

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

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended June 30, 2021

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_  
Commission File Number 001-38626

**MESA AIR GROUP, INC.**

(Exact name of registrant as specified in its charter)

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

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

**410 North 44th Street, Suite 700**  
**Phoenix, Arizona 85008**

(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	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, no par value	MESA	Nasdaq Global Select Market

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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

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

As of June 30, 2021, the registrant had 35,891,029 shares of common stock, no par value per share, issued and outstanding.

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## Cautionary Note Regarding Forward Looking Statements

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

Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements can also be identified by words such as "future," "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "will," "would," "should," "could," "can," "may," and similar terms. Forward-looking statements are not guarantees of future performance and our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include but are not limited to, those discussed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2020 under the heading "Risk Factors." Unless otherwise stated, references to particular years, quarters, months, or periods refer to our fiscal years ended September 30 and the associated quarters, months, and periods of those fiscal years. Each of the terms the "Company," "Mesa Airlines," "Mesa," "we," "us" and "our" as used herein refers collectively to Mesa Air Group, Inc. and its wholly owned subsidiaries, unless otherwise stated. We do not assume any obligation to revise or update any forward-looking statements.

The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Some of the key factors that could cause actual results to differ from our expectations include:

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

Additionally, the risks, uncertainties and other factors set forth above or otherwise referred to in the reports we have filed with the SEC may be further amplified by the global impact of the COVID-19 pandemic. While we may elect to update these forward-looking statements at some point in the future, whether as a result of any new information, future events, or otherwise, we have no current intention of doing so except to the extent required by applicable law.

**Part I – Financial Information**

**Item 1. Financial Statements**

**MESA AIR GROUP, INC.**  
**Condensed Consolidated Balance Sheets**  
(In thousands, except share amounts) (Unaudited)

	June 30, 2021	September 30, 2020
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 180,398	\$ 99,395
Restricted cash	3,352	3,446
Receivables, net	4,947	13,712
Expendable parts and supplies, net	24,707	22,971
Prepaid expenses and other current assets	8,956	16,067
Total current assets	222,360	155,591
Property and equipment, net	1,164,193	1,212,415
Intangible assets, net	7,102	8,032
Lease and equipment deposits	8,149	1,899
Operating lease right-of-use assets	97,894	123,251
Other assets	25,315	742
Total assets	\$ 1,525,013	\$ 1,501,930
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt and finance leases	\$ 107,728	\$ 189,268
Current portion of deferred revenue	6,486	9,389
Current maturities of operating leases	37,058	43,932
Accounts payable	52,835	53,229
Accrued compensation	12,432	12,030
Other accrued expenses	59,452	45,478
Total current liabilities	275,991	353,326
Noncurrent liabilities:		
Long-term debt and finance leases, excluding current portion	585,761	542,456
Noncurrent operating lease liabilities	35,007	62,531
Deferred credits	4,147	5,705
Deferred income taxes	72,305	64,275
Deferred revenue, net of current portion	29,265	14,369
Other noncurrent liabilities	27,870	1,409
Total noncurrent liabilities	754,355	690,745
Total liabilities	1,030,346	1,044,071
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock of no par value, 5,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock of no par value and additional paid-in capital, 125,000,000 shares authorized; 35,891,029 (2021) and 35,526,918 (2020) shares issued and outstanding, 4,899,497 (2021) and 0 (2020) warrants issued and outstanding	255,497	242,772
Retained earnings	239,170	215,087
Total stockholders' equity	494,667	457,859
Total liabilities and stockholders' equity	\$ 1,525,013	\$ 1,501,930

*See accompanying notes to these condensed consolidated financial statements.*

**MESA AIR GROUP, INC.**  
**Condensed Consolidated Statements of Operations and Comprehensive Income**

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

	<u>Three Months Ended June 30,</u>		<u>Nine Months Ended June 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
<b>Operating revenues:</b>				
Contract revenue	\$ 109,654	\$ 71,648	\$ 318,524	\$ 409,228
Pass-through and other revenue	15,503	1,451	54,284	27,802
Total operating revenues	<u>125,157</u>	<u>73,099</u>	<u>372,808</u>	<u>437,030</u>
<b>Operating expenses:</b>				
Flight operations	41,314	29,664	115,681	135,199
Fuel	234	146	822	504
Maintenance	51,986	22,591	156,623	145,021
Aircraft rent	9,648	15,582	29,688	39,196
Aircraft and traffic servicing	682	538	2,326	2,938
General and administrative	12,087	11,737	36,324	39,233
Depreciation and amortization	20,933	20,635	62,108	61,656
Lease termination	—	—	4,508	—
Government grant recognition	(26,101)	(43,018)	(93,379)	(43,018)
Total operating expenses	<u>110,783</u>	<u>57,875</u>	<u>314,701</u>	<u>380,729</u>
Operating income	<u>14,374</u>	<u>15,224</u>	<u>58,107</u>	<u>56,301</u>
<b>Other (expense) income, net:</b>				
Interest expense	(8,627)	(10,368)	(26,464)	(34,668)
Interest income	82	1	287	95
Other (expense) income, net	(28)	79	389	720
Total other (expense), net	<u>(8,573)</u>	<u>(10,288)</u>	<u>(25,788)</u>	<u>(33,853)</u>
Income before taxes	5,801	4,936	32,319	22,448
Income tax expense	1,525	1,517	8,236	6,359
Net income and comprehensive income	<u>\$ 4,276</u>	<u>\$ 3,419</u>	<u>\$ 24,083</u>	<u>\$ 16,089</u>
<b>Net income per share attributable to common shareholders</b>				
Basic	<u>\$ 0.12</u>	<u>\$ 0.10</u>	<u>\$ 0.68</u>	<u>\$ 0.46</u>
Diluted	<u>\$ 0.11</u>	<u>\$ 0.10</u>	<u>\$ 0.62</u>	<u>\$ 0.46</u>
<b>Weighted-average common shares outstanding</b>				
Basic	<u>35,769</u>	<u>35,299</u>	<u>35,642</u>	<u>35,154</u>
Diluted	<u>39,513</u>	<u>35,299</u>	<u>38,811</u>	<u>35,248</u>

*See accompanying notes to these condensed consolidated financial statements.*

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

(In thousands, except share amounts) (Unaudited)

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

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

(In thousands, except share amounts) (Unaudited)

	Nine Months Ended June 30, 2021				
	Number of Shares	Number of Warrants	Common Stock and Additional Paid-In Capital	Retained Earnings	Total
Balance at September 30, 2020	35,526,918	—	\$ 242,772	\$ 215,087	\$ 457,859
Stock compensation expense	—	—	850	—	850
Repurchased shares	(2,256)	—	(19)	—	(19)
Restricted shares issued	7,500	—	—	—	—
Issuance of warrants, net of issuance costs	—	4,899,497	11,489	—	11,489
Net income	—	—	—	14,118	14,118
Balance at December 31, 2020	35,532,162	4,899,497	\$ 255,092	\$ 229,205	\$ 484,297
Stock compensation expense	—	—	808	—	808
Repurchased shares	(14,680)	—	(157)	—	(157)
Restricted shares issued	124,609	—	—	—	—
Employee share purchases	58,070	—	207	—	207
Net income	—	—	—	5,689	5,689
Balance at March 31, 2021	35,700,161	4,899,497	\$ 255,950	\$ 234,894	\$ 490,844
Stock compensation expense	—	—	756	—	756
Repurchased shares	(122,960)	—	(1,209)	—	(1,209)
Restricted shares issued	313,828	—	—	—	—
Net income	—	—	—	4,276	4,276
Balance at June 30, 2021	35,891,029	4,899,497	\$ 255,497	\$ 239,170	\$ 494,667

*See accompanying notes to these condensed consolidated financial statements.*

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

(In thousands) (Unaudited)

	Nine Months Ended June 30,	
	2021	2020
<b>Cash flows from operating activities:</b>		
Net income	\$ 24,083	\$ 16,089
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	62,108	61,656
Stock compensation expense	2,414	3,533
Deferred income taxes	8,030	5,902
Long-term deferred revenue	—	12,240
Amortization of deferred credits	(2,471)	(2,928)
Amortization of debt discount and issuance costs	8,185	3,182
Gain on extinguishment of debt	(950)	—
Loss on disposal of assets	50	528
Provision for obsolete expendable parts and supplies	168	287
Loss on lease termination	4,508	—
Changes in assets and liabilities:		
Receivables	8,765	8,462
Expendable parts and supplies	(1,894)	(1,403)
Prepaid expenses and other assets	226	(1,257)
Accounts payable	(398)	(9,890)
Deferred revenue	11,993	—
Accrued expenses and other liabilities	15,436	11,659
Change in operating lease right-of-use assets and liabilities	(9,041)	(4,459)
Net cash provided by operating activities	<u>131,212</u>	<u>103,601</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(10,717)	(25,160)
Net returns (payments) on equipment & other deposits	(6,322)	46
Net cash used in investing activities	<u>(17,039)</u>	<u>(25,114)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from long-term debt	195,000	23,000
Proceeds from issuance of common stock under ESPP	207	—
Principal payments on long-term debt and financing leases	(225,760)	(103,718)
Payments of debt and warrant issuance costs	(1,326)	(1,394)
Repurchase of stock	(1,385)	(498)
Net cash used in financing activities	<u>(33,264)</u>	<u>(82,610)</u>
Net change in cash, cash equivalents and restricted cash	80,909	(4,123)
Cash, cash equivalents and restricted cash at beginning of period	102,841	72,501
Cash, cash equivalents and restricted cash at end of period	<u>\$ 183,750</u>	<u>\$ 68,378</u>
<b>Supplemental cash flow information</b>		
Cash paid for interest	\$ 22,905	\$ 30,375
Cash paid for income taxes, net	\$ 398	\$ 45
Operating lease payments in operating cash flows	\$ 37,640	\$ 34,919
<b>Supplemental non-cash transactions</b>		
Warrants received for entering into agreements with Archer Aviation Inc. ("Archer")	\$ 16,374	\$ —
Right-of-use assets obtained	\$ 454	\$ 145,054
Debt issuance cost related to loan agreement with US Department of the Treasury	\$ (1,887)	\$ —
Accrued capital expenditures	\$ 59	\$ 60

*See accompanying notes to these condensed consolidated financial statements.*

## **1. Organization and Operations**

### *About Mesa Air Group, Inc.*

Headquartered in Phoenix, Arizona, Mesa Air Group, Inc. ("Mesa" or the "Company") is the holding company of Mesa Airlines, Inc. ("Mesa Airlines"), a regional air carrier providing scheduled flight service to 116 cities in 36 states, the District of Columbia, and Mexico as well as cargo services out of Cincinnati/Northern Kentucky International Airport. As of June 30, 2021, Mesa operated, under the Company's Capacity Purchase Agreements, Flight Services Agreement or as operational spares, a fleet of 155 aircraft with approximately 470 daily departures and 3,191 employees. Mesa also leases 12 aircraft to a third party. Mesa operates all of its flights on behalf of major partners as either American Eagle, United Express, or DHL Express flights pursuant to the terms of Capacity Purchase Agreements ("CPAs") entered into with American Airlines, Inc. ("American") and United Airlines, Inc. ("United") and a Flight Services Agreement ("FSA") with DHL Network Operations (USA), Inc. ("DHL").

The financial arrangements between the Company and its major partners involve a revenue-guarantee arrangement whereby the major partner pays fixed-fees for each aircraft under contract, departure, flight hour (measured from takeoff to landing, excluding taxi time) or block hour (measured from takeoff to landing, including taxi time), and reimbursement of certain direct operating expenses in exchange for providing flight services. The major partners also pay certain expenses directly to suppliers, such as fuel, ground operations and landing fees. Under the terms of these capacity purchase agreements, the major partner controls route selection, pricing, and seat inventories, reducing the Company's exposure to fluctuations in passenger traffic, fare levels, and fuel prices.

### *American Capacity Purchase Agreement*

As of June 30, 2021, the Company operated 45 CRJ-900 aircraft under the American Capacity Purchase Agreement (the "American CPA"). In exchange for providing flight services, we receive a fixed monthly minimum amount per aircraft under contract plus certain additional amounts based upon the number of flights and block hours flown during each month. In addition, we may also receive incentives or incur penalties based upon our operational performance, including controllable on-time departures and controllable completion percentages. American also reimburses us for certain costs on an actual basis, including passenger liability and hull insurance and aircraft property taxes. Other expenses, including fuel and certain landing fees, are directly paid to suppliers by American. In addition, American also provides, at no cost to us, certain ground handling and customer service functions, as well as airport-related facilities and gates at American hubs and cities where we operate.

On November 19, 2020, we entered into an Amended and Restated American Capacity Purchase Agreement (the "Amended and Restated American Capacity Purchase Agreement") which was effective as of January 1, 2021 and amended and restated the Code Share and Revenue Sharing Agreement dated as of March 20, 2001 (as amended, supplemented and modified, the "Existing CPA"), between Mesa Airlines and American. The Amended and Restated American Capacity Purchase Agreement included the following amendments to the Existing CPA:

- Extended the CPA for a five-year term, commencing January 1, 2021 to December 31, 2025;
- Reduced the number of aircraft operated under the agreement to 40 CRJ-900 aircraft; and
- Provided American the option in its sole discretion to withdraw up to: (a) 10 aircraft during calendar year 2021, provided that for the 6-month period ending June 30, 2021, American may only exercise this right if the number of mainline narrow body aircraft in American's fleet has been reduced by a specified number of aircraft during such period, (b) 5 aircraft during each of calendar years 2022 and 2023, and (c) during the period from January 1, 2024 to July 31, 2024, American can remove the first 20 aircraft to the extent not otherwise removed in 2021 – 2023, and thereafter they have the right to remove the last 20 aircraft.

On December 22, 2020, we entered into Amendment No. 1 ("Amendment No. 1") to the Amended and Restated American Capacity Purchase Agreement. The amendments in Amendment No. 1 reflect the following:

- Addition of CRJ-900 aircraft to the Amended and Restated American Capacity Purchase Agreement (collectively, the "Incremental Aircraft") in accordance with the following schedule: (i) 3 aircraft, commencing January 5, 2021 to March 3, 2021, and (ii) increasing to a total of 5 aircraft, commencing March 4, 2021. The term of the Incremental Aircraft will be determined by American in its sole discretion.

- American's right, exercisable in its sole discretion, to withdraw any Incremental Aircraft upon 60 days' prior notice. American may specify one or more dates for the withdrawal of such Incremental Aircraft.

On April 9, 2021, we entered into Amendment No. 2 ("Amendment No. 2") to the Amended and Restated American Capacity Purchase Agreement. The amendments in Amendment No. 2 reflect the following:

- Addition of CRJ-900 aircraft to the American CPA (collectively, the "Incremental Aircraft") in accordance with the following schedule and as an extension to Amendment No. 1: (i) 5 aircraft, commencing March 4, 2021 to May 5, 2021, and (ii) decreasing to a total of 3 aircraft, commencing May 6, 2021 to June 2, 2021, and (iii) increasing to a total of 5 aircraft commencing on June 3, 2021 until August 17, 2021.
- American's right, exercisable in its sole discretion, to withdraw any Incremental Aircraft upon 60 days' prior notice. American may specify one or more dates for the withdrawal of such Incremental Aircraft.

On August 9, 2021, we entered into Amendment No. 5 ("Amendment No. 5") to the Amended and Restated American Capacity Purchase Agreement. The amendments in Amendment No. 5 reflect the following:

- Waiver of the operational performance metrics for the month of August 2021. Additionally, the date for calculating operational performance criteria related to defaults is effective September 2021.
- Extension of the deadline for completing certain cabin interior and refurbishment requirements as defined in the American CPA to December 31, 2021.
- Increase to incentive and penalty compensation in the American CPA, effective beginning in October 2021.

Our Amended and Restated American Capacity Purchase Agreement is subject to termination prior to its expiration, subject to the Company's right to cure, in various circumstances including:

- If either American or the Company become insolvent, file for bankruptcy, or fail to pay the debts as they become due, the non-defaulting party may terminate the agreement;
- Failure by the Company or American to perform the covenants, conditions, or provisions of the American Capacity Purchase Agreement, subject to 15 days' notice and cure rights;
- If we are required by the FAA or the DOT to suspend operations and we have not resumed operations within three business days, except as a result of an emergency airworthiness directive from the FAA affecting all similarly equipped aircraft, American may terminate the agreement;
- If our controllable flight completion factor falls below certain levels for a specified period of time, subject to our right to cure;
- Upon the occurrence of a force majeure event (as defined in the Amended and Restated American Capacity Purchase Agreement) that lasts for a specified period of consecutive days and affects our ability to operate scheduled flights, including a future epidemic or pandemic;
- If a labor dispute affects our ability to operate over a specified number of days or we operate in violation of any existing American collective bargaining agreement; or
- Upon a change in our ownership or control without the written approval of American.

Our Amended and Restated American Capacity Purchase Agreement is also subject to withdrawal rights, providing American with the right and option to withdraw one aircraft, upon each occurrence of the following:

- If our controllable flight completion factor ("CCF") falls below certain levels for a specified period of time;
- If our controllable on time departures ("CD0") fall below certain levels for a specified period of time; or

- Failure to meet certain cabin interior and refurbishment requirements.

#### *United Capacity Purchase Agreement*

As of June 30, 2021, we operated 60 E-175 and 20 E-175LL aircraft for United under the United Capacity Purchase Agreement (the "United CPA"). In exchange for providing the flight services under our United CPA, we receive a fixed monthly minimum amount per aircraft under contract plus certain additional amounts based upon the number of flights and block hours flown and the results of passenger satisfaction surveys. United also reimburses us for certain costs on an actual basis, including property tax per aircraft and passenger liability insurance. Other expenses, including fuel and certain landing fees, are directly paid to suppliers by United.

Under our United CPA, United owns 42 of the 60 E-175 and all of the E-175LL aircraft and leases them to us at nominal amounts. United reimburses us on a pass-through basis for all costs related to heavy airframe and engine maintenance, landing gear, auxiliary power units ("APUs") and component maintenance for the 42 United owned E-175 aircraft.

