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

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2008
Commission file number 000-15495

Mesa Air Group, Inc.

(Exact name of registrant as specified in its charter)

Nevada	**85-0302351**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

410 North 44th Street, Suite 100
Phoenix, Arizona 85008
(Address of principal executive offices including zip code)

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

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

Title of each class	**Name of each exchange on which registered**
Common Stock, No Par Value	The NASDAQ Stock Market LLC

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☒

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐	Accelerated filer ☒	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

The aggregate market value of common stock held by non-affiliates of the Registrant (26,842,081 shares) as of March 31, 2008 was approximately $63.1 million based on the closing sales price per share as reported on Nasdaq on such date.

On January 9, 2009, the Registrant had outstanding 29,618,159 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Certain sections of the Company's Proxy Statement to be filed in connection with the Company's 2008 Annual Meeting of Shareholders to be held in the first calendar quarter of 2009 are incorporated by herein at Part III, Items 10-14.

MESA AIR GROUP, INC.

2008 FORM 10-K REPORT
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PART I

Forward-Looking Statements

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

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

Item 1. *Business*

General

Mesa Air Group, Inc. ("Mesa" or the "Company") is a holding company whose principal subsidiaries operate as regional air carriers providing scheduled passenger and airfreight service. As of September 30, 2008, the Company served 124 cities in 38 states, the District of Columbia, Canada, and Mexico and operated a fleet of 159 aircraft with approximately 800 daily departures.

Approximately 96% of our consolidated passenger revenues from continuing operations for the fiscal year ended September 30, 2008 were derived from operations associated with code-share agreements. Our subsidiaries have code-share agreements with Delta Air Lines, Inc. ("Delta"), United Airlines, Inc. ("United Airlines" or "United") and America West Airlines, Inc. ("America West") which currently operates as US Airways and is referred to herein as "US Airways." The current US Airways is the result of a merger between America West and US Airways, Inc. These code-share agreements allow use of the code-share partners' flight designator code to identify flights and fares in computer reservation systems, permit use of logos, service marks, aircraft paint schemes and uniforms similar to the code-share partner and provide coordinated schedules and joint advertising. Our remaining passenger revenues from continuing operations are derived from our independent ***go!*** operations in Hawaii.

In addition to carrying passengers, we carry freight and express packages on our passenger flights and have interline small cargo freight agreements with many other carriers. We also have contracts with the U.S. Postal Service for carriage of mail to the cities we serve and occasionally operate charter flights when our aircraft are not otherwise used for scheduled service.

Our airline operations are conducted by the following airline subsidiaries:

- Mesa Airlines, Inc. ("Mesa Airlines"), a Nevada corporation, flies regional jet and turboprop aircraft and operates as US Airways Express under code-share agreements with US Airways, as United Express under a code-share agreement with United Airlines and independently in Hawaii as ***go!*** The ***go!*** flights are "Independent Operations" and are not subject to a code-sharing agreement with a major carrier.

- Freedom Airlines, Inc. ("Freedom"), a Nevada corporation, flies ERJ-145 50-seat regional jet aircraft and operates as Delta Connection under code-share agreements with Delta.

Discontinued Operation

In the fourth quarter of fiscal 2007, the Company committed to a plan to sell Air Midwest or certain of its assets. Air Midwest consisted of Beechcraft 1900D turboprop operations, which included our independent Mesa operations and Midwest Airlines and US Airways code-share operations. As a result, the Company began soliciting bids for the sale of the twenty Beechcraft 1900D aircraft in operation and exited all of its Essential Air Service ("EAS") markets on or before June 30, 2008. All assets and liabilities, results of operations, and other financial and operational data associated with these assets have been presented in the accompanying consolidated financial statements as discontinued operations separate from continuing operations, unless otherwise noted.

Corporate Structure

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

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

- MPD, Inc., a Nevada corporation, doing business as Mesa Pilot Development and MPD, operates training programs for student pilots in conjunction with San Juan College in Farmington, New Mexico and Arizona State University in Tempe, Arizona.

- Regional Aircraft Services, Inc. ("RAS"), a California corporation, performs aircraft component repair, certain overhaul services, and ground handling services, primarily to Mesa subsidiaries.

- MAGI Insurance, Ltd., a Barbados, West Indies based captive insurance company, was established for the purpose of obtaining more favorable aircraft liability insurance rates.

- Ritz Hotel Management Corp., a Nevada corporation, was established to facilitate the Company's acquisition and management of a Phoenix area hotel property used for crew-in-training accommodations.

- Mesa Air Group -Airline Inventory Management, LLC ("MAG-AIM"), an Arizona limited liability company, was established to purchase, distribute and manage Mesa's inventory of spare rotable and expendable parts.

- Nilchii, Inc., a Nevada corporation ("Nilchii"), was established to invest in certain airline related businesses.

- Mesa In-Flight, Inc., a Colorado corporation, was established to hold liquor licenses services for airline operations.

- Regional Aviation Advisors, Inc., a Nevada corporation, was established to provide aircraft financing advisory services.

- Patar, Inc., a Nevada corporation ("Patar"), was established to invest in certain foreign businesses.

- Mesa Air New York, Inc., a New York corporation, was established to hold and own aircraft parts and equipment to support the Company's New York flight operations.

- Ping Shan, SRL, a Barbados society with restricted liability, was established for the purpose of being a holding company of our interest in Kunpeng Airlines, a regional airline based in the People's Republic of China.

Aircraft

The following table sets forth our aircraft fleet (owned and leased) by aircraft type and code-share service as of September 30, 2008:

	Canadair Regional Jet-200 (CRJ-200) (A)	Canadair Regional Jet-700 (CRJ-700)	Canadair Regional Jet-900 (CRJ-900) (B)	Embraer Regional Jet-145 (ERJ-145) (C)	Beechcraft 1900D (D)	DeHavilland Dash 8	Total
US Airways Express	11	-	38	-	-	6	55
United Express	26	20	-	-	-	10	56
Delta Connection	-	-	7	30	-	-	37
Mesa Airlines (dba ***go!)***	5	-	-	-	-	-	5
Mesa Air Group-Operating	2	-	-	4	-	-	6
Subtotal	44	20	45	34	-	16	159
Kunpeng Airlines (sublease)	5	-	-	-	-	-	5
Trans States Airlines (sublease)	-	-	-	2	-	-	2
Subtotal	49	20	45	36	-	16	166
Discontinued Operations	-	-	-	-	20	-	20
Non-Operating Aircraft (E)	3	-	-	-	-	-	3
Total	52	20	45	36	20	16	189

(A) Five CRJ-200's are currently in China in a sublease agreement with Kunpeng Airlines.
(B) Subsequent to fiscal year-end 2008, the company removed the 7 CRJ 900 aircraft from the Delta Connection program.
(C) Two ERJ-145's are currently subleased to an unaffliated airline, Trans States Airlines.
(D) As previously discussed, in the fourth quarter of fiscal 2007, we committed to a plan to sell certain assets used by Air Midwest and to discontinue our Air Midwest turboprop operations. The net book value of these aircraft are included within "Assets of discontinued operations" on the Consolidated Balance Sheets.
(E) Three CRJ-200's which are parked and held for lease return in first quarter of 2009.

Code-Share Agreements

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

The financial arrangement with our code-share partners involves a revenue-guarantee arrangement. The US Airways (regional jet and Dash-8), Delta (regional jet) and United (regional jet and Dash-8) code-share agreements are revenue-guarantee code-share agreements. Under the terms of these code-share agreements, the major carrier controls marketing, scheduling, ticketing, pricing and seat inventories. We receive a guaranteed payment based upon a fixed minimum monthly amount plus amounts related to departures and block hours flown in addition to direct reimbursement of expenses such as fuel, landing fees and insurance. Among other advantages, revenue-guarantee arrangements reduce our exposure to fluctuations in passenger traffic and fare levels, as well as fuel prices.

The following table summarizes our available seat miles ("ASMs") flown and passenger revenue recognized under our code-share agreements and independent operations for the years ended September 30, 2008 and 2007:

	Fiscal 2008				**Fiscal 2007**			
	ASM's (000's)		**Passenger Revenue (000's)**		**ASM's (000's)**		**Passenger Revenue (000's)**	
US Airways (Revenue-Guarantee)	4,105,517	51%	$ 635,439	48%	4,331,579	48%	$ 576,257	44%
United (Revenue-Guarantee)	2,573,519	32%	382,392	29%	3,074,054	34%	461,732	35%
Delta (Revenue-Guarantee)	1,182,271	15%	252,530	19%	1,438,698	16%	249,774	19%
go!	166,659	2%	43,075	4%	152,629	2%	25,457	2%
Total - Continuing Operations	8,027,966		$ 1,313,436		8,996,960		$ 1,313,220	
Discontinued Operations	75,089		$ 12,588		185,557		$ 30,188	

US Airways Code-Sharing Agreements

As of September 30, 2008, we operated 38 CRJ-900, 11 CRJ-200, and 6 Dash-8 aircraft for US Airways under a revenue-guarantee code-share agreement. In exchange for providing flights and all other services under such agreement, we receive a fixed monthly minimum amount plus certain additional amounts based upon the number of flights flown and block hours performed during the month. US Airways also reimburses us for certain costs on an actual basis, including fuel costs, aircraft ownership and financing costs, landing fees, passenger liability, hull insurance and aircraft property taxes, all as defined in the agreement. In addition, US Airways also provides, at no cost to Mesa, certain ground handling and customer service functions, as well as airport-related facilities and gates at US Airways hubs and cities where both carriers operate. We also receive a monthly payment from US Airways based on a percentage of revenue from flights that we operate under the code-share agreement. Under our code-share agreement, US Airways has the right to reduce the combined CRJ fleets utilized under the code-share agreement by one aircraft in any six-month period. The Company has received notice of US Airways' intent to reduce one CRJ-200 in January 2009, one in July 2009 and one CRJ-200 in January 2010. We anticipate US Airways will continue to further reduce the number of covered aircraft in accordance with the agreement. In addition, US Airways may eliminate the Dash-8 aircraft upon 180 days prior written notice. The code-share agreement terminates on June 30, 2012 unless US Airways elects to extend the contract for two years or exercises options to increase fleet size. The code-share agreement is subject to termination prior to that date in various circumstances including:

- If our flight completion factor or arrival performance in our Phoenix hub falls below certain levels for a specified period of time, subject to notice and cure rights;
- If either US Airways or we become insolvent, file for bankruptcy or fail to pay our debts as they become due, the non-defaulting party may terminate the agreement;
- Failure by us or US Airways to perform the covenants, conditions or provisions of the code-share agreement, subject to 15 days notice and cure rights;
- If we or US Airways fail to make a payment when due, subject to ten business days notice and cure rights;
- If we are required by the FAA or the U.S. Department of Transportation ("DOT") to suspend operations and we have not resumed operations within three business days, except as a result of an emergency airworthiness directive from the FAA affecting all similarly equipped aircraft, US Airways may terminate the agreement;
- Upon a change in our ownership or control without the written approval of US Airways.

United Code-Sharing Agreement

As of September 30, 2008, we operated 26 CRJ-200, 20 CRJ-700 and 10 Dash-8 aircraft for United under a code-sharing arrangement. Additionally, the code-share agreement allows us to swap up to 10 CRJ-200s for 10 CRJ-700s upon providing at least 180 days notice prior to October 31, 2009. In exchange for performing the flight services under the agreement, we receive from United a fixed monthly minimum amount, plus certain additional amounts based upon the number of flights flown and block hours performed during the month. Additionally, certain costs incurred by us in performing the flight services are "pass-through" costs, whereby United agrees to reimburse us for the actual amounts incurred for these items: aircraft ownership costs, property tax per aircraft, fuel costs, and landing fees. We also receive a profit margin based upon certain reimbursable costs under the agreement as well as our operational performance. The code-share agreement for (i) the 10 Dash-8 aircraft terminates in July 2013 unless terminated by United by giving notice six months prior to April 30, 2010, (ii) 10 50-seat CRJ-200's terminates no later than April 30, 2010, which can be accelerated up to two years at our discretion and can be swapped for CRJ-700's for a term of up to 10 years but not beyond October 2018, (iii) 20 50-seat regional jets terminate in April 2010, (iv) the 5 CRJ-700's delivered in fiscal 2007 (the 12 to be delivered upon the withdrawal of the 50-seat regional jets) terminates ten years from delivery date, but no later than October 31, 2018, and (v) the remaining 15 CRJ-700's terminates in three traunches of five aircraft between December 31, 2011, December 31, 2012 and December 31, 2013.

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

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

Delta Code-Sharing Agreement

As of September 30, 2008, we operated 7 CRJ-900 and 30 ERJ-145 aircraft for Delta pursuant to a code-sharing agreement. Flight operations for Delta are performed by our wholly-owned subsidiary, Freedom Airlines. During the second quarter 2007, as part of Delta's bankruptcy, we reached an agreement with Delta for an amendment to and assumption of our existing code-sharing agreement ("Amended DCA"), as well as for a new code-sharing agreement ("Expansion DCA"). The Amended DCA provided for the addition of six ERJ aircraft for an initial term of two years. These aircraft are scheduled to be removed from service in March 2009. The parties currently have a disagreement regarding the effectiveness of a notice issued by Mesa to extend the term for these aircraft for an additional one year term at reduced compensation in accordance with the terms of the Amended DCA. Also, pursuant to the Amended DCA, commencing in August 2008, the parties agreed to remove eight ERJ aircraft at a rate of three aircraft per month. Six of the eight aircraft had been removed as of September 30, 2008. Under the Amended DCA, in exchange for performing the flight services and our other obligations under the agreement, we receive from Delta monthly compensation made up of a fixed monthly amount, plus certain additional amounts based upon number of block hours flown and departures during the month. Additionally, certain costs incurred by Freedom are pass-through costs, whereby Delta agrees to reimburse us for the actual amounts incurred for these items: landing fees, hull insurance, passenger liability costs, fuel costs, catering costs and property taxes. Aircraft rent/ownership expenses are also considered a pass-through cost, but are limited to a specified amount for each type of aircraft. We are eligible to receive additional compensation based upon our completion rate and on-time arrival rate each month. Further, for each semi-annual period during the term of the agreement, we are eligible to receive additional compensation from Delta based upon performance. The fixed rates payable to us by Delta under the Amended DCA have been determined through the term of such agreement and are subject to annual revision.

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

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

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

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

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

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

On March 28, 2008, Delta notified the Company of its intent to terminate the Delta Connection Agreement among Delta, the Company and the Company's wholly owned subsidiary, Freedom Airlines, Inc. alleging failure to maintain a specified completion rate with respect to its ERJ-145 Delta Connection flights during three months of the six-month period ended February, 2008. Following Delta's termination notification, the Company filed a Complaint on April 7, 2008 in the United States District Court for the Northern District of Georgia ("the Court") seeking declaratory and injunctive relief. An evidentiary hearing was conducted on May 27 through May 29, 2008. Following the hearing, the Court ruled in the Company's favor and issued a preliminary injunction against Delta.

The effect of this ruling is to prohibit Delta from terminating the Delta Connection Agreement covering the ERJ-145 aircraft operated by Freedom, based on Freedom's completion rate prior to April 2008, pending a final trial at a date to be determined by the Court. Following the Court's decision, the Company and Delta reached an interim financial understanding (subject to the mutual reservation of rights) in which Delta will reimburse the Company for certain costs (such as lease payments, insurance, maintenance, pilots/flight attendants wage minimums and a normal profit) and the majority of the ERJ-145 aircraft will remain out of service until October 2008. On June 27, 2008, Delta filed a Notice of Appeal and on July 15, 2008, Delta filed a motion requesting that the appeal be heard on an expedited basis. The Company has responded to Delta's motion in accordance with the applicable rules and the Court of Appeals, after reviewing the filings, denied Delta's request. Delta and the Company have fully briefed the issue on appeal and oral argument in the 11th Circuit Court of Appeals have been scheduled for January 30, 2009.

On August 1, 2008, Delta notified the Company of the termination of the CRJ-900 Delta Connection Agreement citing an alleged failure to meet certain contractual benchmarks in the CRJ-900 Delta Connection Agreement. Specifically, the notice states that Delta is terminating the CRJ-900 Connection Agreement as a result of Freedom's alleged failure to maintain a specified on-time arrival rate with respect to its CRJ-900 Delta Connection Flights during each of the four months of March, April, May, and June 2008, as well as Freedom's alleged failure, during the months of March, April and June 2008 to maintain a specified completion rate. On October 1, 2008, Mesa removed three CRJ-900 aircraft from Delta Connection service. The remaining four CRJ-900 aircraft were removed from Delta Connection service on November 1, 2008. Upon their removal from Delta Connection service, those aircraft were returned to Delta. Mesa has placed Delta on notice that it disputes the basis for Delta's actions and that it intends to seek all remedies available at law to challenge Delta's decision.

Joint Venture Agreement in China

On December 22, 2006, our wholly-owned subsidiary, Ping Shan, SRL "(Ping Shan") entered into a joint venture agreement (the "Joint Venture Agreement") with Shan Yue SRL ("Shan Yue") and Shenzhen Airlines, pursuant to which the parties agreed to form Kunpeng Airlines ("Kunpeng"), an equity joint venture company organized under the laws of China. Ping Shan holds a 25% share of the registered capital of Kunpeng. Additionally, Shan Yue, a Barbados Society with restricted liability, holds 24% of the registered capital of Kunpeng. Shan Yue holds 5% of the 24% interest in Kunpeng for the exclusive benefit of an unaffiliated third party. Wilmington Trust Company holds 100% of the outstanding equity of Shan Yue as trustee of Shan Yue Trust, a Delaware statutory trust. We are the sole beneficiary of Shan Yue Trust. Through Ping Shan and our beneficial interest in Shan Yue Trust, we effectively own 49% of Kunpeng. After taking into consideration the 5% interest in Kunpeng held for the exclusive benefit of an unaffiliated third party, our net ownership interest in Kunpeng is reduced to 44%. Kunpeng commenced common carrier passenger service on September 28, 2007. As of September 30, 2008, Kunpeng operated five 50-seat CRJ 200 aircraft on regional routes between the Chinese cities Xian, Yulin, Yantai, Changchun, Zhengzhou, Nanning, Wuzhou, Changsha, Hefei, Baise, Shijiazhuang, Beihai, and Guangzhou.

Under the terms of the Joint Venture Agreement, Ping Shan and Shan Yue agreed to assist Kunpeng in securing aircraft and spare part supplies from foreign suppliers and to provide high level executives for the management of Kunpeng and technical support, including pilot, maintenance and operations support and training for employees of Kunpeng. Kunpeng's fiscal year ends on December 31st. Pursuant to the Joint Venture Agreement, Ping Shan and Shan Yue will receive 25% and 24%, respectively, of the after-tax net profit of Kunpeng, if any, at the end of each fiscal year unless Kunpeng's board of directors determines that such profits should be reinvested. In general, the Company records 44% of the income or loss of Kunpeng, except that the parties to the Joint Venture Agreement have agreed to share losses according to their respective percentage ownership, with Mesa's exposure capped at a percentage of the gross revenues of Kunpeng that is materially below its percentage ownership interest. Additionally, the amount of profit available for distribution is reduced by an amount equal to allocations to a reserve fund and expansion fund of Kunpeng and a bonus and welfare fund for Kunpeng's employees, as determined by Kunpeng's board of directors. No profit is distributed unless any cumulative deficit carried forward for previous years is recovered. Kunpeng's board consists of seven members, four of whom are appointed by Shenzhen Airlines, two of whom are appointed by Ping Shan and one of whom is appointed by Shan Yue.

As of September 30, 2008, we had contributed $6.5 million in capital contributions to the joint venture in accordance with the terms of the Joint Venture Agreement. Under the terms of the Joint Venture Agreement, Shenzhen Airlines and the Company are obligated to contribute an additional RMB 204,000,000 and RMB 196,000,000, respectively (approximately $29.8million and $28.6 million, respectively), at September 30, 2008 to Kunpeng in accordance with Kunpeng's operational requirements as determined by Kunpeng's board of directors, but in any event, prior to May 16, 2009.

In June 2008, the Company entered into a Letter of Intent ("LOI") to sell its interest in Kunpeng to Shenzhen for $4.8 million. Negotiations aimed at consummating the sale of the interest have been ongoing since such time, and Shenzhen and we have exchanged numerous drafts of a proposed agreement. However, no assurance can be given that the LOI will result in a sale of our equity interest in Kunpeng to Shenzhen, or that, if such a sale were to occur, that it will be on terms acceptable to the Company.

As a result of the negotiated valuation of the interest by the parties set forth in the LOI, the Company has recorded a loss on its investment in Kunpeng of $1.3 million at September 30, 2008. This loss reflects the expected proceeds from the sale of $4.8 million less the Company's investment at September 30, 2008 of $5.8 million and estimated transaction costs of $300,000. The loss has been recorded in the gain (loss) from equity method investment in the consolidated statements of operations.

The Company also subleases five regional jets to Kunpeng. These leases are not affected by the LOI. Total sublease revenue for the year ended September 30, 2008 was $4.4 million. At September 30, 2008, the Company had gross receivables from Kunpeng of approximately $2.9 million.

Fleet Plans

CRJ Program

As of September 30, 2008, we operated 109 Canadair Regional Jets (44 CRJ- 200/100, 20 CRJ-700 and 45 CRJ-900's).

