel Management Corp.	Nevada
8.	Mesa Air Group — Airline Inventory Management, LLC	Arizona
9.	Nilchii, Inc.	Nevada
10.	Air Midwest, LLC	Nevada
11.	Mesa In-Flight, Inc.	Colorado
12.	Ping Shan SRL	Barbados, West Indies
13.	Regional Aviation Advisors, Inc.	Nevada
14.	Patar, Inc.	Nevada

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-02791, 333-09395, 333-83799, 333-83801, 333-83803, 333-83805, 333-58646, 333-107404, and 333-125604 of Mesa Air Group, Inc. (the “Company”) on Form S-8 and Registration Statement Nos. 333-108490, 333-115312, and 333-137382 on Form S-3 of our report dated January 14, 2008 relating to the financial statements (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the Company’s adoption of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment*, an explanatory paragraph related to discontinued operations, an explanatory paragraph relating to the Company’s significant code-sharing agreements, and an explanatory paragraph relating to a judgment against the Company in a lawsuit) of Mesa Air Group, Inc., and of our report dated January 14, 2008 relating to the Company’s internal control over financial reporting (which report expresses an adverse opinion because of a material weakness), appearing in the Annual Report on Form 10-K of Mesa Air Group, Inc. for the year ended September 30, 2007.

/s/ DELOITTE & TOUCHE LLP

Phoenix, Arizona
January 14, 2008

Exhibit 31.1

CERTIFICATION

I, Jonathan G. Ornstein, certify that:

1) I have reviewed this annual report on Form 10-K of Mesa Air Group, Inc.;

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

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

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

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

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

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

/s/ JONATHAN G. ORNSTEIN
Jonathan G. Ornstein
Chairman and Chief Executive Officer
Mesa Air Group, Inc.

Date: January 14, 2008

Exhibit 31.2

CERTIFICATION

I, Michael J. Lotz, certify that:

1) I have reviewed this annual report on Form 10-K of Mesa Air Group, Inc.;

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

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

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

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

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

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

/s/ MICHAEL J. LOTZ
Michael J. Lotz
President, Chief Operating Officer, Principal Financial and Accounting Officer
Mesa Air Group, Inc.

Date: January 14, 2008

Exhibit 32.1

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

In connection with the Annual Report of Mesa Air Group, Inc. (the “Company”) on Form 10-K for the period ended September 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jonathan G. Ornstein, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

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

Date: January 14, 2008

Exhibit 32.2

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

In connection with the Annual Report of Mesa Air Group, Inc. (the “Company”) on Form 10-K for the period ended September 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael J. Lotz, President, Chief Operating Officer, Principal Financial and Accounting Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By /s/ MICHAEL J. LOTZ
Michael J. Lotz
President, Chief Operating Officer, Principal Financial and Accounting Officer

Date: January 14, 2008