On November 26, 2019, we amended and restated our United CPA. The Amended and Restated United CPA included the following amendments:

- Addition of 20 new E-175 LL aircraft to be financed by us and operated for a period of twelve (12) years from the aircraft acceptance and in-service date, expiring between November 2032 and June 2033.
- Extended the term of the (i) 42 E-175 aircraft leased from United for an additional five (5) years, which now expire between 2024 and 2028, and (ii) 18 E-175 aircraft that we own for an additional five (5) years, which now expire in 2028.
- Agreed to lease our CRJ-700 aircraft to another United Express service provider for a term of nine (9) years. We ceased operating our CRJ-700 fleet in February 2021 in connection with the transfer of those aircraft into a lease agreement. The amendment also granted United a right to purchase the leased CRJ-700 aircraft at any point during the nine (9) year lease term for an amount representing the appraised value of the aircraft.

On November 4, 2020, we amended and restated our United CPA. The amendments reflect the following:

- Transferred the financing and ownership of the 20 new E-175 LL aircraft to United. The aircraft are leased to the Company at nominal amounts to operate for a period of twelve (12) years from the aircraft acceptance and in-service date, expiring between November 2032 and June 2033. As of June 30, 2021, all 20 E-175LL have been delivered.

Our United CPA is subject to the following termination rights prior to its expiration:

- Permits United, subject to certain conditions, including the payment of certain costs tied to aircraft type, to terminate the agreement in its discretion, or remove E-175 aircraft from service, by giving us notice of 90 days or more.
- If United elects to terminate our United CPA in its entirety or permanently remove select aircraft from service, we are permitted to return any of the affected E-175 aircraft leased from United at no cost to us.
- Commencing five (5) years after the actual in-service date, United has the right to remove the E-175 aircraft from service by giving us notice of 90 days or more, subject to certain conditions, including the payment of certain wind-down expenses plus, if removed prior to the ten (10) year anniversary of the in-service date, certain accelerated margin payments.

#### *DHL Flight Services Agreement*

On December 20, 2019, the Company entered into a Flight Services Agreement with DHL. Under the terms of this agreement, Mesa operates two Boeing 737-400F aircraft to provide cargo air transportation services to DHL. In exchange for providing such services, the Company receives a fee per block hour with a minimum block hour guarantee. The Company is eligible for a monthly performance bonus or subject to a monthly penalty based on timeliness and completion performance. Ground support including fueling and airport fees are paid directly by DHL.

Under our Flight Services Agreement, DHL leases two Boeing 737-400F aircraft and subleases them to us at nominal amounts. DHL reimburses us on a pass-through basis for all costs related to heavy maintenance including C-checks, off-

wing engine maintenance and overhauls including LLPs, Landing Gear overhauls and LLPs, thrust reverser overhauls, and APU overhauls and LLPs. Certain items such as fuel, de-icing fluids, landing fees, aircraft ground handling fees, en-route navigation fees and custom fees are paid directly to suppliers by DHL or otherwise reimbursed if incurred by the Company.

The Flight Services Agreement expires five (5) years from the commencement date of the first aircraft placed into service, which was in October 2020. DHL has the option to extend the agreement with respect to one or more aircraft for a period of one year with 90 days' advance written notice.

Our DHL Flight Services Agreement is subject to following termination rights prior to its expiration:

- At any time after the first anniversary of the commencement date of the first aircraft placed in service with 90 day's written notice.
- Failure to comply with performance standards for three consecutive measurement periods.
- DHL may terminate the agreement for a specific aircraft if it is subject to a total loss and the Company does not provide alternate services.

## **2. Summary of Significant Accounting Policies**

### *Basis of Presentation*

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

These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto as of and for the year ended September 30, 2020 included in the Company's Annual Report on Form 10-K for the year ended September 30, 2020 on file with the U.S. Securities and Exchange Commission (the "SEC"). Information and footnote disclosures normally included in financial statements have been condensed or omitted in these condensed consolidated financial statements pursuant to the rules and regulations of the SEC and GAAP. These condensed consolidated financial statements reflect all adjustments that, in the opinion of management, are necessary to present fairly the results of operations for the interim periods presented.

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

### *Segment Reporting*

As of June 30, 2021, our chief operating decision maker was the Chief Executive Officer. While the Company operates under separate capacity purchase agreements and a flight services agreement, we do not manage our business based on any performance measure at the individual contract level. Our chief operating decision maker uses consolidated financial information to evaluate our performance and allocate resources, which is the same basis on which he communicates our results and performance to our Board of Directors. Accordingly, we have a single operating and reportable segment.

### *Use of Estimates*

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

### *Contract Revenue and Pass-through and Other Revenue*

The Company recognizes contract revenue when the service is provided under its capacity purchase agreements and flight services agreement. Under the capacity purchase agreements and flight services agreement, our major partners generally pay for each departure, flight hour or block hour, and an amount per aircraft in service each month with additional incentives based on flight completion, on-time performance, and other operating metrics. The Company's performance obligation is met as each flight is completed, and revenue is recognized and reflected in contract revenue.

Contract revenue also includes temporary rate reductions under our capacity purchase agreements impacting the period from December 2020 to September 2021. The basis for the reductions is temporary improvements in our cost structure being passed onto our major partners, primarily from lower labor costs due to the grants received under the Payroll Support Program Extensions (PSP2 and PSP3).

A portion of the Company's compensation under its capacity purchase agreements with American and United is designed to reimburse the Company for certain aircraft ownership costs. Such costs include aircraft principal and interest debt service costs, aircraft depreciation, and interest expense or aircraft lease expense costs while the aircraft is under contract. The Company has concluded that a component of its revenue under these agreements is deemed to be lease revenue, as such agreements identify the "right of use" of a specific type and number of aircraft over a stated period-of-time. The lease revenue associated with the Company's capacity purchase agreements is accounted for as an operating lease and is reflected as contract revenue on the Company's consolidated statements of operations. The Company recognized \$41.2 million and \$52.0 million of lease revenue for the three months ended June 30, 2021 and 2020, respectively, and \$131.8 million and \$157.7 million during the nine months ended June 30, 2021 and 2020, respectively. The Company has not separately stated aircraft rental income and aircraft rental expense in the consolidated statements of operations and comprehensive income because the use of the aircraft is not a separate activity from the total service provided under our capacity purchase agreements.

The Company recognizes pass-through revenue when the service is provided under its capacity purchase agreements and flight services agreement. Pass-through revenue represents reimbursements for certain direct expenses incurred including passenger liability and hull insurance, property taxes, other direct costs defined within the capacity purchase agreements, and major maintenance on aircraft leased at nominal rates. The Company's performance obligation is met when each flight is completed or as the maintenance services are performed, and revenue is recognized and reflected in pass-through and other revenue.

The Company entered into lease agreements with GoJet Airlines LLC ("GoJet") to lease 12 CRJ-700 aircraft as of June 2021. The lease agreements are accounted for as operating leases and have a term of nine (9) years beginning on the delivery date of each aircraft. Under the lease agreements, GoJet pays fixed monthly rent per aircraft and variable lease payments for supplemental rent based on monthly aircraft utilization at fixed rates. Supplemental rent payments are subject to reimbursement following GoJet's completion of qualifying maintenance events defined in the agreements. Lease revenue for fixed monthly rent payments is recognized ratably within contract revenue. Lease revenue for supplemental rent is deferred and recognized within contract revenue when it is probable that amounts received will not be reimbursed for future qualifying maintenance events over the lease term.

The Company mitigates the residual asset risks through supplemental rent payments and by leasing aircraft and engine types that can be operated by the Company in the event of a default. Additionally, the operating leases have specified lease return condition requirements and the Company maintains inspection rights under the leases. As of June 30, 2021, the Company recognized \$10.1 million of lease incentive assets and \$8.8 million of related lease incentive obligations for reimbursement of certain aircraft maintenance costs defined within the lease agreements. Lease incentive assets are recognized as a reduction to lease revenue over the lease term.

Lease revenue recognized under the GoJet agreements, net of amortization of the lease incentive assets, was \$3.4 million and \$4.0 million for the three and nine months ended June 30, 2021, respectively. Amounts deferred for supplemental rent payments totaled \$0.2 million as of June 30, 2021. The following table summarizes future minimum rental income under operating leases related to leased aircraft that had remaining non-cancelable lease terms as of June 30, 2021 (in thousands):

	Periods Ending September 30,	Total Payments
2021 (remainder of)		\$ 3,276
2022		13,104
2023		13,104
2024		13,104
2025		13,104
Thereafter		59,029
<b>Total</b>		<b>\$ 114,721</b>

The Company records deferred revenue when cash payments are received or are due from our major partners in advance of the Company's performance, including amounts that are refundable. During the three and nine months ended June 30, 2021, the Company deferred \$1.9 million and \$12.0 million of revenue, respectively, which was billed and paid by our major partners.

The deferred revenue balance as of June 30, 2021 represents our aggregate remaining performance obligations that will be recognized as revenue over the period in which the performance obligations are satisfied, and is expected to be recognized as revenue as follows (in thousands):

	Periods Ending September 30,	Deferred Revenue Recognized
2021 (remainder of)		\$ 1,825
2022		7,388
2023		10,101
2024		9,860
2025		4,621
Thereafter		1,956
<b>Total</b>		<b>\$ 35,751</b>

#### *Aircraft Leases*

As discussed in Note 1, we lease, at nominal rates, certain aircraft from United and DHL under our United Capacity Purchase Agreement and DHL Flight Services Agreement, which are excluded from operating lease assets and liabilities as the lease contracts do not represent embedded leases under ASC 842. Other than nominal leases with our major partners, approximately 10% of our aircraft are leased from third parties. All of our aircraft leases have been classified as operating leases, which results in rental payments being charged to expense over the term of the related leases. In the event that we or one of our major partners decide to exit an activity involving leased aircraft, losses may be incurred. In the event that we exit an activity that results in exit losses, these losses are accrued as each aircraft is removed from operations for early termination penalties, lease settle up and other charges. Additionally, any remaining ROU assets and lease liabilities would be written off.

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

#### *Contract Liabilities*

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

Current and non-current deferred credits are recorded to other accrued expenses and non-current deferred credits in the condensed consolidated balance sheets. The Company's total current and non-current deferred credit contract liability balances at June 30, 2021 and September 30, 2020 are \$5.0 million and \$8.5 million, respectively. The Company recognized \$0.2 million and \$0.9 million of the deferred credits within contract revenue during the three months ended June 30, 2021 and 2020, respectively, and \$2.1 million and \$2.9 million during the nine months ended June 30, 2021 and 2020, respectively.

#### *Maintenance Expense*

The Company operates under a Federal Aviation Administration ("FAA") approved continuous inspection and maintenance program. The cost of non-major scheduled inspections and repairs and routine maintenance costs for all aircraft and engines are charged to maintenance expense as incurred.

The Company accounts for heavy maintenance and major overhaul costs on its owned E-175 fleet under the deferral method whereby the cost of heavy maintenance and major overhaul is deferred and amortized until the earlier of the end of the useful life of the related asset or the next scheduled heavy maintenance event. Amortization of heavy maintenance and major overhaul costs charged to depreciation and amortization expense was \$0.1 million for the three and nine months ended June 30, 2021 and 2020. At June 30, 2021 and September 30, 2020, the Company had a deferred heavy maintenance balance, net of accumulated amortization, of \$2.8 million and \$0.0 million, respectively.

The Company accounts for heavy maintenance and major overhaul costs for all other fleets under the direct expense method whereby costs are expensed to maintenance expense as incurred, except for certain maintenance contracts where labor and materials price risks have been transferred to the service provider and require payment on a utilization basis, such as flight hours. Costs incurred for maintenance and repair for utilization maintenance contracts where labor and materials price risks have been transferred to the service provider are charged to maintenance expense based on contractual payment terms.

Engine overhaul expense totaled \$4.0 million and \$3.2 million for the three months ended June 30, 2021, and 2020, respectively, of which \$2.7 million and \$0.4 million, respectively, was pass-through expense. Engine overhaul expense totaled \$25.3 million and \$28.3 million for the nine months ended June 30, 2021, and 2020, respectively, of which \$14.5 million and \$3.0 million, respectively, was pass-through expense. Airframe C-check expense totaled \$14.1 million and \$2.9 million for the three months ended June 30, 2021, and 2020, respectively, of which \$5.6 million and \$0.8 million, respectively, was pass-through expense. Airframe C-check expense totaled \$38.3 million and \$20.6 million for the nine months ended June 30, 2021, and 2020, respectively, of which \$18.3 million and \$5.9 million, respectively, was pass-through expense.

#### *Government Grant*

In February 2021, the Company was granted \$48.7 million in financial assistance by the U.S. Department of the Treasury under the Payroll Support Program Extension ("PSP2") under the Consolidated Appropriations Act of 2021. In March 2021, the Company was notified that, based on funding availability, recipients that were currently in compliance with executed PSP agreements would receive an additional award amount. As a result, the Company received an additional \$7.3 million through PSP2 in April 2021 for a total grant of \$56.0 million. PSP2 funding must be used exclusively for the continuation of payment of employee wages, salaries, and benefits and is conditioned on our agreement to refrain from conducting involuntary employee layoffs or furloughs from the date of the extension agreement through March 2021. Other conditions include prohibitions on share repurchases and dividends through March 2022 and certain limitations on executive compensation until October 2022. The Department of Transportation also has the authority until March 1, 2022 to require airlines that received payroll support program funds to maintain scheduled air service deemed necessary to any point served by the airline before March 1, 2020.

On April 15, 2021, the Company was notified by the U.S. Department of the Treasury that it was eligible to receive funds under the third Payroll Support Program ("PSP3"), which was created under the American Recovery Plan Act of 2021 ("ARPA"), enacted on March 11, 2021. PSP3 provides additional funding for passenger air carriers and contractors that received financial assistance under PSP2. The funding must be used exclusively for the continuation of payment of employee wages, salaries, and benefits. The Company was granted \$52.2 million and received the first PSP3 installment of \$26.1 million in April 2021 and the second installment of \$26.1 million in May 2021. These payments are conditioned on our agreement to refrain from conducting involuntary employee layoffs or furloughs through September 2021 or the date on which assistance provided under the agreement is exhausted, whichever is later. Other conditions include prohibitions on share repurchases and dividends through September 2022 and certain limitations on executive compensation until April 2023.

During the three and nine months ended June 30, 2021, the Company recognized \$26.1 million and \$93.4 million, respectively, for the payroll support government funds. During the three and nine months ended June 30, 2020, the Company recognized \$43.0 million for the payroll support government funds. As of June 30, 2021, there are \$26.1 million of deferred payments remaining under PSP3, which are recorded within other accrued liabilities in the condensed consolidated balance sheets and will be recognized as a reduction of operating expenses during the quarter ended September 30, 2021.

### **3. Recent Accounting Pronouncements**

In June 2016, the FASB issued new guidance requiring all expected credit losses for financial instruments held at the reporting date to be measured based on historical experience, current conditions, and reasonable supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial instruments measured at amortized cost and also applies to some off-balance sheet credit exposures. Our adoption of this guidance on a modified retrospective basis on October 1, 2020 did not have a material impact as credit losses have not been, and are not expected to be, significant based on historical collection trends, the financial condition of our major partners and external market factors.

In August 2018, the FASB issued new guidance aligning the accounting for implementation costs incurred in cloud computing arrangements with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. We adopted this guidance on a prospective basis on October 1, 2020. Amounts capitalized are immaterial.

In December 2019, the FASB issued new guidance to simplify the accounting for income taxes. The guidance is effective for annual and interim reporting periods beginning after December 15, 2020, and interim periods within those fiscal periods. We are currently evaluating the impact that the new guidance will have on our consolidated financial statements.

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

### **4. Concentrations of Credit Risk**

Financial instruments that potentially expose the Company to a concentration of credit risk consist principally of cash and cash equivalents that are primarily held by financial institutions in the United States and accounts receivable. Amounts on deposit with a financial institution may at times exceed federally insured limits. The Company maintains its cash accounts with high credit quality financial institutions and, accordingly, minimal credit risk exists with respect to the financial institutions. As of June 30, 2021, the Company had \$3.4 million in restricted cash. We have an agreement with a financial institution for a letter of credit facility and to issue letters of credit for particular airport authorities, worker's compensation insurance, property and casualty insurance and other business needs as required in certain lease agreements. Pursuant to the terms of this agreement, \$3.4 million of outstanding letters of credit are required to be collateralized by amounts on deposit.

Significant customers are those which represent more than 10% of the Company's total revenue or net accounts receivable balance at each respective balance sheet date. At June 30, 2021, the Company had capacity purchase agreements with American and United and a flight services agreement with DHL. Substantially all of the Company's condensed consolidated revenue for the nine months ended June 30, 2021 and 2020 was derived from these agreements. Substantially all of the Company's accounts receivable at June 30, 2021 and September 30, 2020 was derived from these agreements. American accounted for approximately 45% and 60% of the Company's total revenue for the three months ended June 30, 2021 and 2020, respectively, and 46 % and 53% of the Company's total revenue for the nine months ended June 30, 2021 and 2020, respectively. United accounted for approximately 51% and 40% of the Company's total revenue for the three months ended June 30, 2021 and 2020, respectively, and 52% and 47% of the Company's total revenue for the nine months ended June 30, 2021 and 2020, respectively. A termination of either the American or the United capacity purchase agreements would have a material adverse effect on the Company's business prospects, financial condition, results of operations, and cash flows.

Amounts billed by the Company under the capacity purchase agreements and flight services agreement are subject to the Company's interpretation of the applicable agreement and are subject to audit by the Company's major partners. Periodically, the Company's major partners dispute amounts billed and pay amounts less than the amount billed. Ultimate collection of the remaining amounts not only depends upon the Company prevailing under the applicable audit, but also

upon the financial well-being of the major partner. As such, the Company periodically reviews amounts due based on historical collection trends, the financial condition of major partners and current external market factors and records a reserve for amounts estimated to be uncollectible. The allowance for doubtful accounts was \$1.4 million and \$0.8 million at June 30, 2021 and September 30, 2020, respectively. If the Company's ability to collect these receivables and the financial viability of its major partners is materially different than estimated, the Company's estimate of the allowance could be materially impacted.