In January 2004, we exercised options to purchase twenty CRJ-900 aircraft (seven of which can be converted to CRJ-700 aircraft). As of September 30, 2007, we have taken delivery of thirteen CRJ-900 aircraft and five CRJ-700 aircraft. The obligation to purchase the remaining two CRJ-900's (which can be converted to CRJ-700's) was terminated in June 2007 in connection with our agreement to purchase 10 new CRJ-700 NextGen aircraft. In conjunction with this purchase agreement, Mesa has $500,000 on deposit with Bombardier that was included in lease and equipment deposits on September 30, 2008. The deposit amount is expected to be returned upon completion of permanent financing on each of the ten aircraft. On September 26, 2008, the Company and Bombardier amended the purchase agreement to return $6.0 million of the $6.5 million previously held on deposit, delayed deliveries of the 10 CRJ-700 aircraft and advanced rebates related to Bombardier's heavy maintenance service agreement.

On August 1, 2008, Delta notified the Company of its election to immediately terminate the Delta Connection Agreement among Delta, the Company and Freedom, dated March 13, 2007 (as thereafter amended, the "CRJ-900 Connection Agreement"). The notice states that Delta is terminating the CRJ-900 Connection Agreement as a result of Freedom's alleged failure to maintain a specified on-time arrival rate with respect to its CRJ-900 Delta Connection Flights during each of the four months of March, April, May and June 2008, as well as Freedom's alleged failure, during the months of March, April, and June 2008 to maintain a specified completion rate. As of September 30, 2008 the Company operated 7 CRJ-900 aircraft for Delta. The Company ceased operating these aircraft as of

November 2, 2008. The CRJ-900 Connection Agreement contributed 3.1% and 0% to the Company's revenue for the year ended September 30, 2008 and 2007, respectively.

ERJ Program

As of September 30, 2008, we operated 34 ERJ-145 aircraft and subleased 2 ERJ-145 to a third party. We acquired 36 ERJ-145s through a June 1999 agreement with Empresa Brasiliera de Aeronautica S.A. ("Embraer").

Beechcraft 1900D

As of September 30, 2008, we owned 20 Beechcraft 1900D aircraft. The net book value of these aircraft are included within "Assets of Discontinued Operations" on the Consolidated Balance Sheets.

On May 16, 2008, the Company sold all 14 of its previously leased Beechcraft 1900D aircraft. All 14 were sold to Raytheon Aircraft Company and Raytheon Aircraft Credit Corporation (collectively "Raytheon") pursuant to an agreement reached between the parties regarding such planes. The Company sold the aircraft "as is," made a payment of $500,000, and in return Raytheon eliminated approximately $28 million of long-term debt due to Raytheon associated with such aircraft. This transaction resulted in a net gain of $5.8 million, which amount is recorded in extinguishment of debt in the accompanying consolidated statement of operations.

Dash-8

As of September 30, 2008, we had 16 Dash-8 aircraft in operation: 6 with US Airways Express and 10 with United Express. The Company leases all 16 Dash-8 aircraft with four of the leases ending in 2009 and the remaining 12 ending in 2013.

Marketing

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

Under the Delta, United and US Airways revenue-guarantee code-share agreements, market selection, pricing and yield management functions are performed by our respective partners. For our ***go!*** operations in Hawaii, we make all decisions on market selection, pricing and yield management functions.

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

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

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

Competition

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

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

Fuel

Historically, we have not experienced problems with the availability of fuel, and believe that we will be able to obtain fuel in quantities sufficient to meet our existing and anticipated future requirements at competitive prices. Standard industry contracts generally do not provide protection against fuel price increases, nor do they ensure availability of supply. However, our revenue-guarantee code-share agreements with Delta, United and US Airways (regional jet and Dash-8) allow fuel used in the performance of the agreements to be reimbursed by our code-share partner, thereby reducing our exposure to fuel price fluctuations. In fiscal 2008, approximately 95.5% of our fuel purchases were associated with our Delta, United and US Airways (regional jet and Dash-8) revenue-guarantee code-share agreements. A substantial increase in the price of jet fuel, to the extent our fuel costs are not reimbursed, or the lack of adequate fuel supplies in the future, could have a material adverse effect on our business, financial condition, results of operations and liquidity.

Maintenance of Aircraft and Training

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

Insurance

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

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

Employees

As of September 30, 2008, we employed approximately 4,113 employees. Approximately 2,485 of our employees are represented by various labor organizations. Our continued success is partly dependent on our ability to continue to attract and retain qualified personnel.

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

As of September 30, 2008, Kunpeng employed approximately 160 employees. The laws of China presently require a trade union to be established if requested by any 25 or more employees, but because no such request has been received, no such trade union has been established for Kunpeng. Each of Kunpeng's employees independently entered into an employment contract with Kunpeng in accordance with Chinese Law. Kunpeng has hired pilots from outside China as well as from flight training schools in China. However, hiring and retaining qualified pilots is one of the risks that could hinder the growth of Kunpeng.

Pilot turnover at times is a significant issue among regional carriers, particularly when major carriers are hiring experienced commercial pilots away from regional carriers. During the first and second quarters of fiscal 2008, the Company experienced higher than average turnover as a result of hirings by major carriers. In addition, changes to the aircraft fleet, especially the addition of new aircraft types, or transitions from one operating entity to another, can result in pilots upgrading between aircraft types and as a result, becoming unavailable for duty during the extensive training periods required. No assurances can be made that pilot turnover will not become a significant problem in the future, particularly if major carriers expand their operations. Similarly, there can be no assurance that a sufficient number of new pilots will be available to support any future growth of the Company.

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

Investment Activities

On December 22, 2006, our wholly-owned subsidiary, Ping Shan, entered into the Joint Venture Agreement with Shan Yue and Shenzhen Airlines ("Shenzhen"), pursuant to which the parties formed Kunpeng, an equity joint venture company organized under the laws of the Peoples Republic of China. As of September 30, 2008, we had contributed $6.5 million in capital contributions to the joint venture in accordance with the terms of the Joint Venture Agreement. Under the terms of such Agreement, the Company is required to contribute an additional RMB 196,000,000 (approximately $28.6 million at September 30, 2008) prior to May 16, 2009.

During the third quarter the Company entered into a Letter of Intent ("LOI") to sell its interest in Kunpeng to Shenzhen. Negotiations aimed at consummating the sale of the interest have been ongoing since June 2008, and Shenzhen and we have exchanged numerous drafts of a proposed agreement, However, no assurance can be given that the LOI will result in a sale of our equity interest in Kunpeng to Shenzhen, or that, if such a sale were to occur, that it will be on terms acceptable to the Company.

As a result of the negotiated valuation of the interest by the parties set forth in the LOI, the Company has recorded a loss on its investment in Kunpeng of $1.3 million at September 30, 2008. This loss reflects the expected proceeds from the sale of $4.8 million less the Company's investment at September 30, 2008 of $5.8 million and estimated transaction costs of $300,000. The loss has been recorded in the gain (loss) from equity method investments in the accompanying consolidated statement of operations.

The Company also subleases five CRJ-200 regional jets to Kunpeng. These leases are not affected by the LOI. Total sublease revenue for the year ended September 30, 2008 was $4.4 million. At September 30, 2008, the Company had gross receivables from Kunpeng of approximately $2.9 million.

In fiscal 2007, we participated with a private equity fund in making an investment, through a limited liability limited partnership, in the preferred shares of a closely held emerging markets payment processing related business (the "2007 Investee"). Through our subsidiary Patar, Inc., we invested $1.3 million, which represents approximately 19.6% of the 2007 Investee's preferred stock. In fiscal 2008, due to the improbability of recovering our investment, we wrote-off the remaining $0.8 million of the investment.

In fiscal 2006, the Company participated with a private equity fund in making an investment in the common stock and notes of a closely held airline related business (the "2006 Investee"). The Company, through its subsidiary Nilchii, invested $15.0 million, which represents approximately 20% and 11.8% of the 2006 Investee's common stock and notes, respectively. On December 17, 2008, the

Company received a letter from the 2006 Investee requesting that, pursuant to the terms of the governing limited liability company agreement, the Company purchase from the 2006 Investee $3.0 million in aggregate principal amount of notes by December 31, 2008. As of January 12, 2009, the Company has not determined whether or not it will meet these obligations. In the event Company does not do so, it will suffer dilution of its equity interest in the 2006 Investee.

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

Regulation

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

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

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

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

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

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

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

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

Available Information

We maintain a website where additional information concerning our business can be found. The address of that website is *www.mesa-air.com*. We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after we electronically file or furnish such materials to the SEC. You may also read and copy any materials we file with the Securities and Exchange Commission ("SEC") at the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. A copy of this Annual Report on Form 10-K, as well as other Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports are accessible free of charge at www.mesa-air.com and at the SEC's website at www.sec.gov as soon as reasonably possible after the report is filed with or furnished to the SEC.

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

Risks Related to Our Business

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

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

The US Airways Code-Share Agreement allows US Airways, subject to certain restrictions, to reduce the combined CRJ fleets utilized under the code-share agreement by one aircraft in any six-month period. The Company has received notice of US Airways' intent to reduce one CRJ-200 in January 2009, one CRJ-200 in July 2009 and one CRJ-200 in January 2010. We anticipate that US Airways will continue to further reduce the number of covered aircraft in accordance with the agreement. In addition, US Airways may eliminate the Dash-8 aircraft upon 180 days prior written notice.

Because a majority of our operating revenues from continuing operations are currently generated under revenue-guarantee code-share agreements, if any one of them is terminated, our operating revenues and net income could be materially adversely affected unless we are able to enter into satisfactory substitute arrangements or, alternatively, fly under our own flight designator code, including obtaining the airport facilities and gates necessary to do so. For the year ended September 30, 2008, the US Airways Code-Share Agreement accounted for 48% of our consolidated passenger revenues, the Amended DCA and Expansion DCS with Delta together accounted for 19% of our consolidated passenger revenue and the United Code-Share Agreement accounted for 29% of our consolidated passenger revenues.

As of September 30, 2008, we operated 30 ERJ-145 aircraft and seven CRJ-900 aircraft for Delta pursuant to the Amended DCA and Expansion DCS, respectively. Flight operations for Delta are performed by our wholly-owned subsidiary, Freedom Airlines. The Amended DCA provided for the addition of six ERJ-145 aircraft for an initial term of two years. These aircraft are scheduled to be removed from service in March 2009. The parties are currently in disagreement regarding the effectiveness of a notice issued by Mesa to extend the term of these aircraft for an additional one year term at reduced compensation in accordance with the terms of the amendment. Also, pursuant to the Amended DCA, commencing in August 2008, the parties agreed to remove eight ERJ-145 aircraft at a rate of three aircraft per month. The remaining aircraft will be removed from service in May 2017 when the Amended DCA terminates. As discussed below, the Company is currently involved in litigation with Delta regarding the Amended DCA is likely to become involved in litigation with Delta regarding the Expansion DCA.

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

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

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

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

If Delta successfully terminates the Amended DCA or Expansion DCA, we may not be able to meet our immediate financial obligations.

Amended DCA

On March 28, 2008, Delta notified us of its intent to terminate the Amended DCA among Delta, the Company, and the Company's wholly-owned subsidiary, Freedom Airlines alleging failure to maintain a specified completion rate with respect to its ERJ-145 Delta Connection flights during three months of the six-month period ended February 2008. The Amended DCA includes, among other arrangements, our agreement to operate up to 34 model ERJ-145 regional jets leased by us and operated utilizing Delta's name. During the second quarter 2007, we reached an agreement with Delta to add six ERJ aircraft for an initial term of two years. These aircraft are scheduled to be removed in March 2009. The parties currently have a disagreement regarding the effectiveness of a notice issued by Mesa to extend the terms of these aircraft for an additional one year term at reduced compensation in accordance with the terms of the amendment. Failure to resolve this issue in the Company's favor could have a material adverse impact on our financial condition or results of operation.

In fiscal 2008, the Amended DCA accounted for approximately 15.0% of our total revenues for fiscal 2008. Delta seeks to terminate the Amended DCA as a result of Freedom Airlines' alleged failure to maintain a specified completion rate with respect to its ERJ-145 Delta Connection flights prior to April 2008.

On April 7, 2008, we filed a complaint against Delta seeking declaratory and injunctive relief and specific performance by Delta of its obligations under the Amended DCA. On May 9, 2008, we filed a motion for a preliminary injunction in the United States District Court for the Northern District of Georgia (the "District Court") against Delta to enjoin its attempted termination of the Amended DCA. A three day evidentiary hearing was concluded on May 29, 2008 with the District Court ruling in our favor and issuing a preliminary injunction against Delta. The preliminary injunction prohibits Delta from terminating the Amended DCA based on Freedom Airlines' completion rate prior to April 2008, pending a final trial at a date to be determined by the District Court.

The effect of this ruling is to prohibit Delta from terminating the Amended DCA covering the ERJ-145 aircraft operated by Freedom Airlines, based on Freedom Airlines' completion rate prior to April 2008, pending a final trial at a date to be determined by the District Court.

On June 27, 2008, Delta filed a notice of appeal with the 11^{th} Circuit Court of Appeals (the "Court of Appeals") and on July 15, 2008, Delta filed a motion requesting that the appeal be heard on an expedited basis. The Company responded to Delta's motion in accordance with the applicable rules and the Court of Appeals., after reviewing the filings, denied Delta's request. Delta and the Company have fully briefed the issue on appeal and oral arguments in the 11^{th} Circuit Court of Appeals have been scheduled for January 30, 2009

If the District Court or Court of Appeals ultimately rules in favor of Delta and allows the termination of the Amended DCA we believe we will be unable to redeploy the ERJ-145s in a timely manner, or at the lease rates we receive under the Amended DCA in the event of any redeployment of such aircraft. In addition to losing approximately $20 million per month in revenue or approximately $960 million over the next four years), we estimate that we will incur leasing costs, labor and other costs totaling approximately $250 to $300 million over the next four years. As a result, our cash flows from operations and our available working capital will be insufficient to meet these cash requirements. In the absence of obtaining additional capital through equity or debt financings, asset sales, consensual restructuring of debt and lease terms and /or similar measure, we will be unable to meet our financial obligations and may need to seek protection under applicable United States reorganization laws in order to avoid or delay actions by our lessors, creditors and code-share partners, which will have a material adverse effect on our ability to continue as a going concern.

Expansion DCA

On August 1, 2008 Delta notified the Company of the termination of the Expansion DCA citing an alleged failure to meet certain contractual benchmarks contained in the Expansion DCA. Mesa strongly denies having violated the Expansion DCA and intends to challenge Delta's decision. We believe the airport hub in which the CRJ-900 aircraft are operated and the schedules created by Delta significantly impact our ability to meet the contract performance benchmarks. In particular, we believe the operating environment at New York's JFK airport presents significant challenges to meet the performance requirements. The Company subleased the CRJ-900 aircraft operated pursuant to the Amended DCA from Delta for $1 per month per aircraft and these aircraft have been returned to Delta in connection with this termination with no further financial obligation to Mesa. In the event litigation is filed and Delta ultimately prevails in that litigation, the Company's financial condition may be materially negatively effected.

If Delta prevails in its counterclaim against Mesa relating to a memorandum of understanding for the overhaul and repair of certain engines our financial condition or results of operations would be materially adversely affected.

On August 6, 2008, Mesa filed a complaint against Delta seeking the return of seven aircraft engines that Delta improperly retained possession of following the termination of an engine maintenance memorandum of understating executed between Mesa and Delta. Delta has claimed its retention of these engines was justified as a means to secure recovery of certain disputed amounts related to the memorandum of understating. The memorandum of understanding does not contain provisions regarding Delta's claims and does not permit Delta's retention of the engines. Delta did not have a legal basis upon which to retain continued unauthorized possession of the engines. On or about August 13, 2008, Delta returned possession of the engines at issue. On August 22, 2008, Delta recorded mechanics' liens on the engines and filed a counterclaim seeking to foreclose on the liens as well as seeking certain payments allegedly related to the memorandum of understanding. Mesa's action filed in the United States District Court for the District of Arizona sought the immediate return of all engines currently in Delta's possession and/or control, forfeiture of all claimed liens, as well as damages related to Delta's improper retention of the engines. On November 12, 2008, the court heard oral arguments on Mesa's motion to dismiss Delta's purported liens and Delta's motion to foreclose on the liens. On November 14, 2008, the court ruled that Delta forfeited its lien claims as a result of its failure to comply with the timelines set out in the Georgia lien statute. The parties' competing claims for money damages are still pending before the court. A judgment in Delta's favor for damages related to its counterclaim could have a material negative impact on our financial condition or results of operations.

Our ability to operate our Hawaiian operations profitably is dependent on the price of aircraft fuel. Continued periods of historically high fuel costs or further increases in fuel costs could have a significant negative impact on our operating results.

In June 2006, we launched our independent inter-island Hawaiian airline operation named ***go!*** and have incurred operating losses since inception. Providing service in Hawaii will require ongoing investment of working capital by Mesa and management attention and focus. Our operating results are significantly impacted by changes in the availability or price of aircraft fuel, which in turn are often affected by global events. Fuel prices have increased substantially over the past several years and sharply in the last year, reaching a level in mid-2008 that fundamentally challenges the economics of the airline industry. A relatively small increase in the price of fuel can have a significant aggregate effect on the costs of our ***go!*** operations. Due to the competitive nature of the airline industry and market forces, no assurance can be made that we may be able to increase our fares or otherwise increase revenues sufficiently to offset fuel prices.

As a result of fluctuating fuel prices, Mesa started a jet fuel swap program in fiscal 2009.

Interruptions or disruptions in service at one of our hub airports, due to adverse weather, or for any other reason, could have a material adverse impact on our operations.

We currently operate primarily through hubs in Chicago, Washington DC, Denver, Phoenix, Charlotte, New York, Cincinnati, and Honolulu. Nearly all of our flights will either originate or fly into one of these hubs. Our revenues depend primarily on our completion of flights and secondarily on service factors such as timeliness of departure and arrival. Any interruptions or disruptions could, therefore, severely and adversely affect us. Extreme weather can cause flight disruptions, and during periods of storms or adverse weather, fog, low temperatures, etc., our flights may be cancelled or significantly delayed. We operate a significant number of flights to and from airports with particular weather difficulties, including Chicago, Denver, New York/JFK, and Washington, DC. A significant interruption or disruption in service at one of our hubs, due to adverse weather or otherwise, could result in the cancellation or delay of a significant portion of our flights and, as a result, could have a severe impact on our business, operations and financial performance.

The availability of additional and/or replacement code-share partners is limited and consolidation within the airline industry could have an unknown impact on future operations.

The airline industry has undergone substantial consolidation and it may in the future undergo additional consolidation. Any additional consolidation or significant alliance activity within the airline industry could limit the number of potential code-share partners available and may adversely affect our relationships with current code-share partners. There is no assurance that our relationships with our code-share partners will survive in the event that any such code-share partner merges with another airline.

If we are unable to successfully restructure certain of our contractual obligations and commitments as described below, our cash flow from operations and available capital will not be sufficient to meet these obligations, which may require that the Company seek protection under applicable reorganization laws.

While the Company's cash flows from operations and its available capital have been sufficient to meet its current operating expenses, lease obligations and debt service requirements to date, the Company's future cash flow from operations and available capital may be negatively impacted by: (i) our ability to secure more flexible credit terms from certain of the Company's other key vendors; (ii) reduced cash payments from our code share partners related to disputed items under our agreements; (iii) the $23.2 million in aggregate remaining principal amount of senior convertible notes due 2023, which the Company may be required to repurchase on January 31, 2009 in accordance with the forbearance agreements described below; (iv) the $77.8 million in aggregate principal amount of senior convertible notes due 2024, which the Company may be required to repurchase on February 10, 2009; (v) the Company's ability to restructure certain of its aircraft lease obligations and key vendor obligations, which are in turn impacted by the Company's obligations with respect to its 2023 and 2024 notes; and (vi) the results of the Company's ongoing litigation with Delta. There can be no assurance that the Company will be successful in effecting amended lease terms for its existing aircraft lease obligations and obtaining flexible credit terms from existing vendors and suppliers. Unfavorable events arising with respect to negotiations with key lessors and vendors, the Delta litigation, or the 2023 and/or 2024 notes, could give rise to covenant and payment defaults under the terms of the Company's material operating leases and indebtedness. In the absence of obtaining additional capital through asset sales, consensual restructuring of debt and lease terms and/or similar measures, the Company may be unable to remedy such defaults and may experience additional defaults in the future. The Company's operating leases are subject to termination in the event of default, and the Company's indebtedness may be accelerated in the event of continuing default. Certain lenders could foreclose on Company assets securing their indebtedness. Accordingly, the Company's financial condition could require that the Company seek additional protection under applicable reorganization laws in order to avoid or delay actions by its creditors and lessors which could materially adversely affect the Company's operations and ability to operate as a going concern.

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

In June 2003, we completed the private placement of senior convertible notes due 2023 (the "2023 Notes"), which resulted in gross proceeds of $100.1 million ($96.9 million net). The 2023 Notes were sold at an issue price of $397.27 per note and are convertible into shares of our common stock at a conversion rate of 39.727 shares per note, which equals a conversion price of $10 per share. Holders of the 2023 Notes may convert their Notes only if: (i) the sale price of our common stock exceeds 110% of the accreted conversion price for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding quarter; (ii) prior to June 16, 2018, the trading price for the notes falls below certain thresholds; (iii) the 2023 Notes have been called for redemption; or (iv) specified corporate transactions occur.

On May 20, 2008, the Company's board of directors approved separate agreements (referred to as "Forbearance Agreements") reached by the Company with certain of the holders of the 2023 Notes. As previously disclosed in the Company's filings with the Securities and Exchange Commission, holders of the 2023 Notes had the right to require the Company to repurchase such 2023 Notes on June 16, 2008 (the "Put") at a price of $397.27 per $1,000 note (the "Put Price") plus any accrued and unpaid cash interest. If all of the holders of the 2023 Notes had exercised this right, the Company would have been required to repurchase the 2023 Notes for approximately $37.8 million in cash, common stock, or a combination thereof.

Under the terms of these separate Forbearance Agreements, holders holding approximately $77.8 million in aggregate face amount of the 2023 Notes (representing approximately 82% of the aggregate face amount of Notes outstanding) have agreed to forbear from exercising their Put right with respect to 75% in aggregate face amount of 2023 Notes owned by such holders (i.e., $23.2 million of the $37.8 million subject to the Put). In consideration for such agreement, the Company agreed to purchase 25% in aggregate face amount of such holder's Notes at a purchase price equal to 75% of the Put Price and the additional right to require the Company to repurchase such 2023 Notes on January 31, 2009. The put price payable on January 31, 2009 will also be payable in cash, common stock, or a combination thereof, at the Company's election. The Company's aggregate payment obligation with respect to such purchased 2023 Notes was approximately $5.8 million, which was paid on or before May 27, 2008. In consideration for such forbearance, the Company also agreed to issue to such holders two-year warrants to purchase 25,000 shares of common stock for each $1 million in aggregate face amount of 2023 Notes deferred (or an aggregate of approximately 1.46 million shares of common stock). The warrants were valued at $0.26 per share using the Black-Scholes model for an aggregate amount of $0.4 million. The warrants have a per share exercise price of $1.00, contain anti-dilution protection for major corporate events, such as stock splits and stock dividends, and are not exercisable to the extent the exercise thereof would cause the holder to beneficially own greater than 4.99% of the Company's outstanding capital stock. The Company recognized a gain in the third fiscal quarter on the repurchase of the 2023 Notes of $1.5 million, which is included in gain on extinguishment of debt in the accompanying consolidated statement of operations. In addition, the Company purchased approximately $7.0 million of the 2023 Notes at no gain or loss.

As a result of prior conversions of the 2023 Notes by noteholders, at September 30, 2008, there were approximately $23.2 million in 2023 Notes outstanding. If the holders of these 2023 Notes exercise their right to require the Company to repurchase all of their 2023 Notes on January 31, 2009, the Company will be required to repurchase such 2023 Notes for approximately $23.2 million in cash, common stock, or a combination thereof. If Mesa elects to issue shares of its common stock in lieu of cash, it must have sufficient authorized shares to meet such obligation. No assurance can be given that the Company will have sufficient shares of common stock. In addition, if Mesa elects to issue additional stock to meet this purchase obligation, this issuance would dilute existing shareholders.

If the holders of our 3.625% Senior Convertible Notes Due 2024 exercise their right to require the Company to redeem their notes, our liquidity could be materially adversely affected or we may issue additional stock, which would dilute existing shareholders.

In February 2004, the Company completed the private placement of senior convertible notes due 2024 (the "2024 Notes"), which resulted in gross proceeds of $100.0 million ($97.0 million net). Cash interest is payable on the 2024 Notes at the rate of 2.115% per year on the aggregate amount due at maturity, payable semiannually until February 10, 2009. After that date, the Company will not pay cash interest on the 2024 Notes prior to maturity, and they will begin accruing original issue discount at a rate of 3.625% until maturity. On February 10, 2024, the maturity date of the 2024 Notes, the principal amount of each note will be $1,000. The aggregate amount due at maturity, including interest accrued from February 10, 2009, will be $171.4 million.

On February 10, 2009, the holders of the 2024 Notes may require the Company to repurchase their 2024 Notes ("2024 Put Right") at a price of $583.40 per $1,000 note (the "2024 Put Price") plus accrued and unpaid cash interest, resulting in an aggregate principal amount due of approximately $77.8 million. The Company may pay the 2024 Put Price of the 2024 Notes in cash, common stock, or a combination thereof. The Company may not have sufficient cash reserves to pay the holders of the 2024 Notes that exercise their 2024 Put Right on February 10, 2009. If the Company elects to issue additional shares of common stock to meet its repurchase obligations, this issuance would result in substantial dilution to existing shareholders.

Our Current Stock Price Creates a NASDAQ Delisting Possibility

Our Common Stock is currently traded on the NASDAQ Global Select Market and may be delisted, which could adversely affect our business and relations with employees, customers, and others. Previously, we have received notice from the NASDAQ Stock Market that our stock price (technically, the closing bid price) has failed to maintain the minimum $1.00 per share requirement for the 30 consecutive business days preceding such notice. Previously, we have been given until March 23, 2009 to achieve compliance with that rule by having the bid price of our stock close at $1.00 or more for at least ten consecutive trading days. If compliance with that rule was not demonstrated by March 23, 2009, we could appeal NASDAQ's determination to delist our securities to a NASDAQ panel or we may apply to transfer our securities to the NASDAQ Global Market or the NASDAQ Capital Market. If our application is approved, we will be afforded an additional 180 day compliance period. Recently, NASDAQ has further extended this compliance date to late June 2009. There can be no assurance that we will be able to achieve compliance with this minimum bid price rule by NASDAQ's required deadline; that we would be granted an additional 180 day compliance period; or that we would be able to achieve compliance with the minimum bid price rule even if granted the additional compliance period.

While there are many actions that may be taken to attempt to increase the price of our stock, two of the possibilities are a reverse stock split and a stock repurchase. At this time, we have limited capital resources available for any stock repurchase. Any such actions (even if successful) may have adverse effects on us, such as adverse reaction from employees, investors and financial markets in general, adverse publicity, and adverse reactions from customers. There are other continued listing requirements for listing on the NASDAQ Global Select Market. There can be no assurance that we will continue to meet these listing requirements.

Should our stock be delisted from the NASDAQ Global Select Market, we may apply to have our stock traded on the Over-The-Counter Bulletin Board. There can be no assurance that our common stock would be timely admitted for trading on that market. This alternative may result in a less liquid market available for existing and potential shareholders to buy and sell shares of our stock and could further depress the price of our stock.

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

The operation of our business is significantly dependent on the availability of qualified employees, including, specifically, flight crews, mechanics and avionics specialists. Historically, regional airlines have periodically experienced high pilot turnover as a result of air carriers operating larger aircraft hiring their commercial pilots. Further, the addition of aircraft, especially new aircraft types, or transferring of aircraft between operating entities can result in pilots upgrading or transitioning between aircraft types and becoming unavailable for duty during the required extensive training periods. During the first and second quarters of fiscal 2008, the Company experienced higher than average turnover as a result of hirings by major carriers. There can be no assurance that we will be able to maintain an adequate supply of qualified personnel or that labor expenses will not increase.

At September 30, 2008, we had approximately 4,113 employees, approximately 2,485 of whom are members of two labor unions, including the Air Line Pilots Association, International ("ALPA") and the Association of Flight Attendants ("AFA"). Our collective bargaining agreement with the ALPA became amendable in September 2007 and we recently reached a tentative agreement that is subject to a ratification vote by our pilots. Our collective bargaining agreement with the AFA became amendable in June 2006 and we are in mediated negotiations. The inability to negotiate acceptable contracts with existing unions as agreements become amendable or with new unions could result in work stoppages by the affected workers, lost revenues resulting from the cancellation of flights and increased operating costs as a result of higher wages or benefits paid to union members. We cannot predict which, if any, other employee groups may seek union representation or the outcome or the terms of any future collective bargaining agreement and therefore the effect, if any, on our business, financial condition and results of operations. If negotiations with unions over collective bargaining agreements prove to be unsuccessful, following specified "cooling off" periods, the unions may initiate a work action, including a strike, which could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We believe that our aircraft are mechanically reliable based on the percentage of scheduled flights completed and as of September 30, 2008 the average age of our fleet, excluding Beechcraft 1900D's, is 6.6 years. However, there can be no assurance that such aircraft will continue to be sufficiently reliable over longer periods of time. Furthermore, any public perception that our aircraft are less than completely reliable could have a material adverse effect on our business, financial condition and results of operations.

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

The airline business is very capital intensive and we are highly leveraged. For the year ended September 30, 2008, our debt service payments, including principal and interest, totaled $97.0 million and our aircraft lease payments totaled $227.0 million. We have significant lease obligations with respect to our aircraft and ground facilities, which aggregated approximately $1.9 billion at September 30, 2008. As of September 30, 2008, our potential growth strategy involves the acquisition of ten more CRJ-700 regional jets. As of September 30, 2008, we had permanently financed all aircraft delivered under our agreement with Bombardier. There are no assurances that we will be able to obtain financing for the ten CRJ-700 future aircraft deliveries or find suitable used CRJ-700.

There can be no assurance that our operations will generate sufficient cash flow to make such payments or that we will be able to obtain financing to acquire the additional aircraft necessary for our expansion. If we default under our loan or lease agreements, the lender/lessor has available extensive remedies, including, without limitation, repossession of the respective aircraft and, in the case of large creditors, the effective ability to exert control over how we allocate a significant portion of our revenues.

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

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

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

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

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

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

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

On March 28, 2008 Delta notified the Company of its intent to terminate the Amended DCA among Delta, the Company, and the Company's wholly owned subsidiary, Freedom Airlines, alleging failure to maintain a specified completion rate with respect to its ERJ-145 Delta Connection flights during three months of the six-month period ended February 2008. Following Delta's termination notification, the Company filed a complaint on April 7, 2008 in the United States District Court for the Northern District of Georgia (the "District Court") seeking declaratory and injunctive relief. An evidentiary hearing was conducted during the three day period ended May 29, 2008. Following the hearing, the District Court ruled in the Company's favor and issued a preliminary injunction against Delta.

The effect of this ruling is to prohibit Delta from terminating the Amended DCA covering the ERJ-145 aircraft operated by Freedom Airlines, based on Freedom Airlines' completion rate prior to April 2008, pending a final trial at a date to be determined by the District Court. On June 27, 2008, Delta filed a notice of appeal with the 11^{th} Circuit Court of Appeals (the "Court of Appeals") and on July 15, 2008 Delta filed a motion requesting that the appeal be heard on an expedited basis. The Company has responded to Delta's motion in accordance with the applicable rules and the Court of Appeals, after reviewing the filings, denied Delta's request. Delta and the Company have fully briefed the issues on appeal and oral arguments in the 11^{th} Circuit Court of Appeals have been scheduled for January 26, 2009.

On August 1, 2008, Delta notified the Company of the termination of the Expansion DCA citing an alleged failure to meet certain contractual benchmarks contained in the Expansion DCA. Mesa has placed Delta on notice that it disputes the basis for Delta's actions and that it intends to seek all remedies available at law to challenge Delta's decision.

On August 6, 2008, Mesa filed a complaint against Delta seeking the return of seven aircraft engines that Delta improperly retained possession of following the termination of an engine maintenance memorandum of understating executed between Mesa and Delta. Delta claimed its retention of these engines was justified as a means to secure recovery of certain disputed amounts related to the memorandum of understating. The memorandum of understanding does not contain provisions regarding Delta's claims and does not permit Delta's retention of the engines. Delta did not have a legal basis upon which to retain continued unauthorized possession of the engines. On or about August 13, 2008, Delta returned possession of the engines at issue. On August 22, 2008, Delta recorded mechanics' liens on the engines and filed a counterclaim seeking to foreclose on the liens as well as seeking certain payments allegedly related to the memorandum of understanding. Mesa's action filed in the United States District Court for the District of Arizona sought the immediate return of all engines currently in Delta's possession and/or control, forfeiture of all claimed liens, as well as damages related to Delta's improper retention of the engines. On November 12, 2008, the court heard oral arguments on Mesa's motion to dismiss Delta's purported liens and Delta's motion to foreclose on the liens. On November 14, 2008, the court ruled that Delta forfeited its lien claims as a result of its failure to comply with the timelines set out in the Georgia lien statute. The parties' competing claims for money damages are still pending before the court. A judgment in Delta's favor for damages related to its counterclaim could have a material adverse impact on the Company's business, financial condition and results of operations.

On October 20, 2008, Mesa filed a complaint against Mokulele Air Group, Inc. ("Mokulele") alleging claims for breach of contract related to certain amounts owed to the Company by Mokulele under the code-share agreement dated February 7, 2007.

Mesa's complaint was filed in the United States District Court for the District of Arizona. On November 4, 2008, Mokulele filed a complaint in the United States District Court for the District of Hawaii alleging claims for breach of the code-share agreement, attempted monopolization in violation of the Sherman Anti-Trust Act and unfair competition under Hawaii statutes. On November 7, 2008, Mesa amended its complaint filed in the District Court of Arizona to add claims for breach of contract, breach of the covenant of good faith and fair dealing, breach of an open account, unjust enrichment, coercion, trademark infringement in violation of the Hawaii and Arizona statutes and the federal Lanham Act, misappropriation of trade secrets, deceptive trade practices and unfair competition. This litigation is in the initial stages and the Company strongly denies having violated any statutory or common law duties owed to Mokulele.

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

Adverse rulings in any of these matters could have a negative impact on our financial performance and in some cases could have a material adverse impact on our business financial condition, results of operations and the price of our common stock.

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

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

We may experience difficulty finding, training and retaining employees.

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

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

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

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

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

- establish a brand that is attractive to our target customers;
- maintain adequate controls over our expenses;
- monitor and manage operational and financial risks;
- secure favorable terms with airports, suppliers and other contractors;

- maintain the safety and security of our operations;
- attract, retain and motivate qualified personnel; and
- react to responses from competitors who are more established in the Hawaiian markets.

If we are unable to successfully place excess aircraft it may adversely affect our operation.

We depend on our code-share partners and on the success of our other ventures to maintain our aircraft in revenue-generating operations. Currently, our excess aircraft include 4 ERJ-145s as a result of scheduled reductions under the Amended DCA and 20 Beech 1900D aircraft as a result of the Air Midwest shut down.

There are several scenarios that could result in an increase in number of excess aircraft. If our code-share partners terminate their code-share agreements, or exercise early termination provisions contained in certain code-share agreements, then the Company would face the challenge of generating ongoing revenue for these excess aircraft. If the aircraft subleased to Kunpeng Airlines or operated by go! in Hawaii are returned for any reason, then it would also cause an increase in the number of excess aircraft. In addition, the Company is currently involved in a dispute with Delta over the effectiveness of a notice issued by the Company extending the term covering 6 ERJ-145 aircraft; without the 12-month extension these aircraft are set to exit Delta Connection service in March of 2009. An increase in excess aircraft could result in our operating revenues and net income being materially adversely affected unless we are able to enter into satisfactory substitute arrangements.

Risks Related to Our Joint Venture in China

The ongoing losses of Kunpeng and our inability to timely sell our interests in this joint venture could negatively impact our operations and profitability.

On December 22, 2006, our wholly-owned subsidiary, Ping Shan, entered into a joint venture agreement (the "Joint Venture Agreement") with Shan Yue SRL ("Shan Yue") and Shenzhen Airlines ("Shenzhen"), pursuant to which the parties agreed to form Kunpeng, an equity joint venture company organized under the laws of China. Ping Shan holds a 25% share of the registered capital of Kunpeng. Additionally, Shan Yue, a Barbados society with restricted liability, holds 24% of the registered capital of Kunpeng. Shan Yue holds 5% of the 24% interest in Kunpeng for the exclusive benefit of an unaffiliated third party. Wilmington Trust Company holds 100% of the outstanding equity of Shan Yue as trustee of Shan Yue Trust, a Delaware statutory trust. We are the sole beneficiary of Shan Yue Trust. Our net ownership interest in Kunpeng is 44%. On September 28, 2007, Kunpeng commenced common carrier passenger service. As of September 30, 2008, Kunpeng operated five 50-seat CRJ 200 aircraft on regional routes flying out of a hub in Xian, China.

Kunpeng has incurred losses since its inception and is expected to continue to incur losses for the foreseeable future. As a result, on June 25, 2008, we entered into a letter of intent ("LOI") with Shenzhen to sell all of our equity interest in Kunpeng to Shenzhen. Negotiations with Shenzhen are ongoing and no assurance can be given that the LOI will result in a sale of our equity interest in Kunpeng to Shenzhen, or that, if such a sale were to occur, that it will be on terms acceptable to the Company. Under the proposed terms of the LOI, Mesa will receive net proceeds of approximately $4.8 million for our equity interest in Kunpeng. In addition, Shenzhen will cause Kunpeng to pay certain amounts for back due aircraft rental payments.

In addition, under the terms of the Joint Venture Agreement, Ping Shan and Shan Yue agreed to, among other things, assist Kunpeng in securing aircraft from foreign suppliers and, as of the date of this report, the Company has the contractual right to deliver up to 20 CRJ-200s to the joint venture. Kunpeng has informed the Company that it no longer plans to accept deliveries of additional 50-seat regional jets from Mesa.

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

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

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

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

- changes in policies by the Chinese government resulting in changes in laws or regulations or the interpretation of laws or regulations;
- confiscatory taxation;
- changes in employment restrictions;
- restrictions on imports and sources of supply;
- import duties;
- corruption;
- currency revaluation; and
- the expropriation of private enterprise.

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

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

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

- levying fines;

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

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

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

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

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

The full tax exemption for the enterprise income tax expired on December 31, 2005 and the one-half reduction on the enterprise profit tax to 13.5% will expire on December 31, 2008. Regardless of whether Kunpeng is granted preferential tax treatment by China's tax authorities, after such tax holidays, Kunpeng's profits will be subject to the full tax rate of 25%, effective as of January 1, 2008 in accordance with the EIT Law passed in 2007.

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

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

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

As of September 30, 2008, our outstanding obligation to make additional capital contributions to Kunpeng under the Joint Venture Agreement had an aggregate fair value of approximately $28.6 million (or approximately 196,000,000 Renminibi). The potential increase in the fair value of this obligation resulting from a 10% adverse change in quoted foreign currency exchange rates would be approximately $2.87 million at September 30, 2008.

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

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

Risks Related to Our Industry

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

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

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

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

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

The airline industry is heavily regulated.

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

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

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

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

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

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

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

Risks Related to Our Common Stock

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

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

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

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

Our stock price may continue to be volatile.

The stock market has, from time to time, experienced extreme price and volume fluctuations. Many factors may cause the market price for our common stock to fluctuate, including:

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

The price of our common stock could be negatively impacted if we use shares of our common stock to satisfy our obligation to repurchase our 2023 Notes on January 31, 2009 and our 2024 Notes on February 10, 2009.

Pursuant to agreements with certain holders (the "2023 Holders") of our 2023 Notes, the 2023 Holders have the right to require us to repurchase their 2023 Notes on January 31, 2009 at a price of $397.27 per $1,000 in principal amount of 2023 Notes plus any accrued and unpaid interest. If the 2023 Holders exercise their put rights with respect to all of their 2023 Notes, the Company will be required to repurchase such 2023 Notes for approximately $23.2 million in cash, common stock, or a combination thereof.

Pursuant to the indenture governing our 2024 Notes, the holders of our 2024 Notes have the right to require us to repurchase their 2024 Notes on February 10, 2009 at a price of $583.40 per $1,000 in principal amount of 2024 Notes plus any accrued and unpaid interest. If the holders of our 2024 Notes exercise their put rights with respect to all of their 2024 Notes, the Company will be required to repurchase such 2024 Notes for approximately $77.8 million in cash, common stock, or a combination thereof.

We intend to use shares of common stock to satisfy our repurchase obligations related to the 2023 Notes and 2024 Notes.

As of September 30, 2008, we had 26,773,479 shares of our common stock issued and outstanding. Assuming we satisfy the conditions to using common stock to repurchase the 2023 Notes and 2024 Notes, and that the repurchase price is $0.26 per share of common stock, if all of the holders of 2023 Notes and 2024 Notes tender all of their notes for repurchase, we will issue approximately 89,820,769 and 299,230,769 shares of common stock to satisfy our repurchase obligations related to the 2023 Notes and 2024 Notes, respectively. Sales in the public market of the common stock issuable in satisfaction of our repurchase obligations related to the 2023 Notes and/or 2024 Notes could negatively impact the market price of our common stock.

Risk Related to Utilization of NOL Carry Forwards.

Periodically the Company conducts a valuation of the net deferred tax assets arising principally from NOL carry forwards. As a result of the valuation, the Company maintains an allowance against the net deferred tax asset of $12.2 million at September 30, 2008.

Internal Revenue Code Section 382 rules apply to limit a corporation's ability to utilize existing net operating loss carryforwards once the corporation experiences an ownership change as defined in the rules of Section 382. Generally, an ownership change occurs when, within a span of 36 months there is an increase in the stock ownership by one or more shareholders of more than 50 percentage points. If the Company should incur a future ownership change or significant equity event in the future, the Company may be limited to an annual limitation on the use of its net operating loss carryforwards.

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

None.

Item 2. ***Properties***

Our primary property consists of the aircraft used in the operation of our flights. The following table lists the aircraft owned and leased by the Company as of September 30, 2008:

	Number of Aircraft					
Type of Aircraft	**Owned**	**Leased**	**Total**	**Operating on Sept. 30, 2008**	**Passenger Capacity**	
CRJ-200/100 Regional Jet	2	50	52	49	50	(1)
CRJ-700 Regional Jet	8	12	20	20	66	
CRJ-900 Regional Jet	14	31	45	45	86	
Embraer 145 Regional Jet	-	36	36	36	50	(2)
Beechcraft 1900D	20	-	20	-	19	(3)
Dash-8	-	16	16	16	37	
Total	44	145	189	166		

(1) Five CRJ-200's are currently in China in an agreement with Kunpeng airlines.
(2) Two ERJ 145 jets are currently being subleased to Trans States that began in the third quarter of 2008.
(3) Part of Mesa's Discontinued Operations (Air Midwest) includes 20 Beechcraft 1900's, which are included in our inventory although currently parked.