## 5. Intangible Assets

Information about the intangible assets of the Company as of June 30, 2021 and September 30, 2020, is as follows (in thousands):

	<u>June 30,</u> <u>2021</u>	<u>September 30,</u> <u>2020</u>
Customer relationship	\$ 43,800	\$ 43,800
Accumulated amortization	(36,698)	(35,768)
Net carrying value	<u>\$ 7,102</u>	<u>\$ 8,032</u>

Total amortization expense recognized was approximately \$0.3 million and \$0.4 million for the three months ended June 30, 2021 and 2020, respectively, and \$0.9 million and \$1.1 million for the nine months ended June 30, 2021 and 2020, respectively. The Company expects to record amortization expense of \$0.3 million for the remainder of 2021, and \$1.0 million, \$0.9 million, \$0.8 million, \$0.7 million for fiscal years 2022, 2023, 2024 and 2025, respectively.

As of June 30, 2021, the Company's intangible assets' remaining weighted average term is 14.3 years.

## 6. Balance Sheet Information

Certain significant amounts included in the Company's condensed consolidated balance sheet as of June 30, 2021 and September 30, 2020, consisted of the following (in thousands):

	<u>June 30,</u> <u>2021</u>	<u>September 30,</u> <u>2020</u>
<b>Expendable parts and supplies, net:</b>		
Expendable parts and supplies	\$ 29,135	\$ 27,431
Less: obsolescence and other	(4,428)	(4,460)
	<u>\$ 24,707</u>	<u>\$ 22,971</u>
<b>Prepaid expenses and other current assets:</b>		
Deferred offering and reimbursed costs	\$ —	\$ 1,261
Prepaid aviation insurance	4,662	2,396
Other	4,294	12,410
	<u>\$ 8,956</u>	<u>\$ 16,067</u>
<b>Property and equipment, net:</b>		
Aircraft and other flight equipment substantially pledged	\$ 1,606,276	\$ 1,596,174
Other equipment	5,116	5,147
Leasehold improvements	2,790	2,763
Vehicles	1,115	1,032
Building	699	699
Furniture and fixtures	302	302
Total property and equipment	1,616,298	1,606,117
Less: accumulated depreciation	(452,105)	(393,702)
	<u>\$ 1,164,193</u>	<u>\$ 1,212,415</u>
<b>Other assets:</b>		
Warrants	\$ 16,374	\$ —
Other	8,941	742
	<u>\$ 25,315</u>	<u>\$ 742</u>
<b>Other accrued expenses:</b>		
Accrued property taxes	\$ 7,479	\$ 11,354
Accrued interest	4,814	3,268
Accrued vacation	5,967	5,975
Deferred PSP payments	26,100	11,311
Other	15,092	13,570
	<u>\$ 59,452</u>	<u>\$ 45,478</u>

The Company records impairment charges on long-lived assets used in operations when events and circumstances indicate that the assets may be impaired, the undiscounted net cash flows estimated to be generated by those assets are less than the carrying amount of those assets, and the net book value of the assets exceeds their estimated fair value. The Company has assessed whether any impairment of its long-lived assets existed and has determined that no charges were deemed necessary under applicable accounting standards as of June 30, 2021. The Company's assumptions about future conditions important to its assessment of potential impairment of its long-lived assets, including the impact of the COVID-19 pandemic to its business, are subject to uncertainty, and the Company will continue to monitor these conditions in future periods as new information becomes available, and will update its analyses accordingly.

### *Property and equipment, net:*

Depreciation expense totaled approximately \$20.6 million and \$20.2 million for the three months ended June 30, 2021 and 2020, respectively, and \$61.2 million and \$60.5 million for the nine months ended June 30, 2021 and 2020, respectively.

### *Other Assets*

In connection with a negotiated forward purchase contract for electrically-powered vertical takeoff and landing aircraft ("eVTOL aircraft") executed in February 2021, we obtained equity warrant assets giving us the right to acquire 1,171,649

shares of common stock in Archer Aviation, Inc. (Archer), a private, venture-backed company. Our investments in Archer do not have a readily determinable fair value, so we account for them using the measurement alternative under ASC 321 and measure the investments at cost less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments from the same issuer. We consider a range of factors when adjusting the fair value of these investments, including, but not limited to, the term and nature of the investment, local market conditions, values for comparable securities, current and projected operating performance, financing transactions subsequent to the acquisition of the investment or other features that indicate a discount to fair value is warranted. Any changes in fair value from the grant date fair value of the equity warrant assets will be recognized as increases or decreases on our balance sheet and as net gains or losses on equity warrant assets, in other (expense) income, net. We estimated the initial equity warrant asset value to be \$16.4 million based on publicly available information as of the grant date. There were no observable price changes or transactions as of June 30, 2021 and as such, no adjustments to the recorded grant date fair value of the equity warrant assets were recorded.

The grant date value of the warrants, \$16.4 million, was recognized as a vendor credit liability within other noncurrent liabilities. The liability related to the warrant assets will be settled in the future, as a reduction of the acquisition date value of the eVTOL aircraft contemplated in the related aircraft purchase agreement.

## 7. Fair Value Measurements

Fair value is an exit price representing the amount that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants. Accounting standards include disclosure requirements relating to the fair values used for certain financial instruments and establish a fair value hierarchy. The hierarchy prioritizes valuation inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of three levels:

<i>Level 1</i>	—	Observable inputs such as quoted prices in active markets for identical assets or liabilities;
<i>Level 2</i>	—	Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
<i>Level 3</i>	—	Unobservable inputs in which there is little or no market data, requiring an entity to develop its own assumptions.

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

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

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

	June 30, 2021		September 30, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt and finance leases, including current maturities <sup>(1)</sup>	\$ 713.7	\$ 724.8	\$ 743.3	\$ 768.7

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

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

Long-term debt as of June 30, 2021 and September 30, 2020, consisted of the following (in thousands):

	<u>June 30,</u> <u>2021</u>	<u>September 30,</u> <u>2020</u>
Notes payable to financial institution, collateralized by the underlying aircraft, due 2022 <sup>(1)(2)</sup>	\$ —	\$ 41,472
Notes payable to financial institution, collateralized by the underlying aircraft, due 2024 <sup>(3)</sup>	—	55,674
Senior and subordinated notes payable to secured parties, collateralized by the underlying aircraft, due 2027 <sup>(4)</sup>	106,198	105,887
Notes payable to secured parties, collateralized by the underlying aircraft, due 2028 <sup>(5)</sup>	162,247	172,137
Senior and subordinated notes payable to secured parties, collateralized by the underlying aircraft, due 2028 <sup>(6)</sup>	126,650	138,114
Senior and subordinated notes payable to secured parties, collateralized by the underlying aircraft, due 2022 <sup>(7)</sup>	—	47,319
Senior and subordinated notes payable to secured parties, collateralized by the underlying aircraft, due 2022 <sup>(8)</sup>	—	29,682
Notes payable to financial institution due 2020 <sup>(9)</sup>	1,523	1,523
Notes payable to financial institution, collateralized by the underlying equipment, due 2020 <sup>(10)</sup>	—	4,182
Other obligations due to financial institution, collateralized by the underlying equipment, due 2023 <sup>(11)</sup>	5,128	6,864
Notes payable to financial institution, collateralized by the underlying equipment, due 2024 <sup>(12)</sup>	50,097	63,341
Notes payable to financial institution, collateralized by the underlying aircraft, due 2023 <sup>(13)</sup>	35,000	48,125
Notes payable to financial institution due 2023 <sup>(14)</sup>	4,500	6,000
Revolving Credit Facility <sup>(15)</sup>	22,930	22,930
Notes payable to financial institution due 2025 <sup>(16)</sup>	199,383	—
Gross long-term debt, including current maturities	713,656	743,250
Less unamortized debt issuance costs	(9,948)	(11,526)
Less Notes payable warrants	(10,219)	—
Net long-term debt, including current maturities	693,489	731,724
Less current portion	(107,728)	(189,268)
Net long-term debt	<u>\$ 585,761</u>	<u>\$ 542,456</u>

- (1) In fiscal 2007, the Company financed three CRJ-900 and three CRJ-700 aircraft for \$120.3 million. The debt bears interest at the monthly LIBOR plus 2.25% and requires monthly principal and interest payments. The loan was paid in full during quarter ended December 31, 2020.
- (2) In fiscal 2014, the Company financed ten CRJ-900 aircraft for \$88.4 million. The debt bears interest at the monthly LIBOR plus 1.95% and requires monthly principal and interest payments. In fiscal 2018, the Company repaid \$40.0 million related to four CRJ-900 aircraft. During quarter ended December 31, 2020, the company paid the remaining balance in full.
- (3) In fiscal 2014, the Company financed eight CRJ-900 aircraft with \$114.5 million in debt. The debt bears interest at 5.00% and requires monthly principal and interest payments. The loan was paid in full during quarter ended December 31, 2020.
- (4) In fiscal 2015, the Company financed seven CRJ-900 aircraft with \$170.2 million in debt. The senior notes payable of \$151.0 million bear interest at monthly LIBOR plus 2.71% and require monthly principal and interest payments. The subordinated notes payable is noninterest-bearing and become payable in full on the last day of the term of the notes. The Company has imputed an interest rate of 6.25% on the subordinated notes payable and recorded a related discount of \$8.1 million, which is being accreted to interest expense over the term of the notes.
- (5) In fiscal 2016, the Company financed ten E-175 aircraft with \$246.0 million in debt under an EETC financing arrangement (see discussion below). The debt bears interest ranging from 4.75% to 6.25% and requires semi-annual principal and interest payments.

- (6) In fiscal 2016, the Company financed eight E-175 aircraft with \$195.3 million in debt. The senior notes payable of \$172.0 million bear interest at the three-month LIBOR plus a spread ranging from 2.20% to 2.32% and require quarterly principal and interest payments. The subordinated notes payable bear interest at 4.50% and require quarterly principal and interest payments.
- (7) In June 2018, the Company refinanced six CRJ-900 aircraft with \$27.5 million in debt and financed nine CRJ-900 aircraft, which were previously leased, with \$69.6 million in debt. The senior notes payable of \$65.8 million bear interest at the three-month LIBOR plus 3.50% and require quarterly principal and interest payments. The subordinated notes payable of \$29.8 million bear interest at three-month LIBOR plus 7.50% and require quarterly principal and interest payments. The loan was paid in full during quarter ended December 31, 2020.
- (8) In December 2017, the Company refinanced nine CRJ-900 aircraft with \$74.9 million in debt. The senior notes payable of \$46.9 million bear interest at the three-month LIBOR plus 3.50% and require quarterly principal and interest payments. The subordinated notes payable bear interest at the three-month LIBOR plus 4.50% and require quarterly principal and interest payments. The loan was paid in full during quarter ended December 31, 2020.
- (9) In fiscal 2015 and 2016, the Company financed certain flight equipment maintenance costs with \$10.2 million in debt. The debt bears interest at the three-month LIBOR plus 3.07% and requires quarterly principal and interest payments.
- (10) In fiscal 2016-2019, the Company financed certain flight equipment maintenance costs with \$26.1 million in debt. The debt bears interest at the three-month LIBOR plus a spread ranging from 2.93% to 3.21% and requires quarterly principal and interest payments. The debt is subject to a fixed charge ratio covenant. The loan was paid in full during quarter ended December 31, 2020.
- (11) In February 2018, the Company leased two spare engines. The leases were determined to be finance leases as the leases contain a bargain purchase option at the end of the term. Imputed interest is 9.128% and the leases requires monthly payments.
- (12) In January 2019, the Company financed certain flight equipment with \$91.2 million in debt. The debt bears interest at the monthly LIBOR plus 3.10% and requires monthly principal and interest payments.
- (13) In June 2019, the Company financed ten CRJ-700 aircraft with \$70.0 million in debt, which were previously leased. The debt bears interest at the monthly LIBOR plus 5.00% and requires monthly principal and interest payments. The interest rate reduced from 5.25% to 5.00% in 1<sup>st</sup> quarter, 2020 due to United Airlines extension of CRJ-700.
- (14) On September 27, 2019, the Company financed certain flight equipment for \$8.0 million. The debt bears interest at the monthly LIBOR plus 5.00% and requires monthly principal and interest payments. The interest rate reduced from 5.25% to 5.00% in 1<sup>st</sup> quarter, 2020 due to United Airlines extension of CRJ-700.
- (15) On September 25, 2019, the Company extended the term on their \$35.0 million working capital draw loan by three years, which now terminates in September 2022. Interest is assessed on drawn amounts at one-month LIBOR plus 3.75%. During quarter ended June 30, 2020, \$23.0 million was drawn to cover operational needs.
- (16) On October 30, 2020, the Company entered into a Loan and Guarantee Agreement with the U.S. Department of the Treasury for a secured loan facility of up to \$200.0 million that matures on October 30, 2025. On October 30, 2020, the Company borrowed \$43.0 million and on November 13, 2020, the Company borrowed an additional \$152.0 million. These amounts bear interest at the three-month LIBOR plus 3.50% which was paid-in-kind and capitalized into the balance of the loans for the first interest payment date on December 15, 2020. No further borrowings are available under the Loan and Guarantee Agreement.

Principal maturities of long-term debt as of June 30, 2021, and for each of the next five years are as follows (in thousands):

<u>Periods Ending September 30</u>	<u>Total Principal</u>
2021 (remainder of)	\$ 45,273
2022	113,682
2023	89,462
2024	61,209
2025	56,526
Thereafter	347,504
	<u>\$ 713,656</u>

The net book value of collateralized aircraft and equipment as of June 30, 2021 was \$1,044.1 million.

#### *Enhanced Equipment Trust Certificate ("EETC")*

In December 2015, an Enhanced Equipment Trust Certificate ("EETC") pass-through trust was created to issue pass-through certificates to obtain financing for new E-175 aircraft. At June 30, 2021, Mesa has \$162.2 million of equipment notes outstanding issued under the EETC financing included in long-term debt on the condensed consolidated balance sheets.

The structure of the EETC financing consists of a pass-through trust created by Mesa to issue pass-through certificates, which represent fractional undivided interests in the pass-through trust and are not obligations of Mesa.

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

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

#### *CIT Revolving Credit Facility*

On September 25, 2019, the Company extended the term on its \$35.0 million working capital draw loan by three years, which now terminates in September 2022. Interest is assessed on drawn amounts at one-month LIBOR plus 3.75%. As of June 30, 2021, \$22.9 million has been drawn on the revolver.

Future borrowings, if any, under this facility are subject to, among other things, the Company having sufficient unencumbered assets to meet the borrowing base requirements under the facility.

#### *Loan Agreement with United States Department of the Treasury*

On October 30, 2020, the Company entered into a Loan and Guarantee Agreement with U.S. Department of the Treasury (the "U.S. Treasury") for a secured loan facility of up to \$200.0 million that matures in October 2025 ("the Treasury Loan"). On October 30, 2020, the Company borrowed \$43.0 million and on November 13, 2020, the Company borrowed an additional \$152.0 million. No further borrowings are available under the Treasury Loan. The Company also issued warrants to purchase shares of common stock to the U.S. Treasury.

The Treasury Loan bears interest at a variable rate equal to (a)(i) the LIBOR rate divided by (ii) one minus the Eurodollar Reserve Percentage plus (b) 3.50%. Accrued interest on the loans will be payable in arrears on the first business day following the 14<sup>th</sup> day of each March, June, September, and December, beginning with December 15, 2020.

All principal amounts outstanding under the Treasury Loan are due and payable in a single installment on October 30, 2025 (the "Maturity Date"). Interest will be paid by increasing the principal amount of the loan by the amount of such interest due on an interest payment date for the first 12 months. Mesa's obligations under the Treasury Loan are secured by certain aircraft, aircraft engines, accounts receivable, ground service equipment and tooling (collectively, the "Collateral"). The obligations under the Treasury Loan are guaranteed by the Company and Mesa Air Group Inventory Management. The proceeds may be used for general corporate purposes and operating expenses, to the extent permitted by the CARES Act. Voluntary prepayments of loans under the Treasury Loan may be made, in whole or in part, by Mesa Airlines, without premium or penalty, at any time and from time to time. Amounts prepaid may not be reborrowed. Mandatory prepayments of loans under the Treasury Loan are required, without premium or penalty, to the extent necessary to comply with the covenants discussed below, certain dispositions of the Collateral, certain debt issuances secured by liens on the Collateral and certain insurance payments related to the Collateral. In addition, if a "change of control" (as defined in the Treasury Loan) occurs with respect to Mesa Airlines, Mesa Airlines will be required to repay the loans outstanding under the Treasury Loan.

The Treasury Loan requires the Company, under certain circumstances, including within ten (10) business days prior to the last business day of March and September of each year beginning March 2021, to appraise the value of the Collateral and recalculate the collateral coverage ratio. If the calculated collateral coverage ratio is less than 1.6 to 1.0, Mesa Airlines will be required either to provide additional Collateral (which may include cash collateral) to secure its obligations under the Treasury Loan or repay the term loans under the Treasury Loan, in such amounts that the recalculated collateral coverage ratio, after giving effect to any such additional Collateral or repayment, is at least 1.6 to 1.0.

The Treasury Loan contains two financial covenants, a minimum collateral coverage ratio and a minimum liquidity level. The Treasury Loan also contains customary negative and affirmative covenants for credit facilities of this type, including, among others: (a) limitations on dividends and distributions; (b) limitations on the creation of certain liens;

(c) restrictions on certain dispositions, investments and acquisitions; (d) limitations on transactions with affiliates; (e) restrictions on fundamental changes to the business, and (f) restrictions on lobbying activities. Additionally, the Company is required to comply with the relevant provisions of the CARES Act, including limits on employment level reductions after September 30, 2020, restrictions on dividends and stock buybacks, limitations on executive compensation, and requirements to maintain certain levels of scheduled service.