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

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

Type	Location	Ownership	Square Feet
Headquarters	Phoenix, AZ	Leased	36,000
Administration	Phoenix, AZ	Leased	24,000
Training	Mesa, AZ	Leased	21,000
Hangar/Office	Phoenix, AZ	Leased	22,000
Engine Shop & Commissary	Phoenix, AZ	Leased	25,000
RAS Office/Component Overhaul Facility	Phoenix, AZ	Leased	19,000
Customer Service Training/Storage	Phoenix, AZ	Leased	10,000
Office (East Coast)	Charlotte, NC	Leased	5,500
Hangar	Charlotte, NC	Leased	30,000
Hangar	Columbia, SC	(1)	20,000
Hangar	Columbia, SC	(1)	35,350
Hangar	Grand Junction, CO	(1)	25,000
Hangar/Office	Wichita, KS	(1)	20,000
Training/Administration	Farmington, NM	(1)	10,000
Hangar	Farmington, NM	(1)	24,000
Hangar/Office	Dubois, PA	(1)	23,000
Hangar	Orlando, FL	Leased	18,693
Office	Honolulu, HI	Leased	7,793
Hangar	Chicago, IL	Leased	16,448

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

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

Our corporate headquarters, administration and training/administrative facilities in Phoenix and Mesa, Arizona are subject to long-term leases expiring on August 31, 2012, January 1, 2014 and August 8, 2012, respectively.

In March 2008, the Company signed a lease agreement to rent approximately 24,000 square feet for administrative purposes. The lease commenced April 1, 2008 with monthly rental in the amount of $41,744 until February 2010, in which the annual rent will increase by 3% each March 1 during the remainder of the lease term.

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

Item 3. ***Legal Proceedings***

On January 9, 2007, Aloha Airlines filed suit against Mesa Air Group in the United States District Court for the District of Hawaii. The complaint seeks damages and injunctive relief. Aloha alleges that Mesa's inter-island air fares are below cost and that Mesa is, therefore, violating specific provisions of the Sherman Act. Aloha also alleges breach of contract and fraud by Mesa in connection with two confidentiality agreements, one entered into in 2005 and the other in 2006. Mesa denies any attempt at monopolization of the inter-island market and further denies any improper use of the data furnished by Aloha while Mesa was considering a bid for Aloha during its bankruptcy proceedings. On November 28, 2008, Mesa Air Group, Inc. ("Mesa") entered into a settlement and release agreement ("Settlement Agreement"), effective as of November 28, 2008, with certain affiliates of the Yucaipa Companies LLC (collectively, "Yucaipa"), which purchased Aloha suit in the bankruptcy case, relating to the action entitled *Aloha Airlines, Inc., et al. v. Mesa Air Group, Inc.* before the United States District Court for the District of Hawaii (Case No. CV 07-00007 DAE/BMK) (the "Action"). The Settlement Agreement fully and finally settles all issues and disputes that were raised, or could have been raised, by Yucaipa, Mesa, or Aloha Airlines, Inc. and Aloha Air Group Inc. (collectively, "Aloha") in connection with the Action.

Pursuant to the Settlement Agreement, Yucaipa will fully and finally released Mesa and its affiliates, and Mesa will fully and finally released Yucaipa and its affiliates, from all past, present or future claims related to the Action, including all claims unknown at the time of execution of the Settlement Agreement, and/or arising out of certain non-disclosure agreements and Mesa's introduction of flight service into the Hawaiian inter-island market. Yucaipa's release, which will be effective February 29, 2009, includes the release of any claims relating to the Action that were or could have been brought by Aloha because Yucaipa previously acquired all of Aloha's interests and rights in the Action.

In consideration for Yucaipa's release, Mesa has agreed to issue approximately 2.7 million shares of its common stock to Yucaipa and make a cash payment of $2 million to Yucaipa. Mesa has also agreed to register the shares of common stock it issues to Yucaipa with the Securities and Exchange Commission.

In addition, under the Settlement Agreement, Mesa and Yucaipa agreed to establish a licensing and profit sharing arrangement whereby, in the event that Yucaipa is able to acquire from Aloha in an upcoming bankruptcy court auction the rights to the names "Aloha" and "Aloha Airlines," Yucaipa will enter into a license agreement with Mesa to license such names to Mesa for ten years (the "Term") in exchange for royalty payments by Mesa and Mesa will pay to Yucaipa a set percentage of the pre-tax operating profits from Mesa's operations in the Hawaiian inter-island market. Specifically, for each year during the Term, Mesa will pay Yucaipa 1% of the passenger ticket revenue generated from all Hawaiian inter-island flight operations, subject to a minimum annual revenue payment of $600,000 (the "Revenue Payments"), and will also pay Yucaipa 30% of the pre-tax operating profits from Mesa's operations in the Hawaiian inter-island market less the Revenue Payments.

If Mesa ceases inter-island flight operations in Hawaii, Mesa has the right to terminate the licensing and profit sharing arrangement. Mesa will provide Yucaipa with a $5 million promissory note payable over five years, at LIBOR +350 basis points interest, reset quarterly, that will become payable if Mesa ceases operations in the Hawaiian inter-island market or breaches the Settlement Agreement. If, at the end of the first five years of the Term, the note has not become payable as a result of Mesa's cessation of operations or breach, the principal owing on the note will decrease automatically on a straight-line basis over the remaining five years of the Term. If Mesa ceases operations in Hawaii or breaches the Settlement Agreement during the final five years of the Term, the amount payable on the note would be the principal remaining at the time of such cessation or breach. The note will be secured by a first priority lien on certain Mesa assets with a fair market value equal to 125% of the principal amount of the note.

The Settlement Agreement also provides that the parties will take certain further actions to seek the dismissal, with prejudice, of the entire Action.

On March 28, 2008, Delta notified the Company of its intent to terminate the Delta Connection Agreement among Delta, the Company, and the Company's wholly owned subsidiary, Freedom Airlines, Inc., alleging failure to maintain a specified completion rate with respect to its ERJ-145 Delta Connection flights during three months of the six-month period ended February 2008. Following Delta's termination notification, the Company filed a complaint on April 7, 2008 in the United States District Court for the Northern District of Georgia (the "District Court") seeking declaratory and injunctive relief. An evidentiary hearing was conducted on May 27 through May 29, 2008. Following the hearing, the Court ruled in the Company's favor and issued a preliminary injunction against Delta.

The effect of this ruling is to prohibit Delta from terminating the Delta Connection Agreement covering the ERJ-145 aircraft operated by Freedom Airlines, based on Freedom Airlines' completion rate prior to April 2008, pending a final trial at a date to be determined by the District Court. On June 27, 2008, Delta filed a notice of appeal with the 11^{th} Circuit Court of Appeals (the "Court of Appeals") and on July 15, 2008, Delta filed a motion requesting that the appeal be heard on an expedited basis. The Company has responded to Delta's motion in accordance with the applicable rules and the Court of Appeals, after reviewing the filings, denied Delta's request. Delta and the Company have fully briefed the issues on appeal and oral arguments in the 11^{th} Circuit Court of Appeals have been scheduled for January 26, 2009.

Prior to the Court's ruling, Delta planned to remove from service a significant portion of the aircraft in early June 2008 and all aircraft in July 2008 and forward. Delta did not immediately reverse its plans based upon the Court's ruling. Following the court's ruling, the Company and Delta reached an interim financial understanding (subject to the mutual reservation of rights) in which Delta will reimburse the Company for certain costs and the majority of the ERJ-145 aircraft will remain out of service until October 2008.

On August 1, 2008, Delta notified the Company of the termination of the CRJ-900 Delta Connection Agreement citing an alleged failure to meet certain contractual benchmarks contained in the CRJ-900 Delta Connection Agreement. Mesa strongly denies having violated the Delta Connection Agreement and intends to challenge Delta's decision. We believe the airport hub in which the CRJ-900 aircraft are operated and the schedules created by Delta, significantly impact our ability to meet the contract performance benchmarks.

In particular, we believe the operating environment at New York's JFK airport presents significant challenges to meet the performance requirements.

On August 6, 2008 Mesa filed a complaint against Delta Air Lines seeking the return of seven aircraft engines that Delta improperly retained possession of following the termination of an engine maintenance memorandum of understating executed between Mesa and Delta. Delta has claimed its retention of these engines was justified as a means to secure recovery of certain disputed amounts related to the memorandum of understating. The memorandum of understanding does not contain provisions regarding Delta's claims and does not permit Delta's retention of the engines. Delta did not have a legal basis upon which to retain continued unauthorized possession of the engines. On or about August 13, 2008, Delta returned possession of the engines at issue. On August 22, 2008, Delta recorded mechanics' liens on the engines and filed a counterclaim seeking to foreclose on the liens as well as seeking certain payments allegedly related to the memorandum of understanding. Mesa's action filed in the United States District Court for the District of Arizona sought the immediate return of all engines currently in Delta's possession and/or control, forfeiture of all claimed liens, as well as damages related to Delta's improper retention of the engines. On November 12, 2008, the Court heard oral arguments on Mesa's motion to dismiss Delta's purported liens and Delta's motion to foreclose on the liens. On November 14, 2008, the Court ruled that Delta forfeited its lien claims as a result of its failure to comply with the timelines set out in the Georgia Lien Statute. The parties' competing claims for money damages are still pending before the Court. A judgment in Delta's favor for damages related to its counterclaim could have a material adverse impact on our financial condition or results of operations.

On October 20, 2008, Mesa filed a complaint against Mokulele alleging claims for breach of contract related to certain amounts owed to the Company by Mokulele under the code-share agreement dated February 7, 2007. Mesa's complaint was filed in the United States District Court for the District of Arizona. On November 4, 2008, Mokulele filed a complaint in the United States District Court for the District of Hawaii alleging claims for breach of the code-share agreement, attempted monopolization in violation of the Sherman Anti-Trust Act and unfair competition under Hawaii statutes. On November 7, 2008, Mesa amended its complaint filed in the District Court of Arizona to add claims for breach of contract, breach of the covenant of good faith and fair dealing, breach of an open account, unjust enrichment, coercion, trademark infringement in violation of the Hawaii and Arizona statutes and the federal Lanham Act, misappropriation of trade secrets, deceptive trade practices and unfair competition. This litigation is in the initial stages and the Company strongly denies having violated any statutory or common law duties owed to Mokulele.

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

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

None.

PART II

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

Market Price of Common Stock

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

	Fiscal 2008		Fiscal 2007	
	High	**Low**	**High**	**Low**
Quarter				
First	$ 5.27	$ 3.09	$ 9.20	$ 7.41
Second	$ 3.70	$ 2.21	$ 8.71	$ 7.27
Third	$ 2.37	$ 0.44	$ 8.00	$ 6.61
Fourth	$ 0.55	$ 0.30	$ 7.09	$ 4.44

On September 30, 2008, we had 992 shareholders of record. We have never paid cash dividends on our common stock. The payment of future dividends is within the discretion of our board of directors and will depend upon our future earnings, if any, our capital requirements, bank financing, financial condition and other relevant factors.

Equity Compensation Plans

The following table sets forth certain information as of September 30, 2008, concerning outstanding options and rights to purchase common stock granted to participants in all of the Company's equity compensation plans (including the Outside Director's Stock Option Plan) and the number of shares of common stock remaining available for issuance under such equity compensation plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	1,390,839	$ 6.41	900,517
Equity compensation plans not approved by security holders (1)	836,000	8.49	-
Total	2,226,839	$ 7.19	900,517

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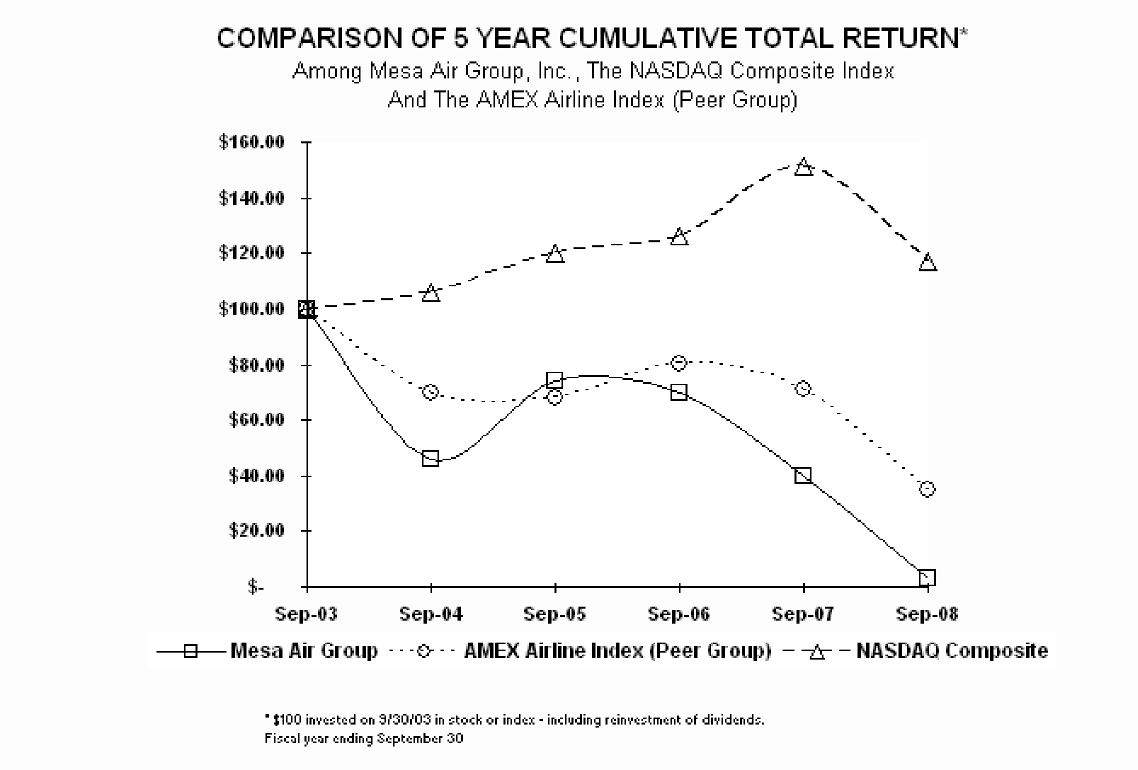
(1) The Board of Directors adopted the 2001 Key Officer Plan on July 13, 2001. An aggregate of 2,000,000 shares are authorized for issuance under this plan. The Company's Chief Executive Officer and President are the only persons eligible to participate in the plan.

STOCK PERFORMANCE GRAPH

The following graph compares total stockholder returns of Mesa Air Group, Inc. for the five-year period ended September 30, 2008, with the total returns of the AMEX Airline Index (Peer Group) and an index of the NASDAQ Composite Index. The graph assumes that $100 was invested September 30, 2003 in Mesa Air Group, Inc. stock and equally across all stocks included in the indices, and covers the period through September 30, 2008. Total return includes reinvestment of all dividends.



Recent Sales of Unregistered Securities

There have been no recent sales of unregistered securities.

Purchases of Equity Securities

The following table sets forth information required regarding repurchases of common stock that we made during the fiscal year ended September 30, 2008:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Cumulative Number of Shares Purchased as Part of Publicly Announced Plan (1)	Maximum Number of Shares That May yet be Purchased Under the Plan
Three months ended December 31, 2007	1,333,369	$ 3.65	17,234,554	12,187,707
Three months ended March 31, 2008	718,049	$ 2.70	17,952,603	11,469,658
Three months ended June 30, 2008	-	$ -	17,952,603	11,469,658
Three months ended September 30, 2008	-	$ -	17,952,603	11,469,658

(1) Under resolutions adopted and publicly announced in December 1999, January 2001, October 2002, October 2004, April 2005, October 2005 and May 2007 our Board of Directors has authorized the repurchase, of up to an aggregate of approximately 29.4 million shares of our common stock. Purchases are made at management's discretion based on market conditions and the Company's financial resources. As of September 30, 2008 the Company has spent approximately $113.9 million to purchase and retire approximately 17.9 million shares of its outstanding common stock.

Item 6. *Selected Financial Data*

Selected Financial Data and Operating Statistics

The selected Consolidated Statements of Operations and Consolidated Balance Sheet data as of and for each of the five years ended September 30, 2008, are derived from the Consolidated Financial Statements of the Company and its subsidiaries and should be read in conjunction with the Consolidated Financial Statements included elsewhere in this Form 10-K and the related notes thereto and "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS." In the fourth quarter of fiscal 2007, we committed to a plan to sell Air Midwest or certain assets thereof. Air Midwest includes our independent Mesa operations, Midwest Airlines code-share operations, and our Beechcraft 1900D 19-seat turboprop code-share operations with US Airways. All assets and liabilities and results of operations associated with these assets have been presented in the accompanying consolidated financial statements as discontinued operations separate from continuing operations.

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

	2008(1)	2007 (2)	2006 (3)	2005 (4)	2004 (5)
Consolidated Statements of Operations Data - Continuing Operations:					
Net operating revenues	$ 1,326,111	$ 1,298,064	$ 1,284,903	$ 1,076,005	$ 815,098
Operating expenses	1,316,106	1,371,836	1,182,514	943,006	741,137
Operating income (loss)	10,005	(73,772)	102,389	132,999	73,961
Interest expense	36,081	39,380	34,209	41,324	21,892
Income (loss) before income taxes	(1,412)	(108,922)	61,942	99,400	55,011
Net income (loss) from continuing operations	(5,735)	(71,538)	37,103	61,563	32,000
Net income (loss) per share-continuing operations					
Basic	$ (0.21)	$ (2.31)	$ 1.11	$ 2.11	$ 1.02
Diluted	$ (0.21)	$ (2.31)	$ (0.91)	$ 1.45	$ 0.78
Net loss from discontinued operations	$ (23,425)	$ (10,023)	$ (3,136)	$ (4,696)	$ (5,718)
Consolidated Balance Sheet Data - Continuing Operations:					
Working capital	$ 62,640	$ 192,916	$ 187,635	$ 225,176	$ 3,739
Total assets	959,205	1,226,296	1,238,213	1,167,671	1,121,537
Long-term debt, excluding current portion	420,878	561,946	500,363	589,029	500,921
Stockholders' equity	$ 109,657	$ 145,100	$ 264,210	$ 176,670	$ 128,904
Consolidated Operating Statistics *:					
Passengers carried	13,604,915	16,393,027	14,839,701	13,088,872	10,239,915
Revenue passenger miles (000)	6,045,394	6,952,438	6,840,101	6,185,864	5,035,165
Available seat miles ("ASM") (000)	8,103,055	9,182,517	9,139,340	8,715,749	7,107,684
Block hours	498,966	616,591	571,827	571,339	513,881
Average passenger journey in miles	444	424	461	473	492
Average stage length in miles	386	364	397	389	390
Load factor	74.6%	75.7%	74.8%	71.0%	70.8%
Break-even passenger load factor	75.3%	74.6%	61.1%	53.3%	53.6%
Revenue per ASM in cents	16.8	14.9	14.6	13.0	12.6
Operating cost per ASM in cents	16.9	14.7	13.5	11.6	11.7
Average yield per revenue passenger mile in cents	22.5	19.7	19.5	18.4	17.8
Average revenue per passenger	$ 97.47	$ 82.14	$ 87.96	$ 84.25	$ 84.81
Aircraft in operation	159	182	191	182	180
Cities served	124	184	173	176	181
Number of employees	4,113	4,800	5,200	4,600	5,000

***** Operating statistics include Air Midwest turboprop operations

(1) Net loss in fiscal 2008 includes the pretax effect of recognizing a $34.1 million credit on the $90 million bond posted for the loss contingency with Hawaiian Airlines, a pretax loss contingency of $2.8 million with Aloha Airlines, a pre-tax sale of bankruptcy stock received from US Airways of $26,780, a gain on the extinguishment of debt of $8.9 million from the purchase of certain senior convertible notes due February 2024 and June 2023 and gain on the extinguishment of debt of $5.8 million from the retirement of debt associated with the sale of 14 Beechcraft 1900D to Raytheon. In additon the net loss in fiscal 2008 includes a $9.1 million impairment charge on the remaining 20 Beechcraft 1900D, a $209,000 impairment charge on Dash 8 inventory and a $1.3 million impairment on the investment in Kunpeng, and a $10.5 million increase to the valuation allowance on deferred tax assets.
(2) Net loss in fiscal 2007 includes the pretax effect of recognizing a loss contingency, with Hawaiian Airlines, of $86.9 million, impairment of contract incentives of $25.3 million, $11.6 million of exit costs associated with the elimination of the Dash-8 JFK operations, and $6.4 million in impairment charges made to leasehold improvements related to certain aircraft under the United code-share agreement.
(3) Net income in fiscal 2006 includes a bankruptcy settlement of $12.1 million (pretax) and debt conversion costs of $13.1 million (pretax).
(4) Net income in fiscal 2005 includes the net effect of reversing certain impairment and restructuring charges of $1.3 million.
(5) Net income in fiscal 2004 includes the net effect of impairment and restructuring charges of $11.9 million (pretax).

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

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

Executive Overview

Fiscal 2008 was a year of challenges and modest successes for us. We reached legal settlements with both Hawaiian and Aloha Airlines. In the Hawaiian Airlines settlement, we recovered $37.5 million from a bond being held by the US Bankruptcy Court in Hawaii. Our settlement with Aloha resolved litigation and provided both parties the opportunity to benefit through a licensing agreement which allows Mesa to operate under the Aloha name. We agreed to pay Aloha $2.0 million cash, issue stock equal to 10% of our current outstanding shares and provide inter-island flight benefits to certain former Aloha employees. Mesa agreed to the terms of these settlements without admitting any wrongdoing.

Also during the fiscal year, we expanded capacity in Hawaii; available seat miles increased by 9.2% over the prior year. After only 17 months in operation we congratulated our one millionth passenger. We look forward to the opportunity to grow the Hawaiian segment of our operation.

In the first three quarters of the fiscal year we took strides to grow our fuel efficient CRJ-900 fleet flying for Delta as Freedom Airlines. We placed seven 900's into service in the first three quarters with the intent to fulfill a contract with Delta to increase the CRJ-900 fleet to a total of 14 aircraft. In August 2008, Delta notified Mesa of the termination of the CRJ-900 Delta Connection Agreement, citing an alleged failure to meet certain contractual benchmarks contained in the CRJ-900 Delta Connection Agreement. Mesa denies having violated the Delta Connection Agreement and we intend to challenge Delta's decision.

During the third quarter 2008 Mesa won a preliminary injunction in the Federal Court in Atlanta enjoining Delta Air Lines from terminating Freedom Airline's ERJ-145 contract. This injunction was in response to Delta's notification of its intent to terminate the Delta Connection Agreement as a result of Freedom's alleged failure to maintain a specified completion rate with respect to its Delta Connection flights during three months of the six-month period ended February 2008.

In May 2008 we sold 14 of our 34 Beechcraft 1900D's to Raytheon Aircraft Credit Corporation. The transaction included the elimination of $28 million of long term debt associated with the aircraft and resulted in a net gain on extinguishment of debt of $5.8 million for the Company.

Air Midwest ceased operating in all markets at the end of the third quarter 2008. This was consistent with an announcement made in fiscal 2007 of the Company's intent to do so.

In July 2008 we entered into a new Time and Material Maintenance Program with GE. This agreement terminates the terms of a previous contract for the maintenance and repair of Mesa's owned or operated CF34-3B1 engines, settled Mesa's prior payment obligations and awarded a new exclusive 5-year contract for the maintenance repair, and overhaul of Mesa's CF34-3. In accordance with the agreement, Mesa entered into a note payable for $22.0 million in addition to a $6.0 million payment for past due receivables.

In January 2004, we exercised options to purchase twenty CRJ-900 aircraft. As of the end of the fiscal year we had taken delivery of thirteen CRJ-900 aircraft and five CRJ-700 aircraft. The obligation to purchase the remaining two CRJ-900's was terminated in June 2007 in connection with our agreement to purchase 10 new CRJ-700 NextGen aircraft. In conjunction with this purchase agreement, Mesa has $500,000 on deposit with Bombardier that was included in lease and equipment deposits on September 30, 2008. The deposit amount is expected to be returned upon completion of permanent financing on each of the ten aircraft. On September 26, 2008, the Company and Bombardier amended the purchase agreement to return $6.0 million of the $6.5 million previously held on deposit, delayed deliveries of the 10 CRJ-700 aircraft and advanced rebates related to Bombardier's heavy maintenance service agreement.

In the third quarter of fiscal 2008 we entered into a Letter of Intent to sell our interest in Chinese carrier Kunpeng Airlines to Shenzhen Airlines, the majority shareholder, for $4.8 million. Numerous drafts of a proposed agreement were exchanged in the past two quarters. A valuation of the interest was conducted by both companies, resulting in Mesa recording a loss on its investment in Kunpeng of $1.3 million as of the end of the fiscal year. This loss reflects the expected proceeds from the sale of $4.8 million less the Company's investment of $5.8 million and estimated transaction costs of $300,000.

The Company will continue to sublease five regional jets to Kunpeng. These leases are not affected by the Letter of Intent. Total sublease revenue for fiscal 2008 was $4.4 million. At year end the Company had gross receivables from Kunpeng of approximately $2.9 million.

During the third quarter ended June 30, 2008, the Company recorded an impairment charge of $1.3 million on its investment in Kunpeng which is classified in loss from equity method investment in the consolidated statement of operations. (See Note 8). In addition, the company sold 14 of its 34 Beechcraft 1900D aircraft. In connection with these negotiations and in preparation for marketing the remaining 20 Beechcraft 1900D aircraft the Company concluded that the fair value of the remaining 20 aircraft was less than the carrying value and therefore recorded an impairment charge of $9.1 million during the second quarter ended March 31, 2008. The impairment charge is included within loss from discontinued operations in the consolidated statement of operations. (See Note 2).

While the airline industry in general, and Mesa in particular, face a number of challenges in today's operating environment, we remain resolutely committed to returning the company to sustained profitability and delivering the best service possible to our passengers and airline partners.

Discontinued Operations

In the fourth quarter of fiscal 2007, the Company committed to a plan to sell Air Midwest or certain assets thereof. Air Midwest consists of Beechcraft 1900D turboprop operations, which includes our independent Mesa operations and Midwest Airlines and US Airways code-share operations. In connection with this decision, the Company began soliciting bids for the sale of the twenty Beechcraft 1900D aircraft in operation and exited all of its Essential Air Service ("EAS") markets on or before June 30, 2008. All assets and liabilities, results of operations, and other financial and operational data associated with these assets have been presented in the accompanying consolidated financial statements as discontinued operations separate from continuing operations, unless otherwise noted. For all periods presented, we reclassified operating results of the Air Midwest turboprop operation to loss from discontinued operations.

Fleet

Aircraft at September 30:

Type of Aircraft	(1) 2008	2007	2006
CRJ-200/100 Regional Jet	49	52	60
CRJ-700 Regional Jet	20	20	15
CRJ-900 Regional Jet	45	38	38
Embraer 145 Regional Jet	36	36	36
Beechcraft 1900D See Note 2	-	20	20
Dash-8	16	16	22
Total	166	182	191

(1) Includes Five CRJ-200's currently subleased to Kunpeng Airlines and two ERJ 145 jets subleased to Trans States Airlines.

Rotable Spare Parts Maintenance Agreements

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

On April 1, 2008, AAR and Mesa entered into an agreement to settle outstanding amounts. Under the agreement Mesa owed AAR an aggregate of $5.4 million and AAR was obligated to pay Mesa $6 million in connection with AAR's acquisition of parts inventory. The amounts were offset and debt extinguished.

Summary of Financial Results - Continuing Operations

Mesa Air Group recorded a consolidated net loss from continuing operations of $5.7 million in fiscal 2008, representing a basic and diluted loss per share of $0.21. This compares to consolidated net loss from continuing operations of $71.5 million or $(2.31) per diluted share in fiscal 2007 and consolidated net income from continuing operations of $37.1 million or $.91 per diluted share in fiscal 2006.

Approximately 96% of our passenger revenue was associated with revenue-guarantee code-share agreements. Under the terms of our revenue-guarantee agreements, our major carrier partner controls the marketing, scheduling, ticketing, pricing and seat inventories. Our role is simply to operate our fleet in the safest and most reliable manner in exchange for fees paid under a generally fixed payment schedule. We receive a guaranteed payment based upon a fixed minimum monthly amount plus amounts related to departures and block hours flown in addition to direct reimbursement of expenses such as fuel, landing fees and insurance. Among other advantages, revenue-guarantee arrangements reduce our exposure to fluctuations in passenger traffic and fare levels, as well as fuel prices. In fiscal 2008, approximately 95.5% of our fuel purchases were reimbursed under revenue-guarantee code-share agreements. The remaining passenger revenues are derived from our ***go!*** operations.

Results of Continuing Operations

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

	Operating Data Years Ended September 30,		
	2008	2007	2006
Passengers	13,453,831	15,993,110	14,506,666
Available seat miles ("ASM") (000's)	8,027,966	8,996,959	8,980,470
Revenue passenger miles (000's)	6,020,008	6,879,624	6,777,016
Load factor	75.0%	76.5%	75.4%
Yield per revenue passenger mile (cents)	22.0	18.9	19.0
Revenue per ASM (cents)	16.5	14.4	14.3
Operating cost per ASM (cents)	16.4	15.2	13.2
Average stage length (miles)	403	392	433
Number of operating aircraft in fleet	159	162	171
Gallons of fuel consumed	154,814,813	201,526,868	205,593,333
Block hours flown	476,368	564,379	522,884
Departures	310,956	378,291	338,888

	Operating Expense Data Years Ended September 30,								
	2008			2007			2006		
	Amount (000s)	% of Total Net Revenues	Cost per ASM (cents)	Amount (000s)	% of Total Net Revenues	Cost per ASM (cents)	Amount (000s)	% of Total Net Revenues	Cost per ASM (cents)
Flight operations	$ 364,659	27.5 %	4.5	$ 382,504	29.5 %	4.3	$ 368,023	28.6 %	4.1
Fuel	517,907	39.1 %	6.5	438,010	33.7 %	4.9	446,788	34.8 %	5.0
Maintenance	262,868	19.8 %	3.3	254,626	19.6 %	2.8	213,317	16.6 %	2.4
Aircraft and traffic servicing	76,284	5.8 %	1.0	82,248	6.3 %	0.9	72,615	5.7 %	0.8
Promotion and sales	4,682	0.4 %	0.1	3,605	0.3 %	-	1,990	0.2 %	-
General and administrative	83,115	6.3 %	1.0	71,818	5.5 %	0.8	56,940	4.4 %	0.6
Depreciation and amortization	37,674	2.8 %	0.5	39,354	3.0 %	0.4	34,939	2.7 %	0.4
Loss contingency	(31,265)	(2.4)%	(0.4)	86,870	6.7 %	1.0	-	-	-
Bankruptcy and vendor settlements	(27)	0.0 %	-	434	(0.0)%	-	(12,098)	(0.9)%	(0.1)
Impairment and restructuring charges (credits)	209	0.0 %	-	12,367	1.0 %	0.1	-	-	-
Total operating expenses	1,316,106	99.2 %	16.4	1,371,836	105.7 %	15.2	1,182,514	92.0 %	13.2
Interest expense	(36,081)	(2.7)%	(0.4)	(39,380)	(3.0)%	(0.4)	(34,209)	(2.7)%	(0.4)
Interest income	6,511	0.5 %	0.1	14,314	1.1 %	0.2	12,076	0.9 %	0.1
Loss from equity method investments	(5,446)	(0.4)%	(0.1)	(3,868)	(0.3)%	-	(2,490)	(0.2)%	-
Gain on extinguishment of debt	14,680	1.1 %	0.2	-	-	-	-	-	-
Other income (expense)	$ 8,919	(0.7)%	0.1	$ (6,216)	(0.5)%	(0.1)	$ (15,824)	(1.2)%	(0.2)

Segment Data

Year Ended September 30, 2008 (000's)	Mesa/ Freedom	*go!*	Other	Elimination	Total
Total net operating revenues	$ 1,283,923	$ 43,718	$ 207,178	$ (208,708)	$ 1,326,111
Total operating expenses	1,261,837	73,681	161,070	(180,482)	1,316,106
Operating income (loss)	$ 22,086	$ (29,963)	$ 46,108	$ (28,225)	$ 10,005

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

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

FY 2008 Versus FY 2007

Operating Revenues

In the year ended September 30, 2008, net operating revenue increased $28.0 million, or 2.2%, to $1.33 billion from $1.30 billion for the year ended September 30, 2007. Contract revenue decreased $17.1 million, or 1.3%, driven primarily by reduced aircraft in service, including the elimination of our Delta Dash-8 operation at JFK International Airport, which had contributed $32.0 million of revenue in the year ended September 30, 2007. This decrease was partially offset by fuel rates which increased $64.4 million or 15.1%.

Operating revenues for ***go!*** increased $18.1 million as a result of a 48.7% increase in average fares and a 10.0% increase in passengers. Freight and other revenue increased by $2.5 million primarily due to sublease income from our Chinese joint venture. Net operating revenue in the year ended September 30, 2007 was negatively impacted by a ($25.3) million charge for impairment of contract incentives.

Operating Expenses

Flight Operations

In the year ended September 30, 2008, flight operations expense decreased $17.8 million, or 4.7%, to $364.7 million from $382.5 million for the year ended September 30, 2007. On an ASM basis, flight operations expense increased 6.8% to 4.5 cents per ASM in the year ended September 30, 2008 from 4.3 cents per ASM in the year ended September 30, 2007. Due to certain fixed components included within flight operations, the Company was not able to reduce expenses at the same rate as ASM's decreased, resulting in the inverse relationship between the expense decrease and the increase on a per ASM basis. The decrease is primarily driven by a $9.3 million decrease in wages and employee related expenses. Additionally, there was a net $8.3 million decrease in aircraft and aircraft related lease expense due to a decrease in the number of aircraft leased year-over-year as well as a shift of aircraft types within our fleet.

Fuel

In the year ended September 30, 2008, fuel expense increased by $79.9 million or 18.2%, to $517.9 million from $438.0 million for the year ended September 30, 2007. On an ASM basis, fuel expense increased 32.5% to 6.5 cents per ASM in the year ended September 30, 2008 from 4.9 cents per ASM in the year ended September 30, 2007. Average fuel cost per gallon increased $1.16, to an average of $3.34 per gallon for the year ended September 30, 2008 from an average of $2.18 per gallon for the year ended September 30, 2007. The cost per gallon increase resulted in a $179.5 million unfavorable price variance, of which $8.3 million related to ***go!***. The unfavorable price variance was partially offset by a decrease in the gallons of fuel purchased in the year ended September 30, 2008, which resulted in a $99.8 million favorable volume variance. The volume decrease is primarily due to a direct supply agreement with United Airlines at fifteen (including 2 large) stations. In the year ended September 30, 2008, approximately 94.8% of our fuel costs were reimbursed by our code-share partners.

In most cases under our code-share arrangements, the Company is contractually responsible for procuring the fuel necessary to conduct its operations, and fuel costs are then passed through to code-share partners via weekly invoicing. The United code-share agreement contains an option that allows United to assume the contractual responsibility for procuring and providing the fuel necessary to operate the flights that Mesa operates for United. United has now exercised this option at fifteen of the stations we operate, and as a result we no longer incur raw fuel expense but do recognize the related fuel pass-through revenue for the into-plane fees for these fifteen United stations..

Maintenance

In the year ended September 30, 2008, maintenance expense increased $8.2 million, or 3.2%, to $262.9 million from $254.6 million for the year ended September 30, 2007. On an ASM basis, maintenance expense increased 15.7% to 3.3 cents per ASM in the year ended September 30, 2008 from 2.8 cents per ASM in the year ended September 30, 2007. The increase in maintenance is primarily due to a $25.5 million increase in engine repair cost associated with the termination of power by the hour programs and lease returns. This increase was partially offset with a decrease in heavy maintenance of $8.9 million due to a new heavy maintenance contract and cancellation of base maintenance contracts, $3.0 million decrease in expendable parts, primarily volume driven, $2.1 million decrease in component repair due to new contracts, and a $1.5 million decrease in freight due to reduced contract rates and the use of two and three day shipping in place of overnight. Wages, overtime, and wage related expenses decreased $2.5 million due to a decrease in headcount and tight controls on overtime.

Aircraft and Traffic Servicing

In the year ended September 30, 2008, aircraft and traffic servicing expense decreased by $6.0 million, or 7.3%, to $76.3 million from $82.2 million for the year ended September 30, 2007. On an ASM basis, aircraft and traffic servicing expense increased 3.9% to 1.0 cent per ASM in the year ended September 30, 2008 from 0.9 cents per ASM in the year ended September 30, 2007. This decrease is related to an $7.9 million decrease from our code-share operations, offset by an increase of $1.9 million related to our **g*o!*** operations.

Promotion and Sales

In the year ended September 30, 2008, promotion and sales expense increased by $1.1 million, or 29.9%, to $4.7 million from $3.6 million for the year ended September 30, 2007. The increase is primarily due to an increase in credit card and booking fees. This increase was driven by an increase in passengers, due to additional capacity and increased number of passengers. These expenses relate primarily to our ***go!*** operations. We do not pay promotion and sales expenses under our revenue-guarantee contracts.

General and Administrative

In the year ended September 30, 2008, general and administrative expense increased $11.3 million, or 15.7%, to $83.1 million from $71.8 million for the year ended September 30, 2007. The increase is primarily due to a $3.9 million increase in flight completion factor penalties involving our code-share partners, a $1.8 million increase in bad debt, and a $0.7 million increase in software expenses. Legal expenses increased by $5.7 million due to litigation involving ***go!***, Freedom, and our Chinese joint venture. Outside services increased by $3.0 million due to professional consulting expenses, auditing fees and other outside services. Offset by, a $3.3 million decrease in wages and benefits due to an overall decrease in bonuses and executive wages in fiscal 2008 versus fiscal 2007.

Loss Contingency and Settlement of Lawsuit

On October 30, 2007, the United States Bankruptcy Court for the District of Hawaii found that the Company had violated the terms of a confidentiality agreement with Hawaiian Airlines and awarded Hawaiian $80.0 million in damages and ordered the Company to pay Hawaiian's cost of litigation, reasonable attorneys' fees and interest. The Company filed a notice of appeal to this ruling in November 2007 and posted a $90.0 million bond pending the outcome of this litigation. As a result, the Company recorded $86.9 million as a charge to the statement of operations in the fourth quarter of fiscal 2007. On April 29, 2008 the Company reached a settlement with Hawaiian Airlines. While admitting no fault, the Company agreed to pay $52.5 million to Hawaiian Airlines. As a result of the settlement, the Company recorded a $34.1 million credit to the statement of operations in the second quarter of fiscal 2008. The $34.1 million credit is net of $0.3 million in fees incurred related to the bond.

On January 9, 2007, Aloha Airlines filed suit against Mesa in the United States District Court for the District of Hawaii. The complaint seeks damages and injunctive relief. Aloha alleges that Mesa's inter-island air fares are below cost and that Mesa is violating specific provisions of the Sherman Act. Aloha also alleges breach of contract and fraud by Mesa in connection with two confidentiality agreements, one entered into in 2005 and the other in 2006. Mesa denies any attempt at monopolization of the inter-island market and further denies any improper use of the data furnished by Aloha while Mesa was considering a bid for Aloha during its bankruptcy proceedings. On November 28, 2008, Mesa Air Group, Inc. entered into a settlement and release agreement, effective as of November 28, 2008, with certain affiliates of The Yucaipa Companies LLC., which purchased Aloha suit in the bankruptcy case. The Settlement Agreement fully and finally settles all issues and disputes that were raised, or could have been raised, by Yucaipa, Mesa, or Aloha Airlines, Inc. and Aloha Air Group Inc. in connection with the Action. Pursuant to the Settlement Agreement, Yucaipa will fully and finally released Mesa and its affiliates, and Mesa will fully and finally released Yucaipa and its affiliates, from all past, present or future claims related to the Action, including all claims unknown at the time of execution of the Settlement Agreement, and/or arising out of certain non-disclosure agreements and Mesa's introduction of flight service into the Hawaiian inter-island market. In consideration for Yucaipa's release, Mesa has agreed to issue approximately 2.7 million shares of its common stock to Yucaipa and make a cash payment of $2.0 million to Yucaipa. In September 2008 $2.8 million was recorded to for the Aloha settlement; which was 2.7 million shares at $0.31 per share.

Depreciation and Amortization

In the year ended September 30, 2008, depreciation and amortization expense decreased $1.7 million, or 4.3%, to $37.7 million from $39.4 million for the year ended September 30, 2007. Although expenses associated with aircraft rotables increased by 23.0%, they were mostly offset by the cessation of depreciation on fully depreciated equipment as well as impairments, which significantly effected aircraft enhancements, aircraft depreciation, and equipment.

Bankruptcy and Vendor Settlements

In the year ended September 30, 2008, there was essentially no activity related to bankruptcy settlements. In the year ended September 30, 2008, the Company received 1,935 shares of US Airways common stock from its bankruptcy claim against US Airways, Inc. prior to its merger with America West Airlines ("Pre-Merger US Airways"). The Company sold the stock for $26,780. For the year ended September 30, 2007, the Company received approximately 48,000 shares of US Airways common stock as part of the Company's bankruptcy claim against Pre-Merger US Airways. The Company sold these shares for $2.4 million, which was offset by a $2.9 million expense in the third quarter of fiscal 2007 for an AAR component repair contract settlement.

Impairments

In fiscal 2008, in accordance with FAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company recorded an impairment charge of $0.2 million related to the Midway inventory where the fair value was found to be less than the carrying value of the long-lived assets. In fiscal 2007, the Company recorded an impairment charge of $12.4 million related to leasehold improvements pertaining to certain aircraft under the United and Delta code share agreements where the gross undiscounted cash flows related to long-lived assets was computed and found to be less than the carrying value of the long-lived assets.

Interest Expense

In the year ended September 30, 2008, interest expense decreased $3.3 million, or 8.4%, to $36.1 million from $39.4 million for the year ended September 30, 2007. This decrease is largely attributable to lower aircraft interest rates and fewer aircraft in the fleet, which significantly reduced the total aircraft interest. Additionally, there was a decrease in convertible notes, which were $101.0 million in fiscal 2008 compared to $137.8 million in fiscal 2007 thereby decreasing the Company's interest expense.

Interest Income

In the year ended September 30, 2008, interest income decreased $7.8 million, or 54.5%, to $6.5 million from $14.3 million for the year ended September 30, 2007. The decrease in the Company's interest income was due to a combination of lower interest rates and lower balances of cash, cash equivalents, restricted cash and marketable securities. At September 30, 2008, the total balance of cash, cash equivalents, restricted cash, and marketable securities was $64.9 million, which was $143.7 million less than the approximate $208.6 million balance at September 30, 2007.

Gain on Extinguishment of Debt

In the year ended September 30, 2008 the Company recognized gains on the extinguishment of debt of $14.7 million. During the quarter ended March 31, 2008 the Company purchased certain senior convertible notes due in February 2024 at a substantial discount and recorded a gain of approximately $7.4 million. In the quarter ended June 30, 2008, the Company recognized gains of $7.3 million related to the early retirement of certain senior convertible notes due in June 2023 (approximately $1.5 million) and the sale of 14 Beechcraft 1900D aircraft to Raytheon and the retirement of the associated debt on these aircraft resulting in a gain of approximately $5.8 million.