In connection with the Loan and Guarantee Agreement and as partial compensation to Treasury for the provision of financial assistance under the Loan and Guarantee Agreement, the Company issued to Treasury warrants to purchase an aggregate of 4,899,497 shares of the Company's common stock at an exercise price of \$3.98 per share, which was the closing price of the Common Stock on The Nasdaq Stock Market on April 9, 2020. The exercise price and number of shares of common stock issuable under the Warrants are subject to adjustment as a result of anti-dilution provisions contained in the Warrants for certain stock issuances, dividends, and other corporate actions. The warrants expire on the fifth anniversary of the date of issuance and are exercisable either through net share settlement or net cash settlement, at the Company's option. For accounting purposes, the fair value for the Treasury Loan Warrant Shares is estimated using a Black-Scholes option pricing model and recorded in stockholders' equity with an offsetting debt discount to the Treasury Term Loan Facility in the condensed consolidated balance sheet.

The Company incurred \$3.1 million in debt issuance costs relating to the Treasury Loan. In accordance with the applicable guidance, Mesa allocated the debt issuance costs between the Treasury Loan and related warrants. At funding on October 30, 2020, the initial \$43.0 million was recorded net of \$0.7 million in capitalized debt issuance costs. At funding on November 13, 2020, the remaining \$152.0 million was recorded net of \$2.3 million in capitalized debt issuance costs. The remaining \$0.1 million in debt issuance costs was allocated to the warrants as a reduction to the warrant value within additional paid-in capital. Debt issuance costs allocated to the debt are amortized into interest expense using the effective interest method over the term of the related loan.

#### Debt Repayment

Prior to the November 13, 2020 funding of the \$152.0 million portion of the Treasury Loan, the Company repaid \$167.7 million in existing aircraft debt covering 44 aircraft, including indebtedness under its (a) Senior Loan Agreements, dated June 27, 2018, (b) Junior Loan Agreements, also dated June 27, 2018, (c) Credit Agreements, dated January 31, 2007, April 16, 2014, and May 23, 2014, (d) Senior Loan Agreements, dated December 27, 2017, and (e) Junior Loan Agreements, also dated December 27, 2017 (collectively, "the EDC Loans"). The Company made payments totaling \$164.2 million to repay the EDC Loans, consisting of principal of \$167.7 million, and a \$3.5 million discount on the balance owed. Additionally, in connection with the repayment, \$2.5 million of unamortized original issue discount and deferred financing costs were recorded as a loss on debt extinguishment, resulting in a net gain on extinguishment of \$1.0 million recorded within other income.

As of June 30, 2021, the Company is in compliance with all debt covenants.

## 9. Earnings Per Share and Equity

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2021	2020	2021	2020
Net income attributable to Mesa Air Group	\$ 4,276	\$ 3,419	\$ 24,083	\$ 16,089
Basic weighted average common shares outstanding	35,769	35,299	35,642	35,154
Add: Incremental shares for:				
Dilutive share adjustment - UST warrant	3,084	—	2,536	—
Dilutive share adjustment - restricted shares	660	—	633	94
Diluted weighted average common shares outstanding	39,513	35,299	38,811	35,248
Net income per common share attributable to Mesa Air Group:				
Basic	\$ 0.12	\$ 0.10	\$ 0.68	\$ 0.46
Diluted	\$ 0.11	\$ 0.10	\$ 0.62	\$ 0.46

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

The number of incremental shares from the assumed issuance of shares relating to restricted stock and exercise of warrants (excluding warrants with a nominal conversion price) is calculated by applying the treasury stock method. Share-based awards and warrants whose impact is anti-dilutive under the treasury stock method were excluded from the diluted net income per share calculation. In loss periods, these incremental shares are excluded from the calculation of diluted loss per share, as the inclusion of unvested restricted stock and warrants would have an anti-dilutive effect. There were no anti-dilutive shares relating to restricted stock and exercise of warrants that were excluded from the calculation of diluted income per share for the three and nine months ended June 30, 2021 and 2020.

## **10. Common Stock**

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

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

On October 30, 2020, the Company entered into the Loan and Guarantee Agreement with the U.S. Treasury and the Bank of New York Mellon, as Administrative and Collateral Agent, under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act").

In connection with the Loan and Guarantee Agreement and as partial compensation to the U.S. Treasury for the provision of financial assistance under the Loan and Guarantee Agreement, the Company issued warrants to the U.S. Treasury to purchase shares of the Company's common stock, no par value, at an exercise price of \$3.98 per share (the "Exercise Price"), which was the closing price of the common stock on The Nasdaq Stock Market on April 9, 2020. The warrants were issued pursuant to the terms of a Treasury Warrant Agreement entered into by the Company and the Treasury. The exercise price and number of warrant shares issuable under the warrants are subject to adjustment as a result of anti-dilution provisions contained in the warrants for certain stock issuances, dividends, and other corporate actions. The warrants expire on the fifth anniversary of the date of issuance and are exercisable either through net share settlement or net cash settlement, at the Company's option. The warrants are accounted for within equity at a grant date fair value determined under the Black Scholes Option Pricing Model. As of June 30, 2021, 4,899,497 warrants were issued and outstanding.

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

## **11. Income Taxes**

The Company's effective tax rate (ETR) from continuing operations was 26.3% and 25.5% for the three and nine months ended June 30, 2021, respectively, and 30.7% and 28.3% for the three and nine months ended June 30, 2020, respectively. The Company's ETR during the three and nine months ended June 30, 2021 was different from the prior year tax rates as a result of the vesting and exercise of stock compensation, state taxes, changes in the valuation allowance against state net operating losses, changes in state statutory rates, as well as differences between the book and tax deductions associated with meals, entertainment, employer provide parking, and compensation of officers.

The Company's ETR during the nine months ended June 30, 2021 was different than the U.S. federal statutory rate of 21% as a result of state taxes, the vesting and exercise of stock compensation, differences in the GAAP and tax deductibility of meals and parking benefits, and changes in the valuation allowance against state net operating losses.

As of September 30, 2020, the Company had aggregate federal and state net operating loss carryovers of approximately \$512.6 million and \$223.9 million, respectively, which expire in fiscal years 2027-2038 and 2021-2040, respectively. Approximately \$0.7 million of state net operating loss carryforwards are expected to expire in the current fiscal year.

## 12. Share-Based Compensation and Stock Repurchases

### Restricted Stock

The restricted share activity for the nine months ended June 30, 2021 is summarized as follows:

	Number of Shares	Weighted- Average Grant Date Fair Value
Restricted shares unvested at September 30, 2020	1,195,548	\$ 5.47
Granted	305,374	9.54
Vested	(445,937)	7.16
Forfeited	(35,500)	4.75
Restricted shares unvested at June 30, 2021	<u>1,019,485</u>	<u>\$ 5.98</u>

As of June 30, 2021, there was \$5.4 million of total unrecognized compensation cost related to unvested share-based compensation arrangements, which is expected to be recognized over a weighted-average period of 2.6 years.

Compensation cost for share-based awards are recognized on a straight-line basis over the vesting period. Share-based compensation expense for the three months ended June 30, 2021 and 2020 was \$0.7 million and \$1.0 million, respectively, and for the nine months ended June 30, 2021 and 2020 was \$2.4 million and \$3.5 million, respectively.

The Company repurchased 139,896 shares of its common stock for \$1.4 million to cover the income tax obligation on vested employee equity awards and warrant conversions during the nine months ended June 30, 2021.

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

## 13. Employee Stock Purchase Plan

### 2019 ESPP

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

A maximum of 500,000 Mesa Air Group, Inc. ordinary shares may be issued under the 2019 ESPP. As of June 30, 2021, eligible employees purchased and the Company issued 157,714 Mesa Air Group, Inc. ordinary shares.

## 14. Commitments and Contingencies

### Leases

As of June 30, 2021, the Company leased 17 aircraft, airport facilities, office space, and other property and equipment under non-cancelable operating leases. The leases require the Company to pay all taxes, maintenance, insurance, and other operating expenses. Rental expense is recognized on a straight-line basis over the lease term, net of lessor rebates and other incentives. The Company expects that, in the normal course of business, such operating leases that expire will be renewed or replaced by other leases, or the property may be purchased rather than leased.

It is common for us, as the lessee, to agree to indemnify the lessor and the lessor's related parties for tort, environmental and other liabilities that arise out of or relate to our use or occupancy of the leased airport facility and office space premises. This type of indemnity typically makes us responsible to indemnified parties for liabilities arising out of the conduct of, among others, contractors, licensees, and invitees at, or in connection with, the use or occupancy of the leased premises. This indemnity often extends to related liabilities arising from the negligence of the indemnified parties but usually excludes any liabilities caused by either their sole or gross negligence or their willful misconduct.

Our aircraft and other equipment lease and financing agreements typically contain provisions requiring us, as the lessee or obligor, to indemnify the other parties to those agreements, including certain of those parties' related persons, against virtually any liabilities that might arise from the use or operation of the aircraft or other equipment.

We believe that our insurance would cover most of our exposure to liabilities and related indemnities associated with the commercial real estate leases and aircraft and other equipment lease and financing agreements described above. While our insurance does not typically cover environmental liabilities, we have insurance policies in place as required by applicable environmental laws. We cannot reasonably estimate our potential future payments under the indemnities and related provisions described above because we cannot predict (1) when and under what circumstances these provisions may be triggered and (2) the amount that would be payable if the provisions were triggered because the amounts would be based on facts and circumstances existing at such time.

Aggregate rental expense under all operating aircraft, equipment and facility leases totaled approximately \$13.9 million and \$15.6 million for the three months ended June 30, 2021 and 2020, respectively, and \$41.6 million and \$51.0 million for the nine months ended June 30, 2021 and 2020, respectively.

As of June 30, 2021, the Company's operating leases have a remaining weighted average lease term of 2.9 years and our operating lease liabilities were measured using a weighted average discount rate of 4.2%.

#### *Engine Purchase Commitments*

On February 26, 2021, the Company and General Electric Company ("GE"), acting through its GE-Aviation business unit, entered into an Amended and Restated Letter Agreement No. 13-3. The Company agreed to purchase and take delivery of ten (10) new CF34-8C5 or CF34-8E5 engines with delivery dates starting from July 1, 2021 through November 1, 2022. During the quarter ended March 31, 2021, a \$7.0 million non-refundable purchase deposit was made for the first five engines to be delivered in calendar 2021. The Company has options to purchase an additional ten (10) similar engines beyond 2022. The total purchase commitment related to these ten (10) engines is approximately \$50.0 million.

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

#### *Other Commitments*

We have certain contracts for goods and services that require us to pay a penalty, acquire inventory specific to us or purchase contract-specific equipment, as defined by each respective contract, if we terminate the contract without cause prior to its expiration date. Because these obligations are contingent on our termination of the contract without cause prior to its expiration date, no obligation would exist unless such a termination occurs.

#### *Litigation*

The Company is subject to two putative class action lawsuits alleging federal securities law violations in connection with our IPO, one in the Superior Court of the State of Arizona and one in U.S. District Court of Arizona. These purported class actions were filed in March and April 2020 against the Company, certain current and former officers and directors, and certain underwriters of the Company's IPO. The state and federal lawsuits each make the same or similar allegations of violations of the Securities Act of 1933, as amended, for allegedly making materially false and misleading statements in, or omitting material information from, our IPO registration statement. The plaintiffs seek unspecified monetary damages and other relief. In addition, we are subject to certain legal actions which we consider routine to our business activities. As of June 30, 2021, our management believed, that the ultimate outcomes of the two putative class action lawsuits and such other routine legal matters are not likely to have a material adverse effect on our financial position, liquidity, or results of operations.

## 15. Subsequent Events

In connection with a negotiated forward purchase contract for fully electric aircraft (the "Aircraft Purchase Agreement") executed in July 2021, the Company entered into a Series A Preferred Stock Purchase Agreement (the "Series A Preferred Stock Purchase Agreement") and acquired \$5.0 million of preferred stock in Heart Aerospace Incorporated ("Heart"). Heart is a privately held company developing an electric aircraft for, among other things, commercial passenger transportation. The initial investment in preferred stock is expected to be measured at cost. The Aircraft Purchase Agreement provides for the purchase of 100 nineteen-seat electric aircraft ("ES-19" aircraft) with an option to purchase an additional 50 ES-19 aircraft, at the Company's election. The Company's obligation to purchase the ES-19 aircraft is subject to the Company and Heart first agreeing in the future to a number of terms and conditions, which may or may not be met. In connection with the Aircraft Purchase Agreement and Series A Preferred Stock Purchase Agreement, the Company also obtained a warrant to purchase common shares of Heart. The warrant vests and becomes exercisable in tranches upon completion of specified future milestones.

On August 9, 2021, the Company entered into Amendment No. 5 ("Amendment No. 5") to the Amended and Restated American Capacity Purchase Agreement as described in Note 1.

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

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

### Overview

Mesa Airlines is a regional air carrier providing scheduled passenger service to 116 cities in 36 states, the District of Columbia, and Mexico as well as cargo services out of Cincinnati/Northern Kentucky International Airport. All of our flights are operated as either American Eagle, United Express, or DHL Express flights pursuant to the terms of capacity purchase agreements ("CPAs") entered into with American Airlines, Inc. ("American") and United Airlines, Inc. ("United"), and pursuant to the terms of a Flight Services Agreement ("FSA") with DHL Network Operations (USA), Inc. ("DHL") (each, our "major partner"). We have a significant presence in several of our major partners' key domestic hubs and focus cities, including Dallas, Houston, Phoenix and Washington-Dulles.

As of June 30, 2021, we operated, under the CPAs, FSA or as operational spares, a fleet of 155 aircraft with approximately 470 daily departures. We also lease 12 aircraft to a third party. We operate 45 CRJ-900 aircraft under our American CPA and 60 E-175 and 20 E-175LL aircraft under our United CPA. We operate 2 Boeing 737-F400 aircraft under the FSA with DHL. For the three months ended June 30, 2021, approximately 63% of our aircraft in scheduled service were operated for United, approximately 35% were operated for American and 2% were operated for DHL. All our operating revenue in the nine months ended June 30, 2021 was derived from operations associated with our American and United CPAs and DHL FSA.

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

### Impact of the COVID-19 Pandemic

The rapid spread of COVID-19 and the related travel restrictions and social distancing measures implemented throughout the world significantly reduced demand for air travel beginning in the quarter ended March 31, 2020. This reduction in demand had an unprecedented and materially adverse impact on our revenues and financial position in the prior year that has continued into fiscal year 2021. However, as discussed further below, we experienced improvement in our financial results in the quarter ended June 30, 2021, which we expect to continue the remainder of fiscal 2021.

The funds the Company received under the Payroll Support Program and its Loan and Guarantee Agreement with the U.S. Treasury, coupled with the Company's diligent cost saving, have helped to partially offset the negative impacts of COVID-19 on the Company's business. Since a portion of our revenue is fixed due to the structure of our CPAs, the impact of COVID-19 on the Company's operations has been less severe. In addition, we have limited exposure to fluctuations in passenger traffic, ticket, and fuel prices.

### Components of Results of Operations

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

#### Operating Revenues

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

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

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

## **Operating Expenses**

Our operating expenses consist of the following items:

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

*Fuel.* Fuel expense includes fuel and related fueling costs for flying we undertake outside of our capacity purchase agreements and flight service agreement, including aircraft repositioning and maintenance. All aircraft fuel and related fueling costs for flying under our capacity purchase agreements were directly paid and supplied by our major partners. The fuel and related cost for flying under our FSA were directly paid and supplied by DHL. We do not record an expense or the related revenue for fuel supplied by American and United for flying under our capacity purchase agreements or DHL under our FSA.

*Maintenance.* Maintenance expense includes routine repair and maintenance and heavy maintenance costs for airframes, engines, auxiliary power units and landing gears. Heavy maintenance and major overhaul costs on our owned E-175 fleet are deferred and amortized until the earlier of the end of the useful life of the related asset or the next scheduled heavy maintenance event. All other maintenance costs are expensed as incurred, except for certain maintenance contracts where labor and materials price risks have been transferred to the service provider and require payment on a utilization basis, such as flight hours. Costs incurred for maintenance and repair for utilization maintenance contracts where labor and materials price risks have been transferred to the service provider are charged to maintenance expense based on contractual payment terms.

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

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

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

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

## **Other (Expense) Income, Net**

*Interest Expense.* Interest expense is interest on our debt incurred to finance purchases of aircraft, engines, and equipment, including amortization of debt financing costs.

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

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

## **Segment Reporting**

Operating segments are defined as components of an enterprise about which discrete financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing

operating performance. In consideration of ASC 280, "Segment Reporting," we are not organized around specific services or geographic regions. We currently operate in one service line providing scheduled flight services in accordance with our capacity purchase agreements and flight services agreement.

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

### **Cautionary Statement Regarding Non-GAAP Measures**

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

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

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

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

### **Results of Operations**

#### ***Three Months Ended June 30, 2021 Compared to Three Months Ended June 30, 2020***

We had operating income of \$14.4 million in our three months ended June 30, 2021 compared to operating income of \$15.2 million in our three months ended June 30, 2020. In our three months ended June 30, 2021, we had net income of \$4.3 million compared to net income of \$3.4 million in our three months ended June 30, 2020. Our operating results for the three months ended June 30, 2021 reflected an increase in contract and pass-through revenue due to the lessened impact of COVID-19 as compared to the quarter ended June 30, 2020.

Flight operations expense increased in the three months ended June 30, 2021 due to higher pilot and flight attendant wages and pilot training expenses. Our maintenance expense increased primarily due to a higher number of C-check events, higher utilization of component contracts, higher pass-through maintenance, and higher labor expense. Aircraft rent expense decreased primarily due to fewer leased engines. Lastly, we recognized the Federal Grant received through the Payroll Support Agreement under the CARES Act with the U.S. Department of the Treasury.