Loss from Equity Method Investments

In the year ended September 30, 2008, loss from equity method investments increased $1.5 million, to a loss of $5.4 million from a loss of $3.9 million for the year ended September 30, 2007. The increase in losses is primarily due to recognizing a greater loss for our share of our investment in a closely held airline related business in the year ended September 30, 2008 as compared to the year ended September 30, 2007, and a write-down of $0.8 million in the second quarter of fiscal 2008 related to our investment in a closely held emerging markets payment processing related business due to the improbability of recovering our investment. Additionally the Company recognized our share of losses on our investment in Kunpeng Airlines and the write down of our investment in Kunpeng in the third quarter of fiscal 2008 of $1.3 million.

Other Income (Expense)

In the year ended September 30, 2008, other income increased $15.1 million to income of $8.9 million from an expense of $6.2 million for the year ended September 30, 2007. In the third quarter of fiscal 2008 a $2.1 million gain from the termination of our sublease agreement with Big Sky was recorded. Additionally, net realized gains from the sales of investment securities increased $8.0 million in fiscal 2008, unrealized losses on investment securities decreased $3.6 million in fiscal 2008, and other net gains increased $1.4 million.

Income Taxes

In fiscal 2008, our effective tax rate changed from 34.3% for fiscal 2007 to (306.2)%. The change in our effective tax rate is primarily due to the increase in the valuation allowance on Federal and State NOL carry forwards of $10.5 million. As of September 30, 2008, we continue to evaluate the deferred tax assets and liabilities and our ability to realize on a go-forward basis.

Results of Discontinued Operations

In the fourth quarter of fiscal 2007, the Company committed to a plan to sell Air Midwest or certain assets therein. Air Midwest consists of Beechcraft 1900D turboprop operations, which included our independent Mesa operations, Midwest Airlines and US Airways code-share opertions. In connection with this decision, the Company began soliciting bids for the sale of the twenty Beechcraft 1900D aircraft in operation and on or before June 30, 2008 exited all of its Essential Air Service ("EAS") markets. All assets and liabilities, results of operations, and other financial and operational data associated with these assets have been presented in the accompanying consolidated financial statements as discontinued operations separate from continuing operations, unless otherwise noted. For all periods presented, we reclassified operating results of the Air Midwest turboprop operations to loss from discontinued operations. See Note 2 regarding discontinued operations.

Loss from discontinued operations for fiscal 2008 was $23.4 million, compared to a loss from discontinued operations of $10.0 million for fiscal 2007. The increase in net loss from discontinued operations in fiscal 2008 was due primarily to a decrease in revenue that was not proportional to the decrease in expense due to Air Midwest ceasing operations as of June 30, 2008. In accordance with SFAS No. 144, the Company continually considers events or changes in circumstances that indicate the carrying amount of a long-term asset may not be recoverable. During the third quarter the Company sold 14 of its 34 Beechcraft 1900D aircraft. In connection with these negotiations and in preparation for marketing the remaining 20 Beechcraft 1900D aircraft, the Company concluded that the fair value of the remaining 20 aircraft was less than the carrying value and therefore recorded an impairment charge of $9.1 million during the quarter ended March 31, 2008. The impairment charge is included within loss from discontinued operations in the condensed consolidated statement of operations.

Fiscal 2007 Versus Fiscal 2006

Operating Revenues

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

Operating Expenses

Flight Operations

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

Fuel

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

Maintenance

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

Aircraft and Traffic Servicing

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

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

General and Administrative

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

Depreciation and Amortization

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

Loss Contingency

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

Bankruptcy and Vendor Settlements

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

Impairment and Restructuring Charges

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

Interest Expense

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

Interest Income

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

Loss from Equity Method Investments

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

Other Income (Expense)

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

Income Taxes

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

Results of Discontinued Operations

In the fourth quarter of fiscal 2007, the Company committed to a plan to sell Air Midwest or certain assets therein. Air Midwest consists of Beechcraft 1900D turboprop operations, which included our independent Mesa operations, Midwest Airlines and US Airways code-share opertions. In connection with this decision, the Company began soliciting bids for the sale of the twenty Beechcraft 1900D aircraft in operation and on or before June 30, 2008 exited all of its Essential Air Service ("EAS") markets. All assets and liabilities, results of operations, and other financial and operational data associated with these assets have been presented in the accompanying consolidated financial statements as discontinued operations separate from continuing operations, unless otherwise noted. For all periods presented, we reclassified operating results of the Air Midwest turboprop operations to loss from discontinued operations. See Note 2 regarding discontinued operations.

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

Liquidity and Capital Resources

Sources and Uses of Cash

At September 30, 2008, we had cash, cash equivalents, and marketable securities (including restricted cash) of $64.9 million, compared to $208.6 million at September 30, 2007. Our cash and cash equivalents and marketable securities are intended to be used for working capital, capital expenditures, acquisitions, and to fund our obligations with respect to regional jet deliveries.

Sources of cash for the year ended September 30, 2008 were due primarily to cash flows from operations of $41.7 million. This positive cash flow was driven by changes in assets and liabilities including, $123.6 million of proceeds from sales of investment securities, offset by a decrease in accrued liabilities, and reduction of the loss contingency related to the judgment against ***go!***.

Cash received from investing activities was $7.0 million driven proceeds from the sale of flight equipment of $5.8 million, decrease in other assets and net returns of lease and equipment deposits. These amounts were offset by capital expenditures of $3.5 million and an increase in restricted cash of $1.8 million.

Cash used in financing activities was $70.3 million due primarily to net reductions in long-term debt totaling $73.2 million and common stock repurchased by the Company totaling $7.1 million. These uses were partially offset by $10.0 million of proceeds from receipt of deferred credits during fiscal 2008.

As of September 30, 2008, we had net receivables of approximately $32.4 million, compared to net receivables of approximately $49.4 million as of September 30, 2007. The amounts due consist primarily of receivables due from our code-share partners, Federal Excise tax refunds on fuel, insurance proceeds, manufacturers credits and passenger ticket receivables due through the Airline Clearing House. Accounts receivable from our code-share partners were 34.3% of total gross accounts receivable at September 30, 2008.

Operating Leases

We have significant long-term lease obligations primarily relating to our aircraft fleet. The leases are classified as operating leases and are therefore excluded from our consolidated balance sheets. At September 30, 2008, we have 145 aircraft on lease with remaining lease terms ranging from 1 to 16.5 years. Future minimum lease payments due under all long-term operating leases were approximately $1.9 billion at September 30, 2008.

3.625% Senior Convertible Notes due 2024

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

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

During the second quarter ended March 31, 2008, the Company purchased certain of these senior convertible notes due February 2024 with a carrying value of approximately $22.2 million, on the open market. This debt was purchased at a significant discount, and resulted in a gain, net of broker fees, of approximately $7.4 million and is included in gain on extinguishment of debt in the consolidated statements of operations.

In the event that the holders of these notes exercise their right to require the Company to repurchase the notes on February 10, 2009 at a price of $583.40 per note, the Company could be obligated to pay $77.8 million in fiscal 2009. The Company may pay the purchase price of such notes in cash, common stock, or a combination thereof.

6.25% Senior Convertible Notes Due 2023

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

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

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

On May 20, 2008, the Company's board of directors approved separate agreements reached by the Company with certain of the holders of its Senior Convertible Notes due 2023 (the "Notes"). As previously disclosed in the Company's filings with the Securities and Exchange Commission, holders of the Notes had the right to require the Company to repurchase the Notes on June 16, 2008 (the "Put") at a price of $397.27 per $1,000 note (the "Put Price") plus any accrued and unpaid cash interest. If all of the holders of the Notes had exercised this right, the Company would have been required to repurchase the Notes for approximately $23.2 million in cash, common stock, or a combination thereof.

Under the terms of these separate agreements, holders holding approximately $77.8 million in aggregate face amount of the Notes (representing approximately 82% of the aggregate face amount of Notes outstanding) have agreed to forbear from exercising their Put right with respect to 75% in aggregate face amount of Notes owned by such holders (i.e., $23.2 million of the $37.8 million subject to the Put). In consideration for such agreement, the Company agreed to purchase 25% in aggregate face amount of such holder's Notes at a purchase price equal to 75% of the Put Price and the right to require the Company to repurchase such Notes on January 31, 2009. The put price payable on January 31, 2009 will also be payable in cash, common stock, or a combination thereof, at the Company's election. The Company's aggregate payment obligation with respect to such purchased Notes was approximately $5.8 million, which includes the amounts paid on or before May 27, 2008. In consideration for such forbearance, the Company also agreed to issue to such holders two-year warrants to purchase 25,000 shares of common stock for each $1 million in aggregate face amount of Notes deferred (or an aggregate of approximately 1.46 million shares of common stock). The warrants were valued at $.26 per share using the Black-Scholes model for an aggregate amount of $0.4 million. The warrants have a per share exercise price of $1.00, contain anti-dilution protection for major corporate events, such as stock splits and stock dividends, and are not exercisable to the extent the exercise thereof would cause the holder to beneficially own greater than 4.99% of the Company's outstanding capital stock. The Company recognized a gain in the third quarter on the repurchase of the Notes of $1.5 million which is included in gain on extinguishment of debt in the consolidated statement of operations. In addition, in the third quarter, the Company purchased approximately $7.0 million of these Notes at no gain or loss.

If the holders of these Notes exercise their right to require the Company to repurchase all of the Notes on January 31, 2009, the Company will be required to repurchase such Notes for approximately $23.2 million in cash, common stock, or a combination thereof.

Other Indebtedness and Obligations

In July 2008, the Company and GE entered into a note payable for $22.1 million to finance Mesa's obligation to GE under the MCMP Agreement. The debt bears interest at LIBOR plus 6% due monthly through 2012.

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

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

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

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

In September 2003, the Company permanently financed with Raytheon 34 Beechcraft 1900D. The debt was due in monthly payments of principal and interest at a rate of LIBOR plus 1.8% through 2011. On May 16, 2008 the Company sold 14 of its 34

Beechcraft 1900D to Raytheon and in return eliminated approximately $28 million of long-term debt due to Raytheon. At September 30, 2008 approximately $38.0 million of the remaining debt due to Raytheon on 20 Beechcraft 1900D is in discontinued operations.

Restricted Cash

As of September 30, 2008, the Company had $13.9 million in restricted cash. The company has an agreement with a financial institution for a $15.0 million letter of credit facility and to issue letters of credit for landing fees, workers compensation insurance and other business needs. Pursuant to the agreement, $11.6 million of outstanding letters of credit are required to be collateralized by amounts on deposit. Approximately $2.0 million relates to maintenance deposits and reserves associated with aircraft leased to Kunpeng Airlines.

Recent Developments Affecting Our Liquidity

In November 2007, we posted a $90.0 million bond in our litigation case with Hawaiian Airlines, which covers the original $80.0 million judgment, $4.7 million in legal fees, $3.4 million in interest and $1.9 million for additional costs. The bond was funded from cash on hand. See disclosure under "Litigation" for a summary of the Hawaiian Airlines litigation and the U.S. Bankruptcy Court's ruling therein. On April 30, 2008, the Company reached a settlement of its suit with Hawaiian airlines. Under the terms of the settlement and without admitting any wrong doing, Mesa received $37.5 million from the bond it had previously posted with the United States Bankruptcy Court for the District of Hawaii. Hawaiian airlines retained the remaining collateral of the bond totaling $52.5 million.

On May 20, 2008, the Company's board of directors approved separate agreements reached by the Company with certain of the holders of its Senior Convertible Notes due 2023 (the "Notes"). As previously disclosed in the Company's filings with the Securities and Exchange Commission, the holders of the Notes had the right to require the Company to repurchase the Notes on June 16, 2008 ("the Put") at a price of $397.27 per $1,000 note ("the Put Price") plus any accrued and unpaid cash interest. If all of the holders of the Notes had exercised this right the company would have been required to repurchase the Notes for approximately $37.8 million in cash, common stock, or a combination thereof.

Under the terms of these arrangements, holders holding approximately $77.8 million in aggregate face amount of the Notes (representing approximately 82% of the aggregate face amount of the Note outstanding) have agreed to forbear from exercising their Put Right with respect to the 75% in aggregate face amount of Notes owned by such holders (i.e. $23.3 million of the $37.8 million subject to the Put). In consideration for such agreement, the Company agreed to purchase 25% in aggregate face amount of such holder's Notes at a purchase price equal to 75% of the Put Price and the right to require the Company to repurchase such Notes on January 31, 2009. The put price payable on January 31, 2009 will also be payable in cash, common stock, or a combination thereof, at the Company's election. The Company's aggregate payment obligation with respect to such purchased Notes is approximately $6.0 million, including accrued and unpaid interest, which was paid on May 22, 2008. In consideration for such forbearance agreement, the Company also agreed to issue to such holders two-year warrants to purchase 25,000 shares of common stock for each $1 million in aggregate face amount of Notes deferred (or an aggregate of approximately 1.46 million shares of common stock.) The warrants have a per share exercise price of $1.00, contain anti-dilutive protection for major corporate events, such as stock splits and stock dividends, and are not exercisable to the extent the exercise thereof would cause the holder to beneficially own greater than 4.99% of the Company's outstanding capital stock.

In the event that the holders of the Company's senior convertible notes due February 2024 exercise their right to require the Company to repurchase the notes on February 10, 2009 at a price of $583.40 per note, the Company could be obligated to pay up to $77.8 million in fiscal 2009. The Company may pay the purchase price of such notes in cash, common stock, or a combination thereof.

In the event that the holders of the Company's senior convertible notes due 2023 exercise their right to require the Company to repurchase all of the Notes on January 31, 2009, the Company will be required to repurchase such Notes for approximately $23.2 million in cash, common stock, or a combination thereof.

On March 28, 2008 Delta notified the Company of its intent to terminate the Delta Connection Agreement among Delta, the Company, and the Company's wholly owned subsidiary, Freedom Airlines, Inc., alleging failure to maintain a specified completion rate with respect to its ERJ-145 Delta connection flights during three months of the six-month period ended February 2008.

Following Delta's termination notification, the Company filed a Complaint on April 7, 2008 in the United States District Court for the Northern District of Georgia seeking declaratory and injunctive relief. An evidentiary hearing was conducted on May 27 through May 29, 2008. Following the hearing, the Court ruled in the Company's favor and issued a preliminary injunction against Delta.

The effect of this ruling is to prohibit Delta from terminating the Delta Connection Agreement covering the ERJ-145 aircraft operated by Freedom, based on Freedom's completion rate prior to April 2008, pending a final trial at a date to be determined by the Court. On June 27, 2008, Delta filed a Notice of Appeal and on July 15, 2008, Delta filed a motion requesting that the appeal be heard on an expedited basis. The Company intends to respond to Delta's motion and Notice of Appeal in accordance with the applicable rules. The outcome of Delta's motion will determine the timing of subsequent deadlines.

Prior to the Court's ruling, Delta planned to remove from service a significant portion of the aircraft in early June 2008 and all aircraft in July 2008 and forward. Delta did not immediately reverse its plans based upon the Court's ruling. Following the court's ruling the Company and Delta reached an interim financial understanding (subject to the mutual reservation of rights) in which Delta will reimburse the Company for certain fixed and variable costs, as well as an agreed upon profit component and the majority of the ERJ-145 aircraft will remain out of service until October 2008.

While the Company's cash flows from operations and its available capital have been sufficient to meet its current operating expenses, lease obligations and debt service requirements to date, the Company's future cash flow from operations and available capital will be negatively impacted by (i) our ability to secure more flexible credit terms from certain of the Company's other key vendors; (ii) reduced cash payments from our code-share partners related to disputed items under our agreements; (iii) the $23.2 million in aggregate remaining principal amount of senior convertible notes due 2023, which the Company may be required to repurchase on January 31, 2009 in accordance with the forbearance agreements described above; (iv) the $77.8 million in aggregate principal amount of senior convertible notes due 2024, which the Company may be required to repurchase on February 10, 2009; (v) the Company's ability to restructure certain of its aircraft lease obligations and key vendor obligations, and (vi) the results of the Company's ongoing litigation with Delta. There can be no assurance that the Company will be successful in effecting amended lease terms for its existing aircraft lease obligations and obtaining flexible credit terms from existing vendors and suppliers. Unfavorable events arising with respect to negotiations with key lessors and vendors, the Delta litigation, or the 2023 and/or 2024 notes could give rise to covenant and payment defaults under the terms of the Company's material operating leases and indebtedness. In the absence of obtaining additional capital through asset sales, consensual restructuring of debt and lease terms and/or similar measures, the Company may be unable to remedy such defaults and may experience additional defaults in the future. The Company's operating leases are subject to termination in the event of default, and the Company's indebtedness may be accelerated in the event of continuing default. Certain lenders could foreclose on Company assets securing their indebtedness. Accordingly, the Company's financial condition could require that the Company seek additional protection under applicable reorganization laws in order to avoid or delay actions by its creditors and lessors which could materially adversely affect the Company's operations and ability to operate as a going concern.

Off-Balance Sheet Arrangements

An off-balance sheet arrangement is any transaction, agreement or other contractual arrangement involving an unconsolidated entity under which a company has (1) made guarantees, (2) a retained or a contingent interest in transferred assets, (3) an obligation under derivative instruments classified as equity or (4) any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the company, or that engages in leasing, hedging or research and development arrangements with the company.

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

Contractual Obligations

As of September 30, 2008, we had $597.0 million of long-term debt (including current maturities). This amount consisted of $434.0 million in notes payable related to owned aircraft used in continuing operations, $38.2 million in notes payable related to owned aircraft included in liabilities of discontinued operations, $101.0 in aggregate principal amount of our senior convertible notes due 2023 and 2024 and $23.8 million in other miscellaneous debt.

The following table sets forth our cash obligations (including principal and interest) as of September 30, 2008:

Obligations from Continuing Operations	2009	2010	2011	2012	2013	Thereafter	Total
	Payment Due by Period (In thousands)						
Long-term debt:							
Note payable related to CRJ700s and 900s (1)	$ 45,206	$ 44,320	$ 43,395	$ 42,452	$ 41,420	$ 213,681	$ 430,474
2003 senior convertible debt notes (assuming no conversions) (2)	-	-	-	-	-	58,331	58,331
2004 senior convertible debt notes (assuming no conversions) (3)	1,410	-	-	-	-	133,359	134,769
Senior CR7 CR9	13,702	13,706	13,709	13,713	13,718	107,111	175,659
Subordinate CR7 CR9	2,719	2,719	5,707	3,610	-	-	14,755
Note payable related to CRJ200s (1)	3,000	3,000	3,000	3,000	-	11,952	23,952
Note payable related to supplier	6,639	6,640	6,640	5,533	-	-	25,452
Note payable related to supplier	324	324	324	324	324	594	2,214
Mortgage note payable	824	-	-	-	-	-	824
Other	25	25	25	25	-	-	100
Total long-term debt	73,849	70,734	72,800	68,657	55,462	525,028	866,530
Payments under operating leases:							
Cash aircraft rental payments (1)	-	-	-	-	-	-	0
Lease payments on equipment and operating facilities	198,756	197,566	203,606	206,494	208,023	877,320	1,891,765
Total lease payments	198,756	197,566	203,606	206,494	208,023	877,320	1,891,765
Total	$ 272,605	$ 268,300	$ 276,406	$ 275,151	$ 263,485	$ 1,402,348	$ 2,758,295
Obligations from Discontinued Operations							
Notes payable related to B1900Ds	$ 7,015	$ 18,509	$ 12,599	$ 4,307	$ 0	$ 0	$ 42,430

(1) Aircraft ownership costs, including depreciation and interest expense on owned aircraft and rental payments on operating leased aircraft, of aircraft flown pursuant to our guaranteed-revenue agreements are reimbursed by the applicable code-share partner.
(2) On or about May 20, 2008, the Company entered into agreements with holders representing 82% of the Notes outstanding pursuant to which co such Holders agreed to defer their put Right with respect to 75% of their Notes until January 31, 2009. In the event that the holders of these notes exercise their right to require the Company to repurchase the notes on January 31, 2009, the Company could be obligated to pay $23.2 million in fiscal 2009. The Company may pay the purchase price of such notes in cash, common stock, or a combination thereof.
(3) In the event that the holders of these notes exercise their right to require the Company to repurchase the notes on February 10, 2009, the Company could be obligated to pay $77.8 million in fiscal 2009. The Company may pay the purchase price of such notes in cash, common stock, or a combination thereof.
(4) Although not included in the table, the Company has committed to contribute an additional $28.6 million to Kunpeng prior to May 16, 2009. See "Capital Contribution to Kunpeng".
(5) Although not included in the table, the Company has been requested by the 2006 investee to purchase from the 2006 investee $3 million in aggregate principal amount of notes by December 31, 2008. As of January 12, 2009, the Company has not determined whether or not it will meet this obligation.

Maintenance Commitments

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

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

In August 2005, we entered into a ten-year agreement with AAR Corp. (the "AAR Agreement"), for the management and repair of certain of our CRJ-200, -700, -900 and ERJ-145 aircraft rotable spare parts inventory. Under the agreement, the Company sold certain existing spare parts inventory to AAR for $39.6 million in cash and $21.5 million in notes receivable to be paid over four years.

In July 2008, Mesa and GE terminated their agreement for Maintenance Cost Management Program dated January 15, 1997 and Amendment No 1. dated December 31, 2002 (collectively, the "MCMP Agreement"). The MCMP Agreement was for the maintenance and repair of Mesa's owned or operated CF34-3B1 engines (i.e. CRJ-200 aircraft engines). In consideration for the termination of the MCMP Agreement, Mesa agreed to pay GE $6 million for past due receivables and executed a four-year non-negotiable promissory note with GE for the principal sum of approximately $22 million ("the Note"). The Note was executed in part, in connection with the termination of the MCMP Agreement, and in part for other past due amounts for services rendered to Mesa by GE. The Note was executed to document the payment obligations owed to GE by Mesa under the MCMP Agreement through the scheduled termination date, and does not, in any respect, evidence an obligation independent from or in addition to the obligations under the MCMP Agreement. In connection with the termination of the MCMP Agreement, in July 2008 Mesa entered into an agreement with an effective date of June 30, 2008, with GE for the maintenance repair, and overhaul of Mesa's CF34-3 (CRJ-200) engines ("2008 Agreement"). The 2008 Agreement is an exclusive 5-year agreement with respect to the maintenance, repair and overhaul of said engines.

Capital Contribution Commitment to Kunpeng

Under the terms of the Joint Venture Agreement, Shenzhen Airlines and the Company are obligated to contribute an additional RMB 204,000,000 and RMB 196,000,000 (approximately $29.8 million and $28.6 million, respectively, at September 30, 2008 to Kunpeng in accordance with Kunpeng's operational requirements as determined by Kunpeng's board of directors, but in any event, prior to May 16, 2009.

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

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

Under the Company's revenue-guarantee agreements with Delta, United and US Airways, the Company is reimbursed under a fixed rate per block-hour plus an amount per aircraft designed to reimburse the Company for certain aircraft ownership costs. In accordance with Emerging Issues Task Force Issue No. 01-08, "Determining Whether an Arrangement Contains a Lease," the Company has concluded that a component of its revenue under the agreement discussed above is rental income, inasmuch as the agreement identifies the "right of use" of a specific type and number of aircraft over a stated period of time. The amount deemed to be rental income during fiscal 2008, 2007 and 2006 was $238.6 million, $261.8 million and $248.5 million, respectively, and has been included in passenger revenue on the Company's consolidated statements of operations.

Revenue from our independent operation is recognized when transportation is provided. Tickets sold but not yet used are included in air traffic liability on the consolidated balance sheets.

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

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

Allowance for Doubtful Accounts

Amounts billed by the Company under revenue guarantee arrangements are subject to our interpretation of the applicable code-share agreement and are subject to audit by our code-share partners. Periodically our code-share partners dispute amounts billed and pay amounts less than the amount billed. Ultimate collection of the remaining amounts not only depends upon Mesa prevailing under audit, but also upon the financial well-being of the code-share partner. As such, we periodically review amounts past due and record a reserve for amounts estimated to be uncollectible. The allowance for doubtful accounts was $10.3 million and $5.6 million at September 30, 2008 and 2007, respectively. If our actual ability to collect these receivables and the actual financial viability of our partners is materially different than estimated, our estimate of the allowance could be materially misstated. During fiscal 2008, we increased the allowance by $3.3 million to account for disputes with our code-share partners regarding the fees payable under our agreements and by $1.5 million to account for other potentially uncollectible accounts. In the fourth quarter of fiscal 2007, we reached a settlement with respect to a dispute with US Airways related to fees payable pursuant to the code-share agreement. In settlement of this dispute through July 2007, US Airways agreed to pay us a lump sum of $7.5 million plus agreed upon monthly amounts per aircraft for the period commencing in August 2007 through the balance of the agreement.

Aircraft Leases

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

Accrued Health Care Costs

We are currently self-insured up to a cap for health care costs and as such, a reserve for the cost of claims that have not been paid as of the balance sheet dates is estimated. Our estimate of this reserve is based upon historical claim experience and upon the recommendations of our health care provider. At September 30, 2008 and 2007, we accrued $1.5 million and $2.2 million, respectively, for the cost of future health care claims. If the ultimate development of these claims is significantly different than those that have been estimated, the accrual for future health care claims could be materially misstated.

Accrued Worker's Compensation Costs

Under our Workers Compensation program, we are self-insured up to a cap for worker's compensation claims and as such, a reserve for the cost of claims that have not been paid as of the balance sheet date is estimated. Our estimate of this reserve is based upon historical claim experience and upon the recommendations of our third-party administrator. At September 30, 2008 and 2007, we accrued $5.6 million and $2.9 million, respectively, for the cost of worker's compensation claims. If the ultimate development of these claims is significantly different than those that have been estimated, the accrual for future worker's compensation claims could be materially misstated.

Long-lived Assets, Aircraft and Parts Held for Sale

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

Valuation of Deferred Tax Assets

The Company records deferred tax assets for the value of benefits expected to be realized from the utilization of alternative minimum tax credit carry forward, capital loss carry forward, and state and federal net operating loss carry forward. We periodically review these assets to determine the likelihood of realization based upon expected taxable income in the applicable taxing jurisdictions. To the extent we believe some portion of the benefit may not be realizable, an estimate of the unrealized portion is made and an allowance is recorded. At September 30, 2008 and 2007, we had a valuation allowance of $12.2 million and $1.8 million, respectively. In 2007, the valuation was against certain state net operating loss carry forward related to the Discontinued Operations. We believe, based upon our projections that it is more-likely-than not we will not be able to generate sufficient taxable income in these jurisdictions in time to realize the benefits of these recorded deferred tax assets. As a result of continued losses in 2008 as well as uncertainties involving the settlement of certain obligations to note holders and ongoing litigation the Company determined it was more likely than not that it would not be able to utilize all of its NOLs and established a valuation allowance against the net deferred tax asset.

In the event the Company issues a significant number of shares it is possible that this will trigger a section 382 limitation on the utilization of the Company's NOL's. This could have a material impact on the Company's financial statements.

Recent Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, and disclosure. In adopting FIN 48, we changed our methodology for estimating our potential liability for income tax position for which we are uncertain regardless of whether taxing authorities will challenge our interpretation of the income tax laws. Previously, we recorded a liability computed the statutory income tax rate if we determined that (i) we did not believe that it is probable that we would prevail and the uncertainty is not related to the timing of recognition. However, under FIN 48 we do not recognize any benefits in our financial statements for any uncertain income tax position if we believe the position in the aggregate has less than a 50% likelihood that the position will be sustained, we recognize a benefit in our financial statements equal to the largest amount that we believe is more likely than not to be sustained upon audit. As a result of implementing FIN 48 the only effect on the

Company was to reclassify a $2.7 million tax reserve from long-term deferred income tax liability to other noncurrent liabilities under FIN 48. No other changes resulting from implementing FIN 48 were necessary.

The tax law is subject to varied interpretation, and we have taken positions related to certain matters where the law is subject to interpretation and where substantial amounts of income tax benefits have been recorded in our financial statements. As we become aware of new interpretations of the relevant tax laws and as we discuss our interpretations with taxing authorities, we may in the future change our assessments of the likelihood of sustainability or of the amounts that may or may not be sustained upon audit. And as our assessments change, the impact to our financial statements could be material. We believe that the estimates, judgments and assumptions made when accounting for these matters are reasonable, based on information available at the time they are made. However, there can be no assurance that actual results will not differ from those estimates.

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

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

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115" ("SFAS 159"). Under SFAS 159, companies have an opportunity to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. the Company doesn't anticipate adopting 159 at this time.

In December 2007, the FASB issued SFAS No. 141(R) "Business Combinations". This Statement replaces SFAS No. 141, "Business Combinations" however it retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This Statement defines the acquirer as the entity that obtains control of one or more businesses and establishes the acquisition date as the date the acquirer achieves control. Statement 141 did not define the acquirer, although it included guidance on identifying the acquirer, as does this Statement. This Statement's scope is broader than that of SFAS 141, which applied only to business combinations in which control was obtained by transferring consideration. By applying the same method of accounting to all transaction and other events in which one entity obtains control over one or more other businesses, this Statement improves the comparability of the information and business combinations provided in financial reports. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company will be required to apply SFAS No. 141 (R) beginning in the first quarter of fiscal 2010. Management believes that it will not have a significant impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160 an amendment of ARB No. 51, "Non-controlling Interests in Consolidated Financial Statements" A non-controlling interest, sometimes called a minority interest, is the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. The objective of this statement is to improve the relevance, comparability and transparency of the financial information that a reporting entity provides in its consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding non-controlling interest in one or more subsidiaries or that deconsolidate a subsidiary. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company will be required to adopt SFAS No. 160 in the first quarter of fiscal 2010. Management believes that this will not have a material impact on the Company's consolidated financial statements.

In October 2008, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active." This standard expands upon the implementation guidance in SFAS No. 157 for estimating the present value of future cash flows for some hard-to-value financial instruments, such as collateralized debt obligations. This statement became effective upon issuance. The Company doesn't believe that SFAS 157-3 will have a material impact on the Company's consolidated financial statements.

In October 2008, the FASB issued EITF 08-6 "Equity Method Investment Accounting Considerations", on how the initial carrying value of an equity method investment should be determined, how an impairment assessment of an underlying indefinite-lived intangible asset of an equity method investment should be performed, and how an equity method investee's issuance of shares should be accounted for. The Company has not evaluated the impact of this issue draft on the Company's consolidated financial statements.

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

We have exposure to market risk associated with changes in interest rates related primarily to our debt obligations and short-term marketable investment portfolio. Certain of our debt obligations are variable in rate and therefore have exposure to changes in interest rates. A 10% change in interest rates would result in an approximately $3.6 million impact on interest expense. We also have investments in debt securities. If short- term interest rates were to average 10% more than they did in fiscal year 2008 interest income would be impacted by approximately $0.7 million.

We have exposure to certain market risks associated with our aircraft fuel. Aviation fuel expense is a significant expense for any air carrier and even marginal changes in the cost of fuel greatly impact a carrier's profitability. Standard industry contracts do not generally provide protection against fuel price increases, nor do they insure availability of supply. However, the Delta, United and US Airways revenue-guarantee code-share agreements allow fuel costs to be reimbursed by the code-share partner, thereby reducing our overall exposure to fuel price fluctuations. In fiscal 2008, approximately 95.5% of our fuel requirements were associated with these contracts. Each one cent change in the price of jet fuel amounts to a $0.9 million change in annual fuel costs for that portion of fuel expense that is not reimbursed by our code-share partners.

As of September 30, 2008, our outstanding obligation to make additional capital contributions to Kunpeng under the Joint Venture Agreement was RMB 196,000,000 or an aggregate fair value of approximately $28.6 million converted at September 30, 2008. The potential increase in the fair value of this obligation resulting from a 10% adverse change in quoted foreign currency exchange rates would be approximately $2.86 million at September 30, 2008

Item 8. ***Financial Statements and Supplementary Data***

Consolidated Financial Statements

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Mesa Air Group, Inc. and subsidiaries (the "Company") as of September 30, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Mesa Air Group, Inc. and subsidiaries as of September 30, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2008, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the consolidated financial statements, the holders of the Company's Senior Convertible Notes due 2023 and Senior Convertible Notes due 2024, collectively, the "Convertible Notes" have the option of requiring the Company to repurchase the Convertible Notes on January 31, 2009 and February 10, 2009, respectively, for cash, stock or a combination thereof.

As discussed in Note 3 to the consolidated financial statements, Delta Air Lines, Inc. ("Delta") has brought an action to terminate the Company `s code-share agreement covering the ERJ-145 aircraft.

As discussed in Note 4 to the consolidated financial statements, substantially all of the Company's passenger revenue is derived from code-share agreements with Delta, United Airlines, Inc. ("United"), and America West Airlines, Inc. ("America West"), which currently operates as US Airways as a result of a merger between America West and US Airways, Inc. ("US Airways").

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of September 30, 2008, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 12, 2009 expressed an adverse opinion on the Company's internal control over financial reporting because of a material weakness.

DELOITTE & TOUCHE LLP

Phoenix, Arizona
January 12, 2009

MESA AIR GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Years Ended September 30,		
	2008	**2007**	**2006**
	(In thousands, except per share amounts)		
Operating revenues:			
Passenger	$ 1,313,436	$ 1,313,220	$ 1,275,330
Freight and other	12,675	10,168	9,573
Gross operating revenues	1,326,111	1,323,388	1,284,903
Impairment of contract incentives	-	(25,324)	-
Total net operating revenues	1,326,111	1,298,064	1,284,903
Operating expenses:			
Flight operations	364,659	382,504	368,023
Fuel	517,907	438,010	446,788
Maintenance	262,868	254,626	213,317
Aircraft and traffic servicing	76,284	82,248	72,615
Promotion and sales	4,682	3,605	1,990
General and administrative	83,115	71,818	56,940
Depreciation and amortization	37,674	39,354	34,939
Loss contingency and settlement of lawsuits	(31,265)	86,870	-
Bankruptcy and vendor settlements	(27)	434	(12,098)
Impairment and restructuring charges	209	12,367	-
Total operating expenses	1,316,106	1,371,836	1,182,514
Operating income (loss)	10,005	(73,772)	102,389
Other expense:			
Interest expense	(36,081)	(39,380)	(34,209)
Interest income	6,511	14,314	12,076
Gain on extinguishment of debt	14,680	-	-
Loss from equity method investments	(5,446)	(3,868)	(2,490)
Other income (expense)	8,919	(6,216)	(15,824)
Total other expense	(11,417)	(35,150)	(40,447)
Income (loss) from continuing operations before taxes	(1,412)	(108,922)	61,942
Income tax provision (benefit)	4,323	(37,384)	24,839
Net income (loss) from continuing operations	(5,735)	(71,538)	37,103
Loss from discontinued operations, net of taxes	(23,425)	(10,023)	(3,136)
Net income (loss)	$ (29,160)	$ (81,561)	$ 33,967
Basic income (loss) per common share:			
Income (loss) from continuing operations	$ (0.21)	$ (2.31)	$ 1.11
Loss from discontinued operations	(0.86)	(0.32)	(0.10)
Net income (loss) per share	$ (1.07)	$ (2.63)	$ 1.01
Diluted income (loss) per common share:			
Income (loss) from continuing operations	$ (0.21)	$ (2.31)	$ 0.91
Loss from discontinued operations	(0.86)	(0.32)	(0.07)
Net income (loss) per share	$ (1.07)	$ (2.63)	$ 0.84

See accompanying notes to consolidated financial statements

MESA AIR GROUP, INC.

CONSOLIDATED BALANCE SHEETS

	September 30,	
	2008	2007
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 50,763	$ 72,377
Marketable securities	224	124,016
Restricted cash	13,947	12,195
Receivables, net	32,429	49,366
Income tax receivable	734	877
Expendable parts and supplies, net	31,067	35,893
Prepaid expenses	162,701	150,028
Deferred income taxes	18,379	46,123
Assets of discontinued operations	24,805	41,374
Total current assets	335,049	532,249
Property and equipment, net	577,183	627,136
Lease and equipment deposits	11,957	17,887
Equity method investments	13,697	16,364
Other assets	21,319	32,660
Total assets	$ 959,205	$ 1,226,296
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 137,990	$ 70,179
Short-term debt	-	-
Accounts payable	28,898	61,007
Air traffic liability	7,861	4,211
Accrued compensation	7,394	7,353
Income taxes payable	-	1,235
Other accrued expenses	50,646	143,836
Liabilities of discontinued operations	39,620	51,512
Total current liabilities	272,409	339,333
Long-term debt, excluding current portion	420,878	561,946
Deferred credits	116,849	118,578
Deferred income taxes	15,734	42,318
Other noncurrent liabilities	23,678	19,021
Total liabilities	849,428	1,081,196
Stockholders' equity:		
Preferred stock of no par value, 2,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock of no par value and additional paid-in capital, 75,000,000 shares authorized; 26,773,479 and 28,740,686 shares issued and outstanding, respectively	105,869	112,152
Retained earnings	3,788	32,948
Total stockholders' equity	109,657	145,100
Total liabilities and stockholders' equity	$ 959,205	$ 1,226,296

See accompanying notes to consolidated financial statements.

MESA AIR GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended September 30,		
	2008	**2007**	**2006**
		(In thousands)	
Cash Flows from Operating Activities:			
Net income (loss) from continuing operations	$ (5,735)	$ (71,538)	$ 37,103
Net loss from discontinued operations	(23,425)	(10,023)	(3,136)
Net income (loss)	(29,160)	(81,561)	33,967
Adjustments to reconcile net income (loss) to net cash flows provided by (used in) operating activities:			
Depreciation and amortization	37,658	41,243	36,537
Impairment charges	11,447	37,691	-
Deferred income taxes	1,161	(44,221)	22,988
Unrealized loss on investment securities	181	3,747	648
Loss from equity method investment	3,342	3,930	2,490
Amortization of deferred credits	(16,944)	(14,038)	(11,043)
Amortization of restricted stock awards	399	1,165	1,261
Amortization of contract incentive payments	328	1,311	3,488
(Gain) loss on sale of assets	(8,581)	526	611
Stock option expense	24	805	2,313
Debt origination costs written-off	-	-	1,800
Provision for obsolete expendable parts and supplies	2,724	2,071	559
Provision for (recovery of) doubtful accounts	6,790	4,565	(6,607)
Loss on cancellation of contracts	10,178		
Gain on extinguishment of debt	(5,839)		
Changes in assets and liabilities:			
Net sales (purchases) of investment securities	123,611	59,003	(59,250)
Receivables	(9,726)	(12,167)	(9,447)
Income tax receivables	173	(262)	89
Expendable parts and supplies	3,350	(7,673)	542
Prepaid expenses	(6,279)	(10,554)	(41,296)
Other current assets	1,712	2,565	1,178
Contract incentive payments	-	-	(20,707)
Accounts payable	(4,825)	6,526	3,489
Income taxes payable	(1,265)	228	(227)
Loss contingency	(31,265)	86,870	-
Other accrued liabilities	(47,521)	19,901	20,060
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	41,673	101,671	(16,557)

See accompanying notes to consolidated financial statements.

Cash Flows from Investing Activities:			
Capital expenditures	(3,477)	(29,831)	(44,561)
Proceeds from sale of flight equipment and expendable inventory	5,760	10,040	20,076
Change in restricted cash	(1,753)	(194)	(3,153)
Equity method investment	-	-	(15,000)
Investment deposits	5,938	(7,785)	-
Change in other assets	549	6,953	3,410
Net returns (payments) of lease and equipment deposits	-	9,375	(961)
NET CASH PROVIDED BY (USED) IN INVESTING ACTIVITIES	7,017	(11,442)	(40,189)
Cash Flows from Financing Activities:			
Proceeds from long-term debt	28	-	-
Principal payments on long-term debt	(73,214)	(44,617)	(36,038)
Payments on financing rotable inventory	-	-	(15,882)
Proceeds from exercise of stock options and issuance of warrants	11	573	6,364
Common stock purchased and retired	(7,092)	(40,091)	(18,643)
Proceeds from receipt of deferred credits	9,963	30,705	13,095
NET CASH USED IN FINANCING ACTIVITIES	(70,304)	(53,430)	(51,104)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(21,614)	36,799	(107,850)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	72,377	35,578	143,428
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 50,763	$ 72,377	$ 35,578
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest, net of amounts capitalized	$ 35,894	$ 42,486	$ 39,132
Cash paid (refunded) for income taxes, net	1,770	2,620	(125)
SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Sale of aircraft for the extinguishment of debt	$ 20,386	$ -	$ -
Sale of rotable spare parts and the extinguishment of related financing	2,970	-	-
Extinguishment of debt on sale of aircraft	27,848	-	-
Receivable for credits related to aircraft financing	5,253	857	2,000
Conversion of accrued interest into equity investment	2,779	-	-
Vendor short term debt permanently financed as long-term debt	-	135,378	-
Vendor settlement of payables as long-term debt	22,099		
Receivables used to extinguish accounts payables and other debt	15,094	-	-
Payables offset with receivables, inventory and other various assets due to vendor settlement	29,348	-	-
Deferred gain on settlement of maintenance agreement	3,360	-	-
Issuance of warrants	375	-	-
Accrued purchases of property & equipment	1,448	-	-
Aircraft and engine delivered under interim financing provided by manufacturer	-	23,644	74,657
Conversion of convertible debentures to common stock	-	-	62,278
Inventory and other credits received in conjunction with aircraft financing	-	-	7,212
Note receivable received in conjunction with sale/financing of rotable spare parts inventory	-	-	18,835
Deferred gain on sale/financing of rotable spare parts inventory	-	-	2,174
Note receivable forgiven in retirement of rotable spare parts inventory	-	-	3,631
Rotable spare parts financed with long-term payable	-	-	4,157
Other assets reclassified to expendable inventory	-	-	1,677
Rotable spare parts reclassified to other assets	-	-	1,982

See accompanying notes to consolidated financial statements.