## Operating Revenues

	Three Months Ended June 30,		Change	
	2021	2020		
Operating revenues (\$ in thousands):				
Contract	\$ 109,654	\$ 71,648	\$ 38,006	53.0%
Pass-through and other revenue	15,503	1,451	14,052	968.4%
Total operating revenues	<u>\$ 125,157</u>	<u>\$ 73,099</u>	<u>\$ 52,058</u>	71.2%
Operating data:				
Available seat miles—ASMs (thousands)	2,056,905	783,702	1,273,203	162.5%
Block hours	85,162	31,622	53,540	169.3%
Revenue passenger miles—RPMs (thousands)	1,692,687	314,422	1,378,265	438.3%
Average stage length (miles)	651	567	84	14.8%
Contract revenue per available seat mile—CRASM (in cents)	¢ 5.33	¢ 9.14	¢ (3.81)	(41.7)%
Passengers	2,572,303	548,705	2,023,598	368.8%

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

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

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

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

"CRASM" means contract revenue divided by ASMs.

Total operating revenue increased by \$52.1 million, or 71.2%, to \$125.2 million for our three months ended June 30, 2021 as compared to our three months ended June 30, 2020. Contract revenue increased by \$38.0 million, or 53.0%, to \$109.7 million primarily due to increased flying on our CRJ-900 and E-175 fleets and increased demand for air travel as state and local governments in the United States continue to lift travel and gathering restrictions, partially offset by a temporary reduction in rates to our major partners and flying fewer aircraft under the American CPA. Our block hours flown during our three months ended June 30, 2021, increased 169.3% compared to the three months ended June 30, 2020 due to increased flying across all fleets. Our pass-through and other revenue increased during our three months ended June 30, 2021 by \$14.1 million, or 968.4%, to \$15.5 million primarily due to increased pass-through maintenance on all fleets.

## Operating Expenses

	Three Months Ended June 30,		Change	
	2021	2020		
Operating expenses (\$ in thousands):				
Flight operations	\$ 41,314	\$ 29,664	\$ 11,650	39.3%
Fuel	234	146	88	60.3%
Maintenance	51,986	22,591	29,395	130.1%
Aircraft rent	9,648	15,582	(5,934)	(38.1)%
Aircraft and traffic servicing	682	538	144	26.8%
General and administrative	12,087	11,737	350	3.0%
Depreciation and amortization	20,933	20,635	298	1.4%
Government grant recognition	(26,101)	(43,018)	16,917	(39.3)%
Total operating expenses	<u>\$ 110,783</u>	<u>\$ 57,875</u>	<u>\$ 52,908</u>	91.4%
Operating data:				
Available seat miles—ASMs (thousands)	2,056,905	783,702	1,273,203	162.5%
Block hours	85,162	31,622	53,540	169.3%
Average stage length (miles)	651	567	84	14.8%
Departures	42,390	18,092	24,298	134.3%

*Flight Operations.* Flight operations expense increased \$11.7 million, or 39.3%, to \$41.3 million for our three months ended June 30, 2021 compared to the same period in 2020. The increase was primarily driven by an increase in pilot and flight attendant wages due to higher block hours as well as pilot training related costs.

*Fuel.* Fuel expense increased \$0.1 million, or 60.3%, to \$0.2 million for our three months ended June 30, 2021 compared to the same period in 2020. The increase was primarily driven by fuel expense related to C-checks and ferry flights. All fuel costs related to flying under our capacity purchase agreements during our three months ended June 30, 2021 and 2020 were directly paid to suppliers by our major partners.

*Maintenance.* Aircraft maintenance costs increased \$29.4 million, or 130.1%, to \$52.0 million for our three months ended June 30, 2021 compared to the same period in 2020. This increase was primarily driven by increases in C-checks, component contracts, parts, pass-through maintenance, and labor and other expense and availability of parts for certain fleets. Total pass-through maintenance expenses reimbursed by our major partners increased by \$15.0 million during our three months ended June 30, 2021.

The following table presents information regarding our maintenance costs during the three months ended June 30, 2021 and 2020 (in thousands):

	Three Months Ended June 30,		Change	
	2021	2020		
Engine overhaul	\$ 1,307	\$ 2,816	\$ (1,509)	(53.6)%
Pass-through engine overhaul	2,740	402	2,338	581.6%
C-check	8,567	2,096	6,471	308.7%
Pass-through C-check	5,553	762	4,791	628.7%
Component contracts	7,349	3,162	4,187	132.4%
Rotable and expendable parts	5,921	3,381	2,540	75.1%
Other pass-through	4,260	(3,660)	7,920	216.4%
Labor and other	16,289	13,632	2,657	19.5%
Total	<u>\$ 51,986</u>	<u>\$ 22,591</u>	<u>\$ 29,395</u>	130.1%

*Aircraft Rent.* Aircraft rent expense decreased \$5.9 million, or 38.1%, to \$9.6 million for our three months ended June 30, 2021 compared to the same period in 2020. The decrease is attributable to a decrease in engine rent due to fewer leased engines as well as a decrease in rent expense from aircraft leases due to the Company's purchase of a previously leased aircraft in March 2021.

*Aircraft and Traffic Servicing.* Aircraft and traffic servicing expense increased \$0.1 million, or 26.8%, to \$0.7 million for our three months ended June 30, 2021 compared to the same period in 2020. The increase is primarily due to an increase in pass-through legal and regulatory charges.

*General and Administrative.* General and administrative expense increased \$0.4 million, or 3.0%, to \$12.1 million for our three months ended June 30, 2021 compared to the same period in 2020. The increase is primarily due to an increase in wages and labor as well as liability insurance, offset by a decrease in property taxes. For our three months ended June 30, 2021 and 2020, \$3.3 million and \$3.9 million, respectively, of our insurance and property tax expenses were reimbursed by our major partners.

*Depreciation and Amortization.* Depreciation and amortization expense increased \$0.3 million, or 1.4%, to \$20.9 million for our three months ended June 30, 2021 compared to the same period in 2020. The increase is primarily attributable to an increase in rotatable inventory and deferred heavy maintenance depreciation expense, partially offset by a decrease in intangible asset amortization expense.

*Government Grant Recognition.* Payroll support government plan funds decreased \$16.9 million, or 39.3%, to \$26.1 million for our three months ended June 30, 2021 compared to the same period in 2020. The decrease is primarily due to the timing of receipt and recognition of payroll support funds in the prior period.

#### **Other Expense**

Other expense decreased \$1.7 million, or 16.7%, to \$8.6 million for our three months ended June 30, 2021, compared to the same period in 2020. The decrease is primarily a result of a decrease in interest expense due to a decrease in outstanding aircraft principal balances and lower interest rates resulting from the Loan and Guarantee Agreement with the U.S. Department of the Treasury.

#### **Income Taxes**

The Company's effective tax rate (ETR) from continuing operations was 26.3% for the three months ended June 30, 2021 and 30.7% for the three months ended June 30, 2020. The Company's ETR during the three months ended June 30, 2021 was different from the U.S. federal statutory rate of 21% primarily due to permanent book and tax deductible expense differences, vesting of stock compensation where the tax deduction differed from the book expense, state taxes, changes in the valuation allowance against state net operating losses, and changes in state apportionment and state statutory rates. We continue to maintain a valuation allowance on a portion of our state net operating losses in jurisdictions with shortened carryforward periods or in jurisdictions where our operations have significantly decreased as compared to prior years in which the net operating losses were generated.

The Company's current year effective tax rate decreased compared to the prior year tax rate as a result of an increase to the forecast for the current fiscal year, as the Company's permanent differences between book and taxable income therefore have less of an impact on the Company's effective tax rate. In addition, the Company's rate varied from the prior year's as a result of the vesting of stock compensation where the tax deduction differed from the book expense, state taxes, changes in the valuation allowance against state net operating losses, and changes in state statutory rates.

As of September 30, 2020, the Company had aggregate federal and state net operating loss carryforwards of \$512.6 million and \$223.9 million, respectively, which expire in 2027-2038 and 2021-2040, respectively. Approximately \$0.7 million of state net operating loss carryforwards are expected to expire in the current year.

#### **Nine Months Ended June 30, 2021 Compared to Nine Months Ended June 30, 2020**

We had operating income of \$58.1 million in our nine months ended June 30, 2021 compared to operating income of \$56.3 million in our nine months ended June 30, 2020. In our nine months ended June 30, 2021, we had net income of \$24.1 million compared to net income of \$16.0 million in our nine months ended June 30, 2020. Our operating results for the nine months ended June 30, 2021 reflected a decrease in contract revenue primarily due to lower flying due to the impact of COVID-19, and an increase in pass-through and other revenues primarily due to an increase in pass-through maintenance.

Flight operations expense decreased in the nine months ended June 30, 2021 due to lower pilot and flight attendant wages and pilot training expenses. Our maintenance expense increased primarily due to a higher number of C-checks and higher component contracts, and higher pass-through maintenance, offset by lower maintenance expense related to engine overhauls, labor, and parts. Aircraft rent expense decreased primarily due fewer leased engines. In addition, general and

administrative expense decreased as a result of lower pass-through property taxes. Lastly, we recognized the Federal Grant received through the Payroll Support Agreement under the CARES Act with the U.S. Department of the Treasury.

## Operating Revenues

	Nine Months Ended June 30,		Change	
	2021	2020		
Operating revenues (\$ in thousands):				
Contract	\$ 318,524	\$ 409,228	\$ (90,704)	(22.2)%
Pass-through and other revenue	54,284	27,802	26,482	95.3%
Total operating revenues	<u>\$ 372,808</u>	<u>\$ 437,030</u>	<u>\$ (64,222)</u>	(14.7)%
Operating data:				
Available seat miles—ASMs (thousands)	5,499,346	6,131,028	(631,682)	(10.3)%
Block hours	228,351	255,488	(27,137)	(10.6)%
Revenue passenger miles—RPMs (thousands)	4,012,596	4,251,169	(238,573)	(5.6)%
Average stage length (miles)	659	591	68	11.5%
Contract revenue per available seat mile—CRASM (in cents)	¢ 5.79	¢ 6.67	¢ (0.88)	(13.2)%
Passengers	6,086,060	7,084,255	(998,195)	(14.1)%

Total operating revenue decreased by \$64.2 million, or 14.7%, to \$372.8 million for our nine months ended June 30, 2021 as compared to our nine months ended June 30, 2020. Contract revenue decreased by \$90.7 million, or 22.2%, to \$318.5 million primarily due to a decrease in flying as a result of the impact of the COVID-19 pandemic including travel restrictions beginning in our second fiscal quarter of 2020, a temporary reduction in rates to our major partners and flying fewer aircraft under the American CPA. Our block hours flown during our nine months ended June 30, 2021 decreased 10.6% compared to the nine months ended June 30, 2020 primarily due to decreased flying on our CRJ-900, CRJ-700, and E-175 fleets. Our pass-through and other revenue increased during our nine months ended June 30, 2021 by \$26.5 million, or 95.3%, to \$54.3 million primarily due to pass-through maintenance revenue related to our E-175 fleet.

## Operating Expenses

	Nine Months Ended June 30,		Change	
	2021	2020		
Operating expenses (\$ in thousands):				
Flight operations	\$ 115,681	\$ 135,199	\$ (19,518)	(14.4)%
Fuel	822	504	318	63.1%
Maintenance	156,623	145,021	11,602	8.0%
Aircraft rent	29,688	39,196	(9,508)	(24.3)%
Aircraft and traffic servicing	2,326	2,938	(612)	(20.8)%
General and administrative	36,324	39,233	(2,909)	(7.4)%
Depreciation and amortization	62,108	61,656	452	0.7%
Lease termination	4,508	—	4,508	100.0%
Government grant recognition	(93,379)	(43,018)	(50,361)	117.1%
Total operating expenses	<u>\$ 314,701</u>	<u>\$ 380,729</u>	<u>\$ (66,028)</u>	(17.3)%
Operating data:				
Available seat miles—ASMs (thousands)	5,499,346	6,131,028	(631,682)	(10.3)%
Block hours	228,351	255,488	(27,137)	(10.6)%
Average stage length (miles)	659	591	68	11.5%
Departures	113,004	136,252	(23,248)	(17.1)%

*Flight Operations.* Flight operations expense decreased \$19.5 million, or 14.4%, to \$115.7 million for our nine months ended June 30, 2021 compared to the same period in 2020. The decrease was primarily driven by a decrease in pilot and flight attendant wages due to lower block hours as well as lower pilot training related costs.

*Fuel.* Fuel expense increased \$0.3 million, or 63.1%, to \$0.8 million for our nine months ended June 30, 2021 compared to the same period in 2020. The increase was primarily driven by fuel expense related to the delivery of the new

E-175 aircraft. All fuel costs related to flying under our capacity purchase agreements and flight services agreement during our nine months ended June 30, 2021 and 2020 were directly paid to suppliers by our major partners.

*Maintenance.* Aircraft maintenance costs increased \$11.6 million, or 8.0%, to \$156.6 million for our nine months ended June 30, 2021 compared to the same period in 2020. This increase was primarily driven by an increase in C-check expense and pass through maintenance. This increase was partially offset by a decrease in engine overhaul, labor, and parts. Total pass-through maintenance expenses reimbursed by our major partners increased by \$29.9 million during our nine months ended June 30, 2021.

The following table presents information regarding our maintenance costs during our nine months ended June 30, 2021 and 2020 (in thousands):

	Nine Months Ended June 30,		Change	
	2021	2020		
Engine overhaul	\$ 10,769	\$ 25,361	\$ (14,592)	(57.5)%
Pass-through engine overhaul	14,546	2,956	11,590	392.1%
C-check	20,031	14,787	5,244	35.5%
Pass-through C-check	18,294	5,856	12,438	212.4%
Component contracts	19,506	22,243	(2,737)	(12.3)%
Rotable and expendable parts	16,303	18,247	(1,944)	(10.7)%
Other pass-through	11,030	5,188	5,842	112.6%
Labor and other	46,144	50,383	(4,239)	(8.4)%
Total	<u>\$ 156,623</u>	<u>\$ 145,021</u>	<u>\$ 11,602</u>	<u>8.0%</u>

*Aircraft Rent.* Aircraft rent expense decreased \$9.5 million, or 24.3%, to \$29.7 million for our nine months ended June 30, 2021 compared to the same period in 2020. The decrease is attributable to a decrease in engine rent due to fewer leased engines.

*Aircraft and Traffic Servicing.* Aircraft and traffic servicing expense decreased \$0.6 million, or 20.8%, to \$2.3 million for our nine months ended June 30, 2021 compared to the same period in 2020. The decrease is primarily due to a decrease in interrupted trip expense and pass-through regulatory charges, partially offset by an increase in pass-through legal fees related to our GoJet leases.

*General and Administrative.* General and administrative expense decreased \$2.9 million, or 7.4%, to \$36.3 million for our nine months ended June 30, 2021 compared to the same period in 2020. The decrease is primarily due to a decrease in pass-through property taxes. For our nine months ended June 30, 2021 and 2020, \$10.7 million and \$13.2 million, respectively, of our insurance and property tax expenses were reimbursed by our major partners.

*Depreciation and Amortization.* Depreciation and amortization expense increased \$0.5 million, or 0.7%, to \$62.1 million for our nine months ended June 30, 2021 compared to the same period in 2020. The increase is primarily attributable to an increase in rotables and spare engines depreciation expense, partially offset by a decrease in amortization of intangibles expense.

*Lease Termination.* Lease termination expense increased \$4.5 million, or 100.0%, to \$4.5 million for our nine months ended June 30, 2021 compared to the same period in 2020. This increase is attributable to the termination expense resulting from the purchase of a CRJ-900 aircraft, which was previously leased from Bombardier Capital.

*Government Grant Recognition.* Payroll support government plan funds increased \$50.4 million, or 117.1%, to \$93.4 million for our nine months ended June 30, 2021 compared to the same period in 2020. Under the Consolidated Appropriations Act, the government provided the Company with a grant of \$56.0 million in payroll support for the period of December 2020 through March 2021, and an additional \$52.2 million in payroll support under the American Recovery Plan Act for the period of April 2021 through September 2021, of which, \$26.1 million has been recognized as of June 30, 2021. We also recognized \$11.3 million of the grant amount received for the period of April through October 2020 during the quarter ended December 31, 2020.

## Other Expense

Other expense decreased \$8.1 million, or 23.8%, to \$25.8 million for our nine months ended June 30, 2021, compared to the same period in 2020. The decrease is primarily a result of a decrease in interest expense due to lower interest rates on our loan agreement with the U.S. Department of the Treasury and a decrease in outstanding aircraft principal balances.

## Income Taxes

The income tax expense totaled \$8.2 million for the nine months ended June 30, 2021 as compared to a tax expense of \$6.4 million for the nine months ended June 30, 2020. The effective tax rate was 25.5% versus 28.3% in the prior year.

The effective tax rate for the nine months ended June 30, 2021 was impacted by vesting of stock compensation where the tax deduction differed from the book expense, state taxes, changes in the valuation allowance against state net operating losses, and changes in state statutory rates.

We file income tax returns in the US and in various state jurisdictions with varying statutes of limitations. We are generally no longer subject to income tax examination by tax authorities for years prior to 2017 and 2016 for federal and state purposes, respectively, except for the examination of our net operating losses. The balance of unrecognized tax benefits is not anticipated to fluctuate significantly from fiscal 2020 to fiscal 2021. It is our policy to recognize interest expense and penalties related to uncertain income tax matters as a component of income tax expense.

## Adjusted EBITDA and Adjusted EBITDAR

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2021	2020	2021	2020
Reconciliation:				
Net income	\$ 4,276	\$ 3,419	\$ 24,083	\$ 16,089
Income tax expense	1,525	1,517	8,236	6,359
Income before taxes	\$ 5,801	\$ 4,936	\$ 32,319	\$ 22,448
Adjustments <sup>(1)(2)</sup>	—	—	3,558	—
Adjusted income before taxes	5,801	4,936	35,877	22,448
Interest expense	8,627	10,368	26,464	34,668
Interest income	(82)	(1)	(287)	(95)
Depreciation and amortization	20,933	20,635	62,108	61,656
Adjusted EBITDA	\$ 35,279	\$ 35,938	\$ 124,162	\$ 118,677
Aircraft rent	9,648	15,582	29,688	39,196
Adjusted EBITDAR	\$ 44,927	\$ 51,520	\$ 153,850	\$ 157,873

(1) Includes adjustment for gain on extinguishment of debt of \$1.0 million related to repayment of the Company's aircraft debts during our nine months ended June 30, 2021.

(2) Includes lease termination expense of \$4.5 million for the nine months ended June 30, 2021 related to the purchase of CRJ-900 aircraft, which were previously leased from Bombardier Capital.

## Liquidity and Capital Resources

As a result of the COVID-19 pandemic, we undertook certain actions in 2020 and the early part of 2021 to increase liquidity and strengthen our financial position. These actions included working with our major partners and original equipment manufacturers ("OEM") to delay the timing of our future aircraft and spare engine deliveries, delaying non-essential heavy maintenance, and reducing or suspending other discretionary spending.

In February 2021, the Company was granted \$48.7 million in financial assistance by the U.S. Department of the Treasury under the Payroll Support Program Extension ("PSP2") under the Consolidated Appropriations Act of 2021. In March 2021, we were notified that, based on funding availability, recipients that were currently in compliance with executed PSP agreements would receive an additional award amount. As a result, the Company was granted an additional \$7.3 million through the PSP2 for a total grant of \$56.0 million. The additional \$7.3 million was received in April 2021.

On April 15, 2021, the Company was notified by the U.S. Department of the Treasury we were eligible to receive funds under the third Payroll Support Program (“PSP3”), which was created under the American Recovery Plan Act of 2021 (“ARPA”), enacted on March 11, 2021. The amount of financial assistance received by the Company was approximately \$52.2 million. The Company received the first installment of \$26.1 million in April 2021 and the second installment of \$26.1 million in May 2021.

On October 30, 2020, the Company entered into a Loan and Guarantee Agreement with the U.S. Department of the Treasury for a secured loan facility of up to \$200.0 million that matures in October 2025 (the “Treasury Loan”). On October 30, 2020, the Company borrowed \$43.0 million and on November 13, 2020, the Company borrowed an additional \$152.0 million. No further borrowings are available under the Treasury Loan.

Prior to the November 13, 2020 funding of the \$152.0 million portion of the Treasury Loan, the Company repaid \$167.7 million in existing aircraft debt covering 44 aircraft, including indebtedness under its (a) Senior Loan Agreements, dated June 27, 2018, (b) Junior Loan Agreements, also dated June 27, 2018, (c) Credit Agreements, dated January 31, 2007, April 16, 2014, and May 23, 2014, (d) Senior Loan Agreements, dated December 27, 2017, and (e) Junior Loan Agreements, also dated December 27, 2017 (collectively, “the EDC Loans”). The Company made payments totaling \$164.2 million to repay the EDC Loans, consisting of principal of \$167.7 million, and a \$3.5 million discount on the balance owed.

#### *Sources and Uses of Cash*

We require cash to fund our operating expenses and working capital requirements, including outlays for capital expenditures, aircraft pre-delivery payments, maintenance, aircraft rent and to pay debt service obligations, including principal and interest payments. Our cash needs vary from period to period primarily based on the timing and costs of significant maintenance events. Our principal sources of liquidity are the cash grant we received under the payroll support programs (PSP, PSP2, PSP3) and the funds received under our Treasury Loan, cash on hand, cash generated from operations and funds from external borrowings.

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

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

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

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

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

During the ordinary course of business, we evaluate our cash requirements and, if necessary, adjust operating and capital expenditures to reflect the current market conditions and our projected demand. Our capital expenditures are primarily directed toward our aircraft fleet and flight equipment. Our capital expenditures, net of purchases of rotatable spare parts and aircraft and spare engine financing for the nine months ending June 30, 2021 is approximately 1.9% of annual revenue. We expect to incur capital expenditures to support our business activities. Future capital expenditures may be impacted by events and transactions that are not currently forecasted.

As of June 30, 2021, our principal sources of liquidity were cash and cash equivalents of \$180.4 million. In addition, we had restricted cash of \$3.4 million as of June 30, 2021. As of June 30, 2021, we also had \$707.0 million in secured indebtedness incurred primarily in connection with our financing of aircraft. As of June 30, 2021, we had \$105.4 million of short-term debt, excluding capital leases, and \$603.1 million of long-term debt excluding capital leases.

### **Restricted Cash**

As of June 30, 2021, we had \$3.4 million in restricted cash. We have an agreement with a financial institution for letter of credit facility and to issue letters of credit for particular airport authorities, worker's compensation insurance, property and casualty insurance and other business needs as required in certain lease agreements. Pursuant to the term of this agreement, \$3.4 million of outstanding letters of credit are required to be collateralized by amounts on deposit.

### **Cash Flows**

The following table presents information regarding our cash flows for each of the nine months ended June 30, 2021 and 2020 (in thousands):

	Nine Months Ended June 30,	
	2021	2020
Net cash provided by operating activities	\$ 131,212	\$ 103,601
Net cash used in investing activities	(17,039)	(25,114)
Net cash used in financing activities	(33,264)	(82,610)
<b>Net increase (decrease) in cash, cash equivalents and restricted cash</b>	<b>80,909</b>	<b>(4,123)</b>
Cash, cash equivalents and restricted cash at beginning of period	102,841	72,501
Cash, cash equivalents and restricted cash at end of period	<u>\$ 183,750</u>	<u>\$ 68,378</u>

### **Net Cash Flow Provided by Operating Activities**

During our nine months ended June 30, 2021, we had cash flow provided by operating activities of \$131.2 million. We had net income of \$24.1 million adjusted for the following significant non-cash items: depreciation and amortization of \$62.1 million, stock-based compensation of \$2.4 million, deferred income taxes of \$8.0 million, amortization of deferred credits of \$(2.5) million, amortization of debt discount and issuance costs of \$8.2 million, gain on extinguishment of debt of \$(1.0) million, and loss on contract termination of \$4.5 million. We had a net change of \$25.1 million within other net operating assets and liabilities largely driven by an increase in deferred revenue and accrued liabilities and a decrease in accounts receivable during our nine months ended June 30, 2021.

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

### **Net Cash Flows Used in Investing Activities**

During our nine months ended June 30, 2021, net cash flow used in investing activities totaled \$17.0 million. We invested \$4.9 million in inventory, \$1.6 million in aircraft purchases, and \$4.2 million in tools, vehicles, equipment and miscellaneous projects and \$6.3 million in net returns and payments on equipment and other deposits.

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

### **Net Cash Flows Used in Financing Activities**

During our nine months ended June 30, 2021, net cash flow used in financing activities was \$33.3 million. We received \$195.0 million of proceeds from our Treasury Loan. We made \$225.8 million of principal repayments on long-term debt during the period. We incurred \$1.3 million of costs related to debt financing and \$1.4 million of costs related to the repurchase of shares of our common stock. We received \$0.2 million in proceeds from the issuance of common stock under our ESPP.

During our nine months ended June 30, 2020, net cash flow used in financing activities was \$82.6 million. We drew \$23.0 million from our \$35.0 million working capital draw loan for operational needs. We made \$103.7 million of principal repayments on long-term debt during the period. We incurred \$1.4 million of costs related to debt financing and \$0.5 million of costs related to the repurchase of shares of our common stock.

### **Off-Balance Sheet Arrangements**

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

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

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

### **Critical Accounting Policies and Estimates**

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

The accompanying discussion and analysis of our financial condition and results of operations is based upon our unaudited condensed consolidated interim financial statements included elsewhere in this Form 10-Q. We believe certain of our accounting policies are critical to understanding our financial position and results of operations. There have been no changes to the critical accounting policies as explained in Part 1, Item 7 of the 2020 Form 10-K under the heading "Critical Accounting Policies."

### **Recently Issued Accounting Pronouncements**

A description of recently issued accounting pronouncements that may potentially impact our financial position and results of operations is disclosed in Note 3: "Recent Accounting Pronouncements" to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

*Interest Rate Risk.* We are subject to market risk associated with changing interest rates on our variable rate long-term debt; the variable interest rates are based on LIBOR. The interest rates applicable to variable rate notes may rise and

increase the amount of interest expense on our variable rate long-term debt. We do not purchase or hold any derivative instruments to protect against the effects of changes in interest rates.

As of June 30, 2021, we had \$521.1 million of variable-rate debt, including current maturities. A hypothetical 50 basis point change in market interest rates would have affected interest expense by approximately \$2.6 million in the nine months ended June 30, 2021.

As of June 30, 2021, we had \$191.2 million of fixed-rate debt, including current maturities. A hypothetical 50 basis point change in market interest rates would not impact interest expense or have a material effect on the fair value of our fixed-rate debt instruments as of June 30, 2021.

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

We may in the future pursue amendments to our LIBOR-based debt transactions to provide for a transaction mechanism or other reference rate in anticipation of LIBOR's discontinuation, but we may not be able to reach agreement with our lenders on any such amendments. As of June 30, 2021, we had \$521.1 million of borrowings based on LIBOR. The replacement of LIBOR with a comparable or successor rate could cause the amount of interest payable on our long-term debt to be different or higher than expected.

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

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

#### **Item 4. Controls and Procedures**

##### **Evaluation of Disclosure Controls and Procedures**

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

### **Inherent Limitations on Effectiveness of Controls**

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

## **PART II – OTHER INFORMATION**

### ***Item 1. Legal Proceedings***

We are subject to two putative class action lawsuits alleging federal securities law violations in connection with our IPO— one in the Superior Court of the State of Arizona and one in U.S. District Court of Arizona. These purported class actions were filed in March and April 2020 against the Company, certain current and former officers and directors, and certain underwriters of the Company's IPO. The state and federal lawsuits each make the same or similar allegations of violations of the Securities Act of 1933, as amended, for allegedly making materially false and misleading statements in, or omitting material information from, our IPO registration statement. The plaintiffs seek unspecified monetary damages and other relief.

In addition, we are subject to certain legal actions which we consider routine to our business activities. As of June 30, 2021, our management believed, after consultation with legal counsel, that the ultimate outcome of the two putative class action lawsuits and such other routine legal matters are not likely to have a material adverse effect on our financial position, liquidity or results of operations.

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

We refer you to documents filed by us with the SEC, specifically "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2020, which identify important risk factors that could materially affect our business, financial condition and future results. We also refer you to the factors and cautionary language set forth in the section entitled "Cautionary Statements Regarding Forward-looking Statements" of this Quarterly Report on Form 10-Q. This Quarterly Report on Form 10-Q, including the accompanying condensed consolidated financial statements and related notes, should be read in conjunction with such risks and other factors for a full understanding of our operations and financial condition. The risks described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2020 and herein are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, or operating results.

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

The Company repurchased 139,896 shares of its common stock for \$1.4 million to cover the income tax obligation on vested employee equity awards and warrant conversions during the nine months ended June 30, 2021.

### ***Item 3. Defaults Upon Senior Securities***

None.

### ***Item 4. Mine Safety Disclosures***

Not applicable.

### ***Item 5. Other Information***

None.

### ***Item 6. Exhibits***

## EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.1	<a href="#"><u>Payroll Support Program 3 Agreement by and between The Department of the Treasury and Mesa Airlines, Inc., dated as of April 21, 2021</u></a>
10.2.1**	<a href="#"><u>Amendment No. 2 to the Amended and Restated Capacity Purchase Agreement among the Registrant, Mesa Airlines, Inc. and American Airlines, Inc. dated April 9, 2021</u></a>
10.2.2**	<a href="#"><u>Amendment No. 3 to the Amended and Restated Capacity Purchase Agreement among the Registrant, Mesa Airlines, Inc. and American Airlines, Inc. dated April 19, 2021</u></a>
10.2.3**	<a href="#"><u>Amendment No. 4 to the Amended and Restated Capacity Purchase Agreement among the Registrant, Mesa Airlines, Inc. and American Airlines, Inc. dated June 9, 2021</u></a>
31.1	<a href="#"><u>Certification of Principal Executive Officer pursuant to Rule 13(a)-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002</u></a>
31.2	<a href="#"><u>Certification of Principal Financial Officer pursuant to Rule 13(a)-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002</u></a>
32.1*	<a href="#"><u>Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>
32.2*	<a href="#"><u>Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

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

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

**SIGNATURES**

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

MESA AIR GROUP, INC.

Date: August 9, 2021

By: /s/ Michael J. Lotz  
Michael J. Lotz  
President and Chief Financial Officer  
(Principal Financial Officer)

**PAYROLL SUPPORT PROGRAM 3 AGREEMENT**

<b>Recipient:</b> Mesa Airlines, Inc. 410 N. 44th Street Suite 1100 Phoenix, AZ 85008	<b>PSP Participant Number:</b> PSP3A-2104160315 <b>Employer Identification Number:</b> 85-0444800 <b>DUNS Number:</b> 126107619
<b>Additional Recipients:</b> N/A	
<b>Amount of Initial Payroll Support Payment:</b> \$26100359.48	
The Department of the Treasury (Treasury) hereby provides Payroll Support (as defined herein) under section 7301 of the American Rescue Plan Act of 2021. The Signatory Entity named above, on behalf of itself and its Affiliates (as defined herein), agrees to comply with this Agreement and applicable Federal law as a condition of receiving Payroll Support. The Signatory Entity and its undersigned authorized representatives acknowledge that a materially false, fictitious, or fraudulent statement (or concealment or omission of a material fact) in connection with this Agreement may result in administrative remedies as well as civil and/or criminal penalties.	
<b>The undersigned hereby agree to the attached Payroll Support Program 3 Agreement.</b>	
_____ /s/ David A. Lebryk Department of the Treasury Name: David A. Lebryk Title: Fiscal Assistant Secretary Date: 04/21/2021	_____ /s/ Michael Lotz Mesa Airlines, Inc. First Authorized Representative Name: Michael Lotz Title: President and CFO Date: 4/16/2021
	_____ /s/ Brian Gillman Mesa Airlines, Inc. Second Authorized Representative Name: Brian S. Gillman Title: EVP and General Counsel Date: 4/16/2021

OMB Approval No. 1505-0263

**PAPERWORK REDUCTION ACT NOTICE**

The information collected will be used for the U.S. Government to process requests for support. The estimated burden associated with this collection of information is 2 hours per response. Comments concerning the accuracy of this burden estimate and suggestions for reducing this burden should be directed to the Office of Privacy, Transparency and Records, Department of the Treasury, 1500 Pennsylvania Ave., N.W., Washington, D.C. 20220. DO NOT send the form to this address. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid control number assigned by OMB.

## **PAYROLL SUPPORT PROGRAM 3 AGREEMENT**

### **INTRODUCTION**

Section 7301 of the American Rescue Plan Act of 2021 (ARP) directs the Department of the Treasury (Treasury) to provide Payroll Support (as defined herein) to passenger air carriers and certain contractors that must be exclusively used for the continuation of payment of Employee Salaries, Wages, and Benefits (as defined herein). The ARP requires certain assurances from the Recipient (as defined herein).

This Payroll Support Program 3 Agreement, including all supporting documents submitted by the Recipient and the Payroll Support Program 3 Certification attached hereto (collectively, Agreement), memorializes the binding terms and conditions applicable to the Recipient.

### **DEFINITIONS**

As used in this Agreement, the following terms shall have the following respective meanings, unless the context clearly requires otherwise. In addition, this Agreement shall be construed in a manner consistent with any public guidance Treasury may from time to time issue regarding the implementation of section 7301 of the ARP.

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

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

*ARP* means the American Rescue Plan Act of 2021.

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

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

parents of the Recipient may be deemed Corporate Officers of the Recipient if they perform such policy-making functions for the Recipient.

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

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

*Maximum Awardable Amount* means the amount determined by the Secretary with respect to the Recipient pursuant to section 7301(b)(2) of the ARP.

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

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

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

*PSP1* means the Payroll Support Program established under Division A, Title IV, Subtitle B of the Coronavirus Aid, Relief, and Economic Security Act (Pub. L. No. 116-136).

*PSP2* means the Payroll Support Program Extension established under Subtitle A of Title IV of Division N of the Consolidated Appropriations Act, 2021.

*Recipient* means, collectively, the Signatory Entity; its Affiliates that are listed on the signature page hereto as Additional Recipients; and their respective heirs, executors, administrators, successors, and assigns.

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

*Secretary* means the Secretary of the Treasury.

*Severance Pay or Other Benefits* means any severance payment or other similar benefits, including cash payments, health care benefits, perquisites, the enhancement or acceleration of the payment or vesting of any payment or benefit or any other in-kind benefit payable (whether in lump sum or over time, including after October 1, 2022) by the Recipient to a Corporate Officer or Employee in connection with any termination of such Corporate Officer's or Employee's employment (including, without limitation, resignation, severance, retirement, or constructive termination), which shall be determined and calculated in respect of any Employee or Corporate Officer of the Recipient in the manner prescribed in 17 CFR 229.402(j) (without regard to its limitation to the five most highly compensated executives and using the actual date of termination of employment rather than the last business day of the Recipient's last completed fiscal year as the trigger event).

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

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

*Total Compensation* means compensation including salary, wages, bonuses, awards of stock, and any other financial benefits provided by the Recipient or an Affiliate, as applicable, which shall be determined and calculated for the 2019 calendar year or any applicable 12-month period in respect of any Employee or Corporate Officer of the Recipient in the manner prescribed under paragraph e.6 of the award term in 2 CFR part 170, App. A, but excluding any Severance Pay or Other Benefits in connection with a termination of employment.

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

#### **PAYROLL SUPPORT PAYMENTS**

1. Upon the execution of this Agreement by Treasury and the Recipient, the Secretary shall approve the Recipient to receive Payroll Support.
2. The Recipient may receive Payroll Support in multiple payments up to the Maximum Awardable Amount, and the amounts (individually and in the aggregate) and timing of such payments will be determined by the Secretary in her sole discretion. The Secretary may, in her sole discretion, increase or reduce the Maximum Awardable Amount consistent with section 7301 of the ARP.
3. The Secretary may determine in her sole discretion that any Payroll Support shall be conditioned on, and subject to, compliance by the Recipient with all applicable requirements under (a) PSP2 and (b) PSP1 if the Recipient received financial assistance in PSP1, and such additional terms and conditions (including the receipt of, and any terms regarding, Taxpayer Protection Instruments) to which the parties may agree in writing.

## TERMS AND CONDITIONS

### Retaining and Paying Employees

4. The Recipient shall use the Payroll Support exclusively for the continuation of payment of Wages, Salaries, and Benefits to the Employees of the Recipient.
  - a. *Furloughs and Layoffs.* The Recipient shall not conduct an Involuntary Termination or Furlough of any Employee between the date of this Agreement and September 30, 2021 or the date on which the Recipient has expended all of the Payroll Support, whichever is later.
  - b. *Employee Salary, Wages, and Benefits*
    - i. *Salary and Wages.* Except in the case of a Permitted Termination or Furlough, the Recipient shall not, between the date of this Agreement and September 30, 2021 or the date on which the Recipient has expended all of the Payroll Support, whichever is later, reduce, without the Employee's consent, (A) the pay rate of any Employee earning a Salary, or (B) the pay rate of any Employee earning Wages.
    - ii. *Benefits.* Except in the case of a Permitted Termination or Furlough, the Recipient shall not, between the date of this Agreement and September 30, 2021 or the date on which the Recipient has expended all of the Payroll Support, whichever is later, reduce, without the Employee's consent, the Benefits of any Employee; provided, however, that for purposes of this paragraph, personnel expenses associated with the performance of work duties, including those described in line 10 of Financial Reporting Schedule P-6, Form 41, as published by the Department of Transportation, may be reduced to the extent the associated work duties are not performed.

### Dividends and Buybacks

5. Through September 30, 2022, neither the Recipient nor any Affiliate shall, in any transaction, purchase an equity security of the Recipient or of any direct or indirect parent company of the Recipient that, in either case, is listed on a national securities exchange.
6. Through September 30, 2022, the Recipient shall not pay dividends, or make any other capital distributions, with respect to the common stock (or equivalent equity interest) of the Recipient.

### Limitations on Certain Compensation

7. Beginning April 1, 2021, and ending April 1, 2023, the Recipient and its Affiliates shall not pay any of the Recipient's Corporate Officers or Employees whose Total Compensation exceeded \$425,000 in calendar year 2019 (other than an Employee whose compensation is determined through an existing collective bargaining agreement entered into before March 11, 2021):

- a. Total Compensation which exceeds, during any 12 consecutive months of such two-year period, the Total Compensation the Corporate Officer or Employee received in calendar year 2019; or
  - b. Severance Pay or Other Benefits in connection with a termination of employment with the Recipient which exceed twice the maximum Total Compensation received by such Corporate Officer or Employee in calendar year 2019.
8. Beginning April 1, 2021, and ending April 1, 2023, the Recipient and its Affiliates shall not pay, during any 12 consecutive months of such two-year period, any of the Recipient's Corporate Officers or Employees whose Total Compensation exceeded \$3,000,000 in calendar year 2019 Total Compensation in excess of the sum of:
- a. \$3,000,000; and
  - b. 50 percent of the excess over \$3,000,000 of the Total Compensation received by such Corporate Officer or Employee in calendar year 2019.
9. For purposes of determining applicable amounts under paragraphs 7 and 8 with respect to any Corporate Officer or Employee who was employed by the Recipient or an Affiliate for less than all of calendar year 2019, the amount of Total Compensation in calendar year 2019 shall mean such Corporate Officer's or Employee's Total Compensation on an annualized basis.

#### Service and Eligibility

- 10.1. If the Recipient is an air carrier, until March 1, 2022, the Recipient shall comply with any applicable requirement issued by the Secretary of Transportation under section 407 of the PSP Extension Law to maintain scheduled air transportation service to any point served by the Recipient before March 1, 2020.
- 10.2. The Recipient represents, warrants, and certifies that as of March 31, 2021, the Recipient:
- a. provided air transportation as an air carrier, as defined under 49 U.S.C. § 40102; or
  - b. (i) performed, under contract with a passenger air carrier conducting operations under 14 CFR part 121, (A) catering functions; or (B) functions on the property of an airport that were directly related to the air transportation of persons, property, or mail, including the loading and unloading of property on aircraft, assistance to passengers under 14 CFR part 382, security, airport ticketing and check-in functions, groundhandling of aircraft, or aircraft cleaning and sanitization functions and waste removal; or (ii) was a subcontractor that performed such functions.
- 10.3. The Recipient represents, warrants, and certifies that between March 31, 2021, and the effective date of this Agreement, it has not:
- a. conducted an Involuntary Termination or Furlough;

- b. reduced, without the Employee's consent, (i) the pay rate of any Employee earning a Salary, or (ii) the pay rate of any Employee earning Wages; or
- c. except in the case of a Permitted Termination or Furlough, reduced, without the Employee's consent, the Benefits of any Employee (provided, however, that for purposes of this subparagraph, personnel expenses associated with the performance of work duties, including those described in line 10 of Financial Reporting Schedule P- 6, Form 41, as published by the Department of Transportation, may be reduced to the extent the associated work duties are not performed).

#### Effective Date

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

#### Reporting and Auditing

12. Until the calendar quarter that begins after the later of January 1, 2023, and the date on which no Taxpayer Protection Instrument is outstanding, not later than 45 days after the end of each of the first three calendar quarters of each calendar year and 90 days after the end of each calendar year, the Signatory Entity, on behalf of itself and each other Recipient, shall certify to Treasury that it is in compliance with the terms and conditions of this Agreement and provide a report containing the following:
- a. the amount of Payroll Support funds expended during such quarter;
  - b. the Recipient's financial statements (audited by an independent certified public accountant, in the case of annual financial statements);
  - c. a copy of the Recipient's IRS Form 941 filed with respect to such quarter; and
  - d. a detailed summary describing, with respect to the Recipient, (a) any changes in Employee headcount during such quarter and the reasons therefor, including any Involuntary Termination or Furlough, (b) any changes in the amounts spent by the Recipient on Employee Wages, Salary, and Benefits during such quarter, and (c) any changes in Total Compensation for, and any Severance Pay or Other Benefits in connection with the termination of, Corporate Officers and Employees subject to limitation under this Agreement during such quarter; and the reasons for any such changes.
13. If the Recipient or any Affiliate, or any Corporate Officer of the Recipient or any Affiliate, becomes aware of facts, events, or circumstances that may materially affect the Recipient's compliance with the terms and conditions of this Agreement, the Recipient or Affiliate shall promptly provide Treasury with a written description of the events or circumstances and any action taken, or contemplated, to address the issue.
14. In the event the Recipient contemplates any action to commence a bankruptcy or insolvency proceeding in any jurisdiction, the Recipient shall promptly notify Treasury.

15. The Recipient shall:

- a. Promptly provide to Treasury and the Treasury Inspector General a copy of any Department of Transportation Inspector General report, audit report, or report of any other oversight body, that is received by the Recipient relating to this Agreement.
- b. Immediately notify Treasury and the Treasury Inspector General of any indication of fraud, waste, abuse, or potentially criminal activity pertaining to the Payroll Support.
- c. Promptly provide Treasury with any information Treasury may request relating to compliance by the Recipient and its Affiliates with this Agreement.

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

#### Recordkeeping and Internal Controls

17. If the Recipient is a debtor as defined under 11 U.S.C. § 101(13), the Payroll Support funds, any claim or account receivable arising under this Agreement, and any segregated account holding funds received under this Agreement shall not constitute or become property of the estate under 11 U.S.C. § 541.

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

- a. Permit the preparation of accurate, current, and complete quarterly reports as required under this Agreement.
- b. Permit the tracing of funds to a level of expenditures adequate to establish that such funds have been used as required under this Agreement.

19. The Recipient shall establish and maintain effective internal controls over the Payroll Support; comply with all requirements related to the Payroll Support established under applicable Federal statutes and regulations; monitor compliance with Federal statutes, regulations, and the terms and conditions of this Agreement; and take prompt corrective

actions in accordance with audit recommendations. The Recipient shall promptly remedy any identified instances of noncompliance with this Agreement.

20. The Recipient and Affiliates shall retain all records pertinent to the receipt of Payroll Support and compliance with the terms and conditions of this Agreement (including by suspending any automatic deletion functions for electronic records, including e-mails) for a period of three years following the period of performance. Such records shall include all information necessary to substantiate factual representations made in the supporting documents submitted by the Recipient related to the Payroll Support, including ledgers and sub-ledgers, and the Recipient's and Affiliates' compliance with this Agreement. While electronic storage of records (backed up as appropriate) is preferable, the Recipient and Affiliates may store records in hardcopy (paper) format. The term "records" includes all relevant financial and accounting records and all supporting documentation for the information reported on the Recipient's quarterly reports.
21. If any litigation, claim, investigation, or audit relating to the Payroll Support is started before the expiration of the three-year period, the Recipient and Affiliates shall retain all records described in paragraph 20 until all such litigation, claims, investigations, or audit findings have been completely resolved and final judgment entered or final action taken.

#### Remedies

22. If Treasury believes that an instance of noncompliance by the Recipient or an Affiliate with (a) this Agreement, (b) section 7301 of the ARP, or (c) the Internal Revenue Code of 1986 as it applies to the receipt of Payroll Support has occurred, Treasury may notify the Recipient in writing of its proposed determination of noncompliance, provide an explanation of the nature of the noncompliance, and specify a proposed remedy. Upon receipt of such notice, the Recipient shall, within seven days, accept Treasury's proposed remedy, propose an alternative remedy, or provide information and documentation contesting Treasury's proposed determination. Treasury shall consider any such submission by the Recipient and make a final written determination, which will state Treasury's findings regarding noncompliance and the remedy to be imposed.
23. If Treasury makes a final determination under paragraph 22 that an instance of noncompliance has occurred, Treasury may, in its sole discretion, withhold any Additional Payroll Support Payments; require the repayment of the amount of any previously disbursed Payroll Support, with appropriate interest; require additional reporting or monitoring; initiate suspension or debarment proceedings as authorized under 2 CFR Part 180; terminate this Agreement; or take any such other action as Treasury, in its sole discretion, deems appropriate.
24. Treasury may make a final determination regarding noncompliance without regard to paragraph 22 if Treasury determines, in its sole discretion, that such determination is necessary to protect a material interest of the Federal Government. In such event, Treasury shall notify the Recipient of the remedy that Treasury, in its sole discretion, shall impose, after which the Recipient may contest Treasury's final determination or propose an

alternative remedy in writing to Treasury. Following the receipt of such a submission by the Recipient, Treasury may, in its sole discretion, maintain or alter its final determination.

25. Any final determination of noncompliance and any final determination to take any remedial action described herein shall not be subject to further review. To the extent permitted by law, the Recipient waives any right to judicial review of any such determinations and further agrees not to assert in any court any claim arising from or relating to any such determination or remedial action.
26. Instead of, or in addition to, the remedies listed above, Treasury may refer any noncompliance or any allegations of fraud, waste, or abuse to the Treasury Inspector General.
27. Treasury, in its sole discretion, may grant any request by the Recipient for termination of this Agreement, which such request shall be in writing and shall include the reasons for such termination, the proposed effective date of the termination, and the amount of any unused Payroll Support funds the Recipient requests to return to Treasury. Treasury may, in its sole discretion, determine the extent to which the requirements under this Agreement may cease to apply following any such termination.
28. If Treasury determines that any remaining portion of the Payroll Support will not accomplish the purpose of this Agreement, Treasury may terminate this Agreement in its entirety to the extent permitted by law.

#### Debts

29. Any Payroll Support in excess of the amount which Treasury determines, at any time, the Recipient is authorized to receive or retain under the terms of this Agreement constitutes a debt to the Federal Government.
30. Any debts determined to be owed by the Recipient to the Federal Government shall be paid promptly by the Recipient. A debt is delinquent if it has not been paid by the date specified in Treasury's initial written demand for payment, unless other satisfactory arrangements have been made. Interest, penalties, and administrative charges shall be charged on delinquent debts in accordance with 31 U.S.C. § 3717, 31 CFR 901.9, and paragraphs 31 and 32. Treasury will refer any debt that is more than 180 days delinquent to Treasury's Bureau of the Fiscal Service for debt collection services.
31. Penalties on any debts shall accrue at a rate of not more than 6 percent per year or such other higher rate as authorized by law.
32. Administrative charges relating to the costs of processing and handling a delinquent debt shall be determined by Treasury.
33. The Recipient shall not use funds from other federally sponsored programs to pay a debt to the government arising under this Agreement.

### Protections for Whistleblowers

34. In addition to other applicable whistleblower protections, in accordance with 41 U.S.C. § 4712, the Recipient shall not discharge, demote, or otherwise discriminate against an Employee as a reprisal for disclosing information to a Person listed below that the Employee reasonably believes is evidence of gross mismanagement of a Federal contract or grant, a gross waste of Federal funds, an abuse of authority relating to a Federal contract or grant, a substantial and specific danger to public health or safety, or a violation of law, rule, or regulation related to a Federal contract (including the competition for or negotiation of a contract) or grant:
- a. A Member of Congress or a representative of a committee of Congress;
  - b. An Inspector General;
  - c. The Government Accountability Office;
  - d. A Treasury employee responsible for contract or grant oversight or management;
  - e. An authorized official of the Department of Justice or other law enforcement agency;
  - f. A court or grand jury; or
  - g. A management official or other Employee of the Recipient who has the responsibility to investigate, discover, or address misconduct

### Lobbying

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

### Non-Discrimination

36. The Recipient shall comply with, and hereby assures that it will comply with, all applicable Federal statutes and regulations relating to nondiscrimination including:
- a. Title VI of the Civil Rights Act of 1964 (42 U.S.C. § 2000d *et seq.*), including Treasury's implementing regulations at 31 CFR Part 22;
  - b. Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. § 794);
  - c. The Age Discrimination Act of 1975, as amended (42 U.S.C. §§ 6101–6107), including Treasury's implementing regulations at 31 CFR Part 23 and the general age discrimination regulations at 45 CFR Part 90; and
  - d. The Air Carrier Access Act of 1986 (49 U.S.C. § 41705).

## Additional Reporting

37. Within seven days after the date of this Agreement, the Recipient shall register in SAM.gov, and thereafter maintain the currency of the information in SAM.gov until at least January 1, 2023. The Recipient shall review and update such information at least annually after the initial registration, and more frequently if required by changes in the Recipient's information. The Recipient agrees that this Agreement and information related thereto, including the Maximum Awardable Amount and any executive total compensation reported pursuant to paragraph 38, may be made available to the public through a U.S. Government website, including SAM.gov.
38. For purposes of paragraph 37, the Recipient shall report total compensation as defined in paragraph e.6 of the award term in 2 CFR part 170, App. A for each of the Recipient's five most highly compensated executives for the preceding completed fiscal year, if:
- a. the total Payroll Support is \$25,000 or more;
  - b. in the preceding fiscal year, the Recipient received:
    - i. 80 percent or more of its annual gross revenues from Federal procurement contracts (and subcontracts) and Federal financial assistance, as defined at 2 CFR 170.320 (and subawards); and
    - ii. \$25,000,000 or more in annual gross revenues from Federal procurement contracts (and subcontracts) and Federal financial assistance, as defined at 2 CFR 170.320 (and subawards); and
  - c. the public does not have access to information about the compensation of the executives through periodic reports filed under section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a), 78o(d)) or section 6104 of the Internal Revenue Code of 1986. To determine if the public has access to the compensation information, the Recipient shall refer to U.S. Securities and Exchange Commission total compensation filings at <http://www.sec.gov/answers/execomp.htm>.
39. The Recipient shall report executive total compensation described in paragraph 38:
- a. as part of its registration profile at <https://www.sam.gov>; and
  - b. within five business days after the end of each month following the month in which this Agreement becomes effective, and annually thereafter.
40. The Recipient agrees that, from time to time, it will, at its own expense, promptly upon reasonable request by Treasury, execute and deliver, or cause to be executed and delivered, or use its commercially reasonable efforts to procure, all instruments, documents and information, all in form and substance reasonably satisfactory to Treasury, to enable Treasury to ensure compliance with, or effect the purposes of, this Agreement, which may include,

among other documents or information, (a) certain audited financial statements of the Recipient, (b) documentation regarding the Recipient's revenues derived from its business as a passenger air carrier or regarding the passenger air carriers for which the Recipient provides services as a contractor (as the case may be), and (c) the Recipient's most recent quarterly Federal tax returns. The Recipient agrees to provide Treasury with such documents or information promptly.

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

Other

42. [Reserved]
43. Notwithstanding any other provision of this Agreement, the Recipient has no right to, and shall not, transfer, pledge, mortgage, encumber, or otherwise assign this Agreement or any Payroll Support provided under this Agreement, or any interest therein, or any claim, account receivable, or funds arising thereunder or accounts holding Payroll Support, to any party, bank, trust company, or other Person without the express written approval of Treasury.
44. The Signatory Entity will cause its Affiliates to comply with all of their obligations under or relating to this Agreement.
45. Unless otherwise provided in guidance issued by Treasury or the Internal Revenue Service, the form of any Taxpayer Protection Instrument held by Treasury and any subsequent holder will be treated as such form for purposes of the Internal Revenue Code of 1986 (for example, a Taxpayer Protection Instrument in the form of a note will be treated as indebtedness for purposes of the Internal Revenue Code of 1986).
46. This Agreement may not be amended or modified except pursuant to an agreement in writing entered into by the Recipient and Treasury, except that Treasury may unilaterally amend this Agreement if required in order to comply with applicable Federal law or regulation.
47. Subject to applicable law, Treasury may, in its sole discretion, waive any term or condition under this Agreement imposing a requirement on the Recipient or any Affiliate.
48. This Agreement shall bind and inure to the benefit of the parties and their respective heirs, executors, administrators, successors, and assigns.
49. The Recipient represents and warrants to Treasury that this Agreement, and the issuance and delivery to Treasury of the Taxpayer Protection Instruments, if applicable, have been duly authorized by all requisite corporate and, if required, stockholder action, and will not result in the violation by the Recipient of any provision of law, statute, or regulation, or of the articles of incorporation or other constitutive documents or bylaws of the Recipient, or breach or constitute an event of default under any material contract to which the Recipient is a party.

50. The Recipient represents and warrants to Treasury that this Agreement has been duly executed and delivered by the Recipient and constitutes a legal, valid, and binding obligation of the Recipient enforceable against the Recipient in accordance with its terms.
51. This Agreement may be executed in counterparts, each of which shall constitute an original, but all of which together shall constitute a single contract.
52. The words "execution," "signed," "signature," and words of like import in any assignment shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act. Notwithstanding anything herein to the contrary, delivery of an executed counterpart of a signature page of this Agreement by electronic means, or confirmation of the execution of this Agreement on behalf of a party by an email from an authorized signatory of such party, shall be effective as delivery of a manually executed counterpart of this Agreement.
53. The captions and paragraph headings appearing herein are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Agreement.
54. This Agreement is governed by and shall be construed in accordance with Federal law. Insofar as there may be no applicable Federal law, this Agreement shall be construed in accordance with the laws of the State of New York, without regard to any rule of conflicts of law (other than section 5-1401 of the New York General Obligations Law) that would result in the application of the substantive law of any jurisdiction other than the State of New York.
55. Nothing in this Agreement shall require any unlawful action or inaction by either party.
56. The requirement pertaining to trafficking in persons at 2 CFR 175.15(b) is incorporated herein and made applicable to the Recipient.
57. This Agreement, together with the attachments hereto, including the Payroll Support Program 3 Certification and any attached terms regarding Taxpayer Protection Instruments, constitute the entire agreement of the parties relating to the subject matter hereof and supersede any previous agreements and understandings, oral or written, relating to the subject matter hereof. There may exist other agreements between the parties as to other matters, which are not affected by this Agreement and are not included within this integration clause.
58. No failure by either party to insist upon the strict performance of any provision of this Agreement or to exercise any right or remedy hereunder, and no acceptance of full or partial Payroll Support (if applicable) or other performance by either party during the continuance of any such breach, shall constitute a waiver of any such breach of such provision.

**ATTACHMENT**

Payroll Support Program 3 Certification of Corporate Officer of Recipient

**PAYROLL SUPPORT PROGRAM 3 CERTIFICATION OF  
CORPORATE OFFICER OF RECIPIENT**

In connection with the Payroll Support Program 3 Agreement (Agreement) between Mesa Airlines, Inc. and the Department of the Treasury (Treasury) relating to Payroll Support being provided by Treasury to the Recipient under section 7301 of the American Rescue Plan Act of 2021, I hereby certify under penalty of perjury to the Treasury that all of the following are true and correct.

Capitalized terms used but not defined herein have the meanings set forth in the Agreement.

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

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

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

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

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

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

**I acknowledge that a materially false, fictitious, or fraudulent statement (or concealment or omission of a material fact) in this certification may be the subject of criminal prosecution**

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**and also may subject me and the Recipient to civil penalties and/or administrative remedies for false claims or otherwise.**

/s/ Michael Lotz  
\_\_\_\_\_  
First Authorized Representative

Name: Michael Lotz

Title: President and CFO

Date: 4/16/2021

/s/ Brian Gillman  
\_\_\_\_\_  
Second Authorized Representative

Name: Brian S. Gillman

Title: EVP and General Counsel

Date: 4/16/2021

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

April 9, 2021

**Via E-mail and FedEx**

Mesa Air Group, Inc.  
 410 N. 44th Street, Suite 700  
 Phoenix, AZ 85008  
 Attn: President and Chief Executive Officer

**Re: Amendment No. 2 to Amended and Restated Capacity Purchase Agreement**

Ladies and Gentlemen:

Reference is made to that certain Amended and Restated Capacity Purchase Agreement, dated as of November 19, 2020, but effective as of January 1, 2021, between **AMERICAN AIRLINES, INC.** ("*American*") and **MESA AIRLINES, INC.**, a Nevada corporation (together with its successors and permitted assigns, "*Contractor*") (as amended, supplemented or otherwise modified from time to time in accordance with the terms thereof, the "*Capacity Purchase Agreement*"). Capitalized terms used but not defined herein have the meanings ascribed to them in the Capacity Purchase Agreement.

The Parties desire to amend the Capacity Purchase Agreement to add certain CRJ-900 Covered Aircraft (the "*Incremental Covered Aircraft*") to be used to provide Regional Airline Services in connection with Scheduled Flights on the terms and conditions as set forth in this Amendment No. 2 (this "*Amendment No. 2*"). Therefore, for and in consideration of the mutual covenants and agreements herein contained, and contained in the Capacity Purchase Agreement, American, on the one hand, and Contractor, on the other hand, agree as follows.

1. Amendments and Supplements.

Notwithstanding anything to the contrary in *Section 1(a)* of Amendment No. 1 to the Capacity Purchase Agreement, dated December 22, 2020 ("*Amendment No. 1*"), beginning [\*\*\*], the Incremental Covered Aircraft shall be added to the Capacity Purchase Agreement in accordance with the following schedule (unless otherwise Withdrawn prior thereto pursuant to the provisions of the Capacity Purchase Agreement, including *Section 12.02* thereof, or *Section 1(c)* of Amendment No. 1):

Time Period	Total Number of Incremental Covered Aircraft	Total Number of Covered Aircraft
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]

*\* The Parties understand and agree that, unless otherwise determined by mutual agreement by both Parties, the Incremental Covered Aircraft Termination Date (as defined in Amendment No. 1) shall be [\*\*\*].*

Other than as specifically set forth in this Amendment No. 2, each Incremental Covered Aircraft shall be deemed a Covered Aircraft for all purposes and shall be subject to the same terms and

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

conditions, including those related to audit rights, compensation, costs and expenses, as other Covered Aircraft under the Capacity Purchase Agreement.

(a) The Parties understand and agree that Sections 1(b) - (g) of Amendment No. 1 shall apply with full force and effect to the Incremental Covered Aircraft under this Amendment No. 2.

2. Miscellaneous.

(a) This Amendment No. 2 shall become effective as of the date first set forth above upon satisfaction of all of the following conditions precedent:

(i) Receipt by each Party of a copy of this Amendment No. 2, duly executed and delivered by American and Contractor.

(ii) Contractor shall have obtained all consents and approvals required in connection with the execution, delivery and performance by Contractor of this Amendment No. 2.

(b) The Parties hereby acknowledge and represent to each other that after giving effect to the terms hereof, each representation and warranty of Contractor contained in the Capacity Purchase Agreement or in any other Related Agreement is true and correct in all material respects on the date first set forth above.

(c) Any and all of the terms and provisions of the Capacity Purchase Agreement shall remain in full force and effect and are hereby in all respects ratified and confirmed by the Parties. Each Party hereby agrees that the terms and conditions set forth herein shall in no manner affect or impair the liabilities, duties and obligations of such Party under the Capacity Purchase Agreement.

(d) If any of the terms or provisions of this Amendment No. 2 conflict with any terms or provisions of the Capacity Purchase Agreement, then the terms and provisions of this Amendment No. 2 shall govern and control. To the extent a matter is not addressed in this Amendment No. 2, the terms of the Capacity Purchase Agreement shall apply in all respects and the same shall be given full force and effect.

(e) THIS AMENDMENT NO. 2, THE CAPACITY PURCHASE AGREEMENT, AND THE OTHER DOCUMENTS EXECUTED IN CONNECTION THEREWITH REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF AND THEREOF AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

(f) This Amendment No. 2 may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Amendment No. 2 shall extend to and bind the successors and assigns of the respective Parties hereto. Each Party shall take all reasonable commercial actions in order to effectuate the intent of this Amendment No. 2.

***[Remainder of Page Intentionally Left Blank; Signature Page(s)  
Follow(s).]***

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

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If you are in agreement with the foregoing, please sign where indicated below and return a signed copy of this Amendment No. 2 to us.

Very truly yours,  
**AMERICAN AIRLINES, INC.**

By: /s/ Devon May  
Name: Devon May  
Title: Senior Vice President, Finance & American Eagle

Acknowledged and Agreed:  
**MESA AIRLINES, INC.**

By: /s/ Bradford Rich  
Name: Bradford Rich  
Title: EVP & COO

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

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

April 19, 2021

*Via E-mail and FedEx*

Mesa Air Group, Inc.  
410 N. 44th Street, Suite 700  
Phoenix, AZ 85008  
Attn: President and Chief Executive Officer

**Re: Amendment No. 3 to Amended and Restated Capacity Purchase Agreement**

Ladies and Gentlemen:

Reference is made to that certain Amended and Restated Capacity Purchase Agreement, dated as of November 19, 2020, but effective as of January 1, 2021, between **AMERICAN AIRLINES, INC.** ("**American**") and **MESA AIRLINES, INC.**, a Nevada corporation (together with its successors and permitted assigns, "**Contractor**") (as amended, supplemented or otherwise modified from time to time in accordance with the terms thereof, the "**Capacity Purchase Agreement**"). Capitalized terms used but not defined herein have the meanings ascribed to them in the Capacity Purchase Agreement.

The Parties desire to amend the Capacity Purchase Agreement on the terms and conditions as set forth in this Amendment No. 3 (this "**Amendment No. 3**"). Therefore, for and in consideration of the mutual covenants and agreements herein contained, and contained in the Capacity Purchase Agreement, American, on the one hand, and Contractor, on the other hand, agree as follows.

1. Utilization-Based Credits.

(a) *Definitions.* For purposes of this Amendment No. 3:

- i. "**Credit Period**" [\*\*\*]
- ii. "**Estimated Base Compensation**" means, [\*\*\*]
- iii. "**PSP3 Grant**" means [\*\*\*]
- iii. "**Utilization Rate**" means, [\*\*\*]

(b) *Monthly Credits.* [\*\*\*]

(c) *Aircraft Credits.* [\*\*\*]

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

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(d) *Block Hour Credits.* [\*\*\*]

(e) *Procedure.*

(i) [\*\*\*]

(ii) [\*\*\*]

(f) *Additional Installment of PSP2 Grant.* [\*\*\*]

(g) *PSP3 Grant.* [\*\*\*]

Miscellaneous.

(a) This Amendment No. 3 shall become effective as of the date first set forth above upon satisfaction of all of the following conditions precedent:

(i) Receipt by each Party of a copy of this Amendment No. 3, duly executed and delivered by American and Contractor.

(ii) Contractor shall have obtained all consents and approvals required in connection with the execution, delivery and performance by Contractor of this Amendment No. 3.

(b) The Parties hereby acknowledge and represent to each other that after giving effect to the terms hereof, each representation and warranty of Contractor contained in the Capacity Purchase Agreement or in any other Related Agreement is true and correct in all material respects on the date first set forth above.

(c) Any and all of the terms and provisions of the Capacity Purchase Agreement shall remain in full force and effect and are hereby in all respects ratified and confirmed by the Parties. Each Party hereby agrees that the terms and conditions set forth herein shall in no manner affect or impair the liabilities, duties and obligations of such Party under the Capacity Purchase Agreement.

(d) If any of the terms or provisions of this Amendment No. 3 conflict with any terms or provisions of the Capacity Purchase Agreement, then the terms and provisions of this Amendment No. 3 shall govern and control. To the extent a matter is not addressed in this Amendment No. 3, the terms of the Capacity Purchase Agreement shall apply in all respects and the same shall be given full force and effect.

(e) THIS AMENDMENT NO. 3, THE CAPACITY PURCHASE AGREEMENT, AND THE OTHER DOCUMENTS EXECUTED IN CONNECTION THEREWITH REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES WITH RESPECT TO THE SUBJECT

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

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MATTER HEREOF AND THEREOF AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

(f) This Amendment No. 3 may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Amendment No. 3 shall extend to and bind the successors and assigns of the respective Parties hereto. Each Party shall take all reasonable commercial actions in order to effectuate the intent of this Amendment No. 3.

***[Remainder of Page Intentionally Left Blank;  
Signature Page(s) Follow(s).]***

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

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If you are in agreement with the foregoing, please sign where indicated below and return a signed copy of this Amendment No. 3 to us.

Very truly yours,  
**AMERICAN AIRLINES, INC.**

By: /s/ Devon May

Name: Devon May

Title: Senior Vice President, Finance & American Eagle

Acknowledged and Agreed:  
**MESA AIRLINES, INC.**

By: /s/ Bradford Rich

Name: Bradford Rich

Title: EVP & COO

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

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

*Execution Version*

June 9, 2021

*Via E-mail and FedEx*

Mesa Air Group, Inc.  
410 N. 44th Street, Suite 700  
Phoenix, AZ 85008  
Attn: President and Chief Executive Officer

**Re: Amendment No. 4 to Amended and Restated Capacity Purchase Agreement**

Ladies and Gentlemen:

Reference is made to that certain Amended and Restated Capacity Purchase Agreement, dated as of November 19, 2020, but effective as of January 1, 2021, between **AMERICAN AIRLINES, INC.** (“*American*”) and **MESA AIRLINES, INC.**, a Nevada corporation (together with its successors and permitted assigns, “*Contractor*”) (as amended, supplemented or otherwise modified from time to time in accordance with the terms thereof, the “*Capacity Purchase Agreement*”). Capitalized terms used but not defined herein have the meanings ascribed to them in the Capacity Purchase Agreement.

The Parties desire to amend the Capacity Purchase Agreement on the terms and conditions as set forth in this Amendment No. 4 (this “*Amendment No. 4*”). Therefore, for and in consideration of the mutual covenants and agreements herein contained, and contained in the Capacity Purchase Agreement, American, on the one hand, and Contractor, on the other hand, agree as follows.

1. Utilization-Based Credits.

- (a) *Definitions.* For purposes of this Amendment No. 4:
  - i. “*Credit Period*” [\*\*\*]
  - ii. “*Estimated Base Compensation*” means, [\*\*\*]
  - iii. “*Utilization Rate*” means, [\*\*\*]
- (b) *Monthly Credits.* [\*\*\*]
- (d) *Block Hour Credits.* [\*\*\*]
- (e) *Procedure.*
  - (i) [\*\*\*]
  - (ii) [\*\*\*]
- (f) *Additional Installment of PSP3 Grant.* [\*\*\*]

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

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2. Miscellaneous.

- (a) This Amendment No. 4 shall become effective as of the date first set forth above upon satisfaction of all of the following conditions precedent:
- (i) Receipt by each Party of a copy of this Amendment No. 4, duly executed and delivered by American and Contractor.
  - (ii) Contractor shall have obtained all consents and approvals required in connection with the execution, delivery and performance by Contractor of this Amendment No. 4.
- (b) The Parties hereby acknowledge and represent to each other that after giving effect to the terms hereof, each representation and warranty of Contractor contained in the Capacity Purchase Agreement or in any other Related Agreement is true and correct in all material respects on the date first set forth above.
- (c) Any and all of the terms and provisions of the Capacity Purchase Agreement shall remain in full force and effect and are hereby in all respects ratified and confirmed by the Parties. Each Party hereby agrees that the terms and conditions set forth herein shall in no manner affect or impair the liabilities, duties and obligations of such Party under the Capacity Purchase Agreement.
- (d) If any of the terms or provisions of this Amendment No. 4 conflict with any terms or provisions of the Capacity Purchase Agreement, then the terms and provisions of this Amendment No. 4 shall govern and control. To the extent a matter is not addressed in this Amendment No. 4, the terms of the Capacity Purchase Agreement shall apply in all respects and the same shall be given full force and effect.
- (e) THIS AMENDMENT NO. 4, THE CAPACITY PURCHASE AGREEMENT, AND THE OTHER DOCUMENTS EXECUTED IN CONNECTION THEREWITH REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF AND THEREOF AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.
- (f) This Amendment No. 4 may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Amendment No. 4 shall extend to and bind the successors and assigns of the respective Parties hereto. Each Party shall take all reasonable commercial actions in order to effectuate the intent of this Amendment No. 4.

***[Remainder of Page Intentionally Left Blank;  
Signature Page(s) Follow(s).]***

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

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If you are in agreement with the foregoing, please sign where indicated below and return a signed copy of this Amendment No. 4 to us.

Very truly yours,  
**AMERICAN AIRLINES, INC.**

By:       /s/ Devon May      

Name: Devon May

Title: Senior Vice President, Finance & American Eagle

Acknowledged and Agreed:  
**MESA AIRLINES, INC.**

By:       /s/ Bradford Rich      

Name: Bradford Rich

Title: EVP & COO

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

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

I, Jonathan G. Ornstein, certify that:

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

Date: August 9, 2021

/s/ JONATHAN G. ORNSTEIN

Jonathan G. Ornstein  
Chief Executive Officer

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

I, Michael J. Lotz, certify that:

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

Date: August 9, 2021

/s/ MICHAEL J. LOTZ

Michael J. Lotz  
Chief Financial Officer

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

I, Jonathan G. Ornstein, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Quarterly Report on Form 10-Q of Mesa Air Group, Inc. for the fiscal quarter ended June 30, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Mesa Air Group, Inc.

Dated: August 9, 2021

/s/ JONATHAN G. ORNSTEIN

Jonathan G. Ornstein  
Chairman and Chief Executive Officer

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

I, Michael J. Lotz, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Quarterly Report on Form 10-Q of Mesa Air Group, Inc. for the fiscal quarter ended June 30, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Mesa Air Group, Inc.

Dated: August 9, 2021

/s/ MICHAEL J. LOTZ

Michael J. Lotz

President and Chief Financial Officer