MESA AIR GROUP, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except share data)

	Number of Shares		Common Stock and Additional Paid-In Capital		Retained Earnings		Total
Balance at October 1, 2005	28,868,167	$	96,128	$	80,542	$	176,670
Conversion of debt to equity	6,227,845		62,278		-		62,278
Exercise of stock options and warrants	1,198,720		6,364		-		6,364
Common stock purchased and retired	(2,390,679)		(18,643)		-		(18,643)
Amortization of restricted stock	-		1,261		-		1,261
Stock based compensation	-		2,313		-		2,313
Net income	-		-		33,967		33,967
Balance at September 30, 2006	33,904,053		149,701		114,509		264,210
Exercise of stock options	123,149		573		-		573
Vesting of restricted stock	184,129		-		-		-
Common stock purchased and retired	(5,470,645)		(40,092)		-		(40,092)
Amortization of restricted stock	-		1,165		-		1,165
Stock based compensation	-		805		-		805
Net Loss	-		-		(81,561)		(81,561)
Balance at September 30, 2007	28,740,686		112,152		32,948		145,100
Exercise of stock options and warrants	-		386		-		386
Issuance of restricted stock	236,091		-		-		-
Common stock purchased and retired	(2,203,298)		(7,092)		-		(7,092)
Amortization of restricted stock	-		399		-		399
Stock based compensation	-		24		-		24
Net loss	-		-		(29,160)		(29,160)
Balance at September 30, 2008	26,773,479	$	105,869	$	3,788	$	109,657

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Principles of Consolidation and Organization

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

The Company is an independent regional airline serving 124 cities in 38 states, the District of Columbia, Canada, and Mexico. At September 30, 2008, the Company operated a fleet of 159 aircraft and had over 800 daily departures. The Company's airline operations are conducted by two regional airline subsidiaries primarily utilizing hub-and-spoke systems. Mesa Airlines operates as America West Express under a code-share agreement with America West Airlines, Inc. ("America West") which currently operates as US Airways and is referenced to herein as "US Airways;" as United Express under a code-share agreement with United Airlines, Inc. ("United"); and independently as ***go!*** The current US Airways is a result of a merger between America West and US Airways, Inc. ("Pre-Merger US Airways"). Freedom Airlines operates as Delta Connection under code-share agreements with Delta Airlines, Inc. ("Delta"). Approximately 96% of the Company's consolidated passenger revenues for 2008 were derived from operations associated with code-share agreements.

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

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

Renewal of one code-share agreement with a code-share partner does not guarantee the renewal of any other code- share agreement with the same code-share partner. The agreements with US Airways expire in 2012; the regional jet revenue-guarantee agreements with Delta expire between January 2017 and January 2018, but can be terminated earlier in November 2012; the agreement with United expires between 2010 and 2018.

In the fourth quarter of fiscal 2007, the Company committed to a plan to sell Air Midwest or certain assets thereof. Air Midwest consists of Beechcraft 1900D turboprop operations, which included our independent Mesa Airlines operations and Midwest Airlines and US Airways Beechcraft 1900D code-share operations. In connection with this decision, the Company began soliciting bids for the sale of the twenty Beechcraft 1900D aircraft in operation and on or before June 30, 2008, exited all of its Essential Air Service ("EAS") markets. All assets and liabilities, results of operations, and other financial and operational data associated with these assets have been presented in the accompanying consolidated financial statements as discontinued operations separate from continuing operations, unless otherwise noted. For all periods presented, we reclassified operating results of the Air Midwest turboprop operations to loss from discontinued operations. See note 2 regarding discontinued operations.

Cash and Cash Equivalents

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

Expendable Parts and Supplies

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

Prepaid Expenses

Prepaid expenses consist primarily of aircraft lease payments that are paid at the beginning of a period and subsequently amortized over the applicable period.

Property and Equipment

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

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

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

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

In accordance with SFAS No. 34 "Interest Capitalization," the Company capitalizes interest on required deposits related to airplane purchase contracts. The Company capitalized approximately $0.4 million, $1.0 million and $1.1 million of interest in fiscal 2008, 2007 and 2006, respectively.

Other Long-Term Assets

Other long-term assets primarily consist of the upfront payments associated with establishing financing for aircraft, contract incentive payments, prepaid maintenance, notes receivable received pursuant to rotable spare parts financings and debt issuance costs associated with the senior convertible notes. The financing costs are amortized over the lives of the associated aircraft leases which are primarily 16-18.5 years. Contract incentive payments are amortized over the term or the modified term of the code-share agreements.

In the second quarter 2007, the Company recorded a $25.3 million charge for impairment of contract incentives. The debt issuance costs are amortized over the life of the senior convertible notes.

Air Traffic Liability

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

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in future years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company records deferred tax assets for the value of benefits expected to be realized from the utilization of alternative minimum tax credit carry forward, capital loss carry forward, and state and federal net operating loss carryforward. We periodically review these assets to determine the likelihood of realization. To the extent we believe some portion of the benefit may not be realizable, an estimate of the unrealized position is made and an allowance recorded. The Company and its consolidated subsidiaries file a consolidated federal income tax return.

Deferred Credits

Deferred credits consist of aircraft purchase incentives provided by the aircraft manufacturers and deferred gains on the sale and leaseback of engines and interim financed aircraft. Purchase incentives include credits that may be used to purchase spare parts, pay for training expenses or reduce other aircraft operating costs. The deferred credits and gains are amortized on a straight-line basis as a reduction of lease expense over the term of the respective leases. The Company also accounts for proceeds from settlement of a claim in the Delta bankruptcy as a deferred credit (See Note 21). This credit is amortized over the life of the Delta Connection Agreement as revenue.

Revenue Recognition

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

Under the Company's revenue-guarantee agreements with US Airways, United and Delta, the Company is reimbursed under a fixed rate per block-hour plus an amount per aircraft designed to reimburse the Company for certain aircraft ownership costs. In accordance with Emerging Issues Task Force Issue No. 01-08, "Determining Whether an Arrangement Contains a Lease," the Company has concluded that a component of its revenue under the agreements discussed above is rental income, inasmuch as the agreement identifies the "right of use" of a specific type and number of aircraft over a stated period of time. The amount deemed to be rental income during fiscal 2008, 2007 and 2006 was $238.6 million, $261.8 million and $248.5 million, respectively, and has been included in passenger revenue on the Company's consolidated statements of operations.

Beginning in fiscal 2007, for certain large stations and code-share partners, the Company obtains fuel via a direct supply arrangement. In most cases under our code-share arrangements, the Company is contractually responsible for procuring the fuel necessary to conduct its operations, and fuel costs are then passed through to code-share partners via weekly invoicing. The United code-share agreement contains an option that allows United to assume the contractual responsibility for procuring and providing the fuel necessary to operate the flights that Mesa operates for United. United has now exercised this option at fifteen of the stations we operate, and as a result we no longer incur raw fuel expense but do recognize the related fuel pass-through revenue for the into-plane fees for these fifteen United stations.

Aircraft Leased to Other Airlines

The Company currently leases five CRJ-200 aircraft to Kunpeng Airlines and two ERJ-145 aircraft to Trans States Airlines.These leases have a five-year term and two and a half year term respectively. Both are accounted for as operating leases. Aircraft under operating leases are recorded at cost, net of accumulated depreciation. Income from operating leases is recognized ratably over the term of the leases. As of September 30, 2008, the cost and accumulated depreciation of aircraft under operating leases was approximately $2.1 million and $1.4 million, respectively.

Minimum future rental income under non-cancelable operating leases are as follows (in millions):

2009	$	7.9
2010		7.8
2011		5.5
2012		5.5
2013		1.0
Total	$	27.7

Maintenance Expense

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

Earnings (Loss) Per Share

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

	Years Ended September 30,		
	2008	**2007**	**2006**
		(In thousands)	
Share calculation:			
Weighted average shares outstanding — basic	27,145	30,990	33,487
Effect of dilutive outstanding stock options and warrants	*	*	1,095
Effect of restricted stock	*	*	82
Effect of dilutive outstanding convertible debt	*	*	10,704
Weighted average shares outstanding — diluted	27,145	30,990	45,368
Adjustments to net income (loss):			
Net income (loss) from continuing operations	$ (5,735)	$ (71,538)	$ 37,103
Interest expense on convertible debt, net of tax	*	*	4,251
Adjusted net income (loss) from continuing operations	$ (5,735)	$ (71,538)	$ 41,354

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

Options to purchase 2,226,839, 3,615,488, and 41,544 shares of common stock were outstanding during fiscal 2008, 2007 and 2006, respectively, but were excluded from the calculation of dilutive earnings (loss) per share because the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would have been anti-dilutive.

Stock Based Compensation

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

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

Use of Estimates in the Preparation of Financial Statements

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

Segment Reporting

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," requires disclosures related to components of a company for which separate financial information is available that is evaluated regularly by a company's chief operating decision maker in deciding the allocation of resources and assessing performance. The Company has two airline operating subsidiaries, Mesa Airlines and Freedom Airlines, as well as various other subsidiaries organized to provide support for the Company's airline operations. The Company has aggregated these subsidiaries into two reportable segments: Mesa Airlines/Freedom and ***go!***. In the fourth quarter of fiscal 2007, the Company committed to a plan to sell or lease certain assets of Air Midwest. Air Midwest consisted of our Beechraft 1900D turboprop operations. As such, the assets and liabilities and result of operations associated with Air Midwest are not included within the segment information below as they are classified as discontinued operation in the consolidated financial statements.

Mesa Airlines and Freedom Airlines provide passenger service under revenue-guarantee contracts with United, Delta and US Airways. As of September 30, 2008, Mesa Airlines and Freedom Airlines operated a fleet of 39 CRJ-200s, 20 CRJ-700s, 45 CRJ-900s, 34 EMB-145s and 16 Dash 8s.

go! provides independent inter-island Hawaiian passenger service where revenue is derived from ticket sales. As of September 30, 2008, ***go!*** operated a fleet of 5 CRJ-200 aircraft.

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

The Company only allocates to its operating segments those assets, specifically associated with the operation of aircraft engaged in the revenue generating activity of a segment.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, and disclosure. In adopting FIN 48, we changed our methodology for estimating our potential liability for income tax positions for which we are uncertain regardless of whether taxing authorities will challenge our interpretation of the income tax laws. Previously, we recorded a liability computed at the statutory income tax rate if we determined that (i) we did not believe that it is probable that we would prevail and the uncertainty is not related to the timing of recognition. However, under FIN 48 we do not recognize any benefits in our financial statements for any uncertain income tax position if we believe the position in the aggregate has less than a 50% likelihood that the position will be sustained, we recognize a benefit in our financial statements equal to the largest amount that we believe is more likely than not to be sustained upon audit. As a result of implementing FIN 48 the only effect on the Company was to reclassify a $2.7 million tax reserve from long-term deferred income tax liability to other noncurrent liabilities under FIN 48. There were no other changes during 2008 resulting from the implementation of FIN 48.

The tax law is subject to varied interpretation, and we have taken positions related to certain matters where the law is subject to interpretation and where substantial amounts of income tax benefits have been recorded in our financial statements. As we become aware of new interpretations of the relevant tax laws and as we discuss our interpretations with taxing authorities, we may in the future change our assessments of the likelihood of sustainability or of the amounts that may or may not be sustained upon audit. As our assessments change, the impact to our financial statements could be material. We believe that the estimates, judgments and assumptions made when accounting for these matters are reasonable, based on information available at the time they are made. However, there can be no assurance that actual results will not differ from those estimates.

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

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

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115" ("SFAS 159"). Under SFAS 159, companies have an opportunity to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company doesn't anticipate electing the fair value option for any assets or liabilities as allowed by SFAS No. 159 at this time.

In December 2007, the FASB issued SFAS No. 141(R) "Business Combinations". This Statement replaces SFAS No. 141, "Business Combinations" however it retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which Statement No. 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This Statement defines the acquirer as the entity that obtains control of one or more businesses and establishes the acquisition date as the date the acquirer achieves control Statement No. 141 did not define the acquirer, although it included guidance on identifying the acquirer, as does this Statement. This Statement's scope is broader than that of SFAS No. 141, which applied only to business combinations in which control was obtained by transferring consideration. By applying the same method of accounting to all transactions and other events in which one entity obtains control over one or more other businesses, this Statement improves the comparability of the information about business combinations provided in financial reports. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company will be required to apply SFAS No. 141 (R) beginning in the first quarter of fiscal 2010. Management believes that it will not have a significant impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160 an amendment of ARB No. 51, "Noncontrolling Interests in Consolidated Financial Statements" A noncontrolling interest, sometimes called a minority interest, is the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. The objective of this statement is to improve the relevance, comparability and transparency of the financial information that a reporting entity provides in its consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company will be required to adopt SFAS No. 160 in the first quarter of fiscal 2010. Management believes that this will not have a material impact on the Company's consolidated financial statements.

In October 2008, the FASB issued SFAS No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active." This standard expands upon the implementation guidance in SFAS No. 157 for estimating the present value of future cash flows for some hard-to-value financial instruments, such as collateralized debt obligations. This statement became effective upon issuance. The Company doesn't believe that SFAS 157-3 will have a material impact on the Company's consolidated financial statements.

In October 2008, the FASB issued Emerging Issues Task Force ("EITF") 08-6 "Equity Method Investment Accounting Considerations", on how the initial carrying value of an equity method investment should be determined, how an impairment assessment of an underlying indefinite-lived intangible asset of an equity method investment should be performed, and how an equity method investee's issuance of shares should be accounted for. The Company has not evaluated the impact of this issue on the Company's consolidated financial statements.

2. Discontinued operations

In the fourth quarter of fiscal 2007, the Company committed to a plan to sell Air Midwest or certain assets thereof. Air Midwest consisted of Beechcraft 1900D turboprop operations, which included our independent Mesa Airlines operations and Midwest Airlines and Beechcraft 1900D US Airways code-share operations. In connection with this decision, the Company began soliciting bids for the sale of the twenty Beechcraft 1900D aircraft in operation and exited all of its Essential Air Service markets on or before June 30, 2008. In preparation for marketing the aircraft the Company concluded that the fair value of the remaining 20 aircraft was less than the carrying value and therefore, recorded an impairment charge of $9.1 million. The impairment charge is included within loss from discontinued operations in the consolidated statement of operations.

All assets and liabilities and results of operations associated with these assets have been presented in the consolidated financial statements as discontinued operations separate from continuing operations in accordance with SFAS No. 144 .

During fiscal 2008, Air Midwest recorded a loss before income taxes of $23.4 million which consists of approximately $3.0 million from the early termination of a maintenance contract, $2.5 million from the write down and sale of inventory, $0.6 million for severance costs, $9.1 million from the impairment of aircraft, $0.6 million from loss on disposal of property and equipment and $7.6 million from operations.

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

	Years Ended September 30,		
	2008	2007	2006
	(In thousands)		
Revenue	$ 26,918	$ 57,597	$ 52,294
Loss before income taxes	$ (23,363)	$ (14,326)	$ (5,236)
Income tax provision (benefit)	62	(4,303)	(2,100)
Net loss from discontinued operations	$ (23,425)	$ (10,023)	$ (3,136)

Only interest expense directly associated with the debt outstanding in connection with the owned aircraft is included in discontinued operations. No general overhead or interest expense not directly related to the Air Midwest turboprop operation has been included within discontinued operations. As discussed in Note 14, we receive certain operating subsidies from Raytheon related to Beechcraft 1900D aircraft. This operating subsidy will decrease proportionally with the reduction of each aircraft.

Assets, including assets held for sale, and liabilities associated with the Air Midwest turboprop operation have been segregated from continuing operations and presented as assets and liabilities of discontinued operations in the consolidated balance sheets for all periods presented. In accordance with SFAS No. 144, depreciation and amortization related to assets held for sale ceased as of September 30, 2007. Assets and liabilities of the discontinued operations were as follows:

	September 30,	
	2008	2007
	(In thousands)	
Current assets	$ 3,654	$ 7,332
Property and equipment, net	20,800	33,916
Other assets	351	126
Current liabilities	(1,467)	(9,306)
Current portion of long-term debt	(5,206)	(4,126)
Long-term debt excluding current portion	(32,947)	(38,080)
Net assets of discontinued operations	$ (14,815)	$ (10,138)

In accordance with SFAS No. 144, the Company continually considers events or changes in circumstances that indicate the carrying amount of a long-term asset may not be recoverable. During the third quarter, the company sold 14 of its 34 Beechcraft 1900D aircraft. In connection with these negotiations and in preparation for marketing the remaining 20 Beechcraft 1900D aircraft, the Company concluded that the fair value of the remaining 20 aircraft was less than the carrying value and therefore recorded an impairment charge of $9.1 million during the quarter ended March 31, 2008. The impairment charge is included within loss from discontinued operations in the consolidated statement of operations. The remaining carrying value of all assets and liabilities of the discontinued operation approximated fair market value, therefore no adjustments related thereto have been recorded.

3. Management's Plans Regarding Going Concern

Liquidity and Going Concern Matters:

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. This assumes continuing operations and the realization of assets and liabilities in the ordinary course of business. The Company expects to continue its go! operations in Hawaii, to continue to serve its three code-share partners (see Delta discussion below) and to satisfy any potential convertible debt repayments without the use of significant amounts of cash (see Convertible Notes discussion below). Accordingly, the Company believes that its projected cash flows from operations and working capital to be sufficient to meet its current operating expenses, lease obligations and debt service requirements for at least the next 12 months. The Company's business plan also focuses on further reducing costs and enhancing liquidity by instituting plans for all or some of the following; the sale of aircraft, sales and leaseback transactions for aircraft related parts, and renegotiation of credit terms from certain of the Company's key vendors.

Delta:

On March 28, 2008, Delta notified the Company of its intent to terminate the Delta Connection Agreement among Delta, the Company and the Company's wholly owned subsidiary, Freedom Airlines, Inc. alleging failure to maintain a specified completion rate with respect to its ERJ-145 Delta Connection flights during three months of the six-month period ended February, 2008. Following Delta's termination notification, the Company filed a Complaint on April 7, 2008 in the United States District Court for the Northern District of Georgia ("the Court") seeking declaratory and injunctive relief. An evidentiary hearing was conducted on May 27 through May 29, 2008. Following the hearing, the Court ruled in the Company's favor and issued a preliminary injunction against Delta.

The effect of this ruling is to prohibit Delta from terminating the Delta Connection Agreement covering the ERJ-145 aircraft operated by Freedom, based on Freedom's completion rate prior to April 2008, pending a final trial at a date to be determined by the Court. On June 27, 2008, Delta filed a Notice of Appeal and on July 15, 2008, Delta filed a motion requesting that the appeal be heard on an expedited basis. The Company has responded to Delta's motion in accordance with the applicable rules and the Court of Appeals, after reviewing the filings, denied Delta's request. Delta and the Company have fully briefed the issue on appeal and oral arguments in the 11^{th} Circuit Court of Appeals have been scheduled for January 30, 2009.

If the District Court or Court of Appeals ultimately rules in favor of Delta and allows the termination of the Connection Agreement, management believes they will be unable to redeploy the ERJ-145s in a timely manner, or at the lease rates the Company receives under the Delta Connection Agreement in the event of any redeployment of such aircraft. As a result, if the Company is not successful in its litigation with Delta, the Company's cash flows from operations and available working capital will be insufficient to meet these cash requirements. The accompanying consolidated financial statements do not include any adjustments that might result from an unfavorable outcome in this matter.

Convertible Notes:

As of September 30, 2008, there were approximately $23.2 million in Senior Convertible Notes due 2023 and approximately $77.8 million in Senior Convertible Notes due 2024 outstanding, collectively, the "Convertible Notes". If the holders of the Convertible Notes exercise their right to require the Company to repurchase all of the Convertible Notes on January 31, 2009 and February 10, 2009, respectively, the Company will be required to repurchase such Convertible Notes in cash, common stock, or a combination thereof.

On January 6, 2009 the Company's shareholders approved the increase in the number of authorized shares of common stock to 900,000,000 shares, which management believes is a sufficient number of authorized shares to satisfy the repurchase of all the Convertible Notes if required, although management's negotiations with the Holders of the Convertible Notes are ongoing.

In the event the Company issues a significant number of shares it is possible that this will trigger a Section 382 limitation on the utilization of the Company's NOLs. This could have a material impact on the Company's financial statements. Internal Revenue Code Section 382 rules apply to limit a corporation's ability to utilize existing net operating loss carryforwards once the corporation experiences an ownership change as defined in the rules of Section 382. Generally, an ownership change occurs when, within a span of 36 months, there is an increase in the stock ownership by one or more shareholders of more than 50 percentage points. If the Company should incur an ownership change or significant equity event in the future, the Company may be limited to an annual limitation on the use of its net operating loss carryforwards.

4. Concentrations

The Company has code-share agreements with Delta Air Lines, US Airways and United. Approximately 96%, 98% and 98% of the Company's consolidated passenger revenue for fiscal 2008, 2007 and 2006, respectively, were derived from these agreements. Accounts receivable from the Company's code-share partners were 34.3% and 42.0% of total gross accounts receivable at September 30, 2008 and 2007, respectively.

Amounts billed by the Company under revenue guarantee arrangements are subject to our interpretation of the applicable code-share agreement and are subject to audit by our code-share partners. Periodically our code-share partners dispute amounts billed and pay amounts less than the amount billed. Ultimate collection of the remaining amounts not only depends upon Mesa prevailing under audit, but also upon the financial well-being of the code-share partner. As such, we periodically review amounts past due and record a reserve for amounts estimated to be uncollectible. The allowance for doubtful accounts was $10.3 million and $5.6 million at September 30, 2008 and 2007, respectively. If our actual ability to collect these receivables and the actual financial viability of our partners is materially different than estimated, our estimate of the allowance could be materially misstated. During fiscal 2008, we increased the allowance by $3.3 million to account for disputes with our code-share partners regarding the fees payable under our agreements and by $1.5 million to account for other potentially uncollectible accounts. In the fourth quarter of fiscal 2007, we reached a settlement with respect to a dispute with US Airways related to fees payable pursuant to the code-share agreement. In settlement of this dispute through July 2007, US Airways agreed to pay us a lump sum of $7.5 million plus agreed upon monthly amounts per aircraft for the period commencing in August 2007 through the balance of the agreement.

Passenger revenue from continuing operations received from US Airways amounted to 48%, 44% and 53% of the Company's total passenger revenue in fiscal 2008, 2007 and 2006, respectively. A termination of the US Airways revenue-guarantee code- share agreements would have a material adverse effect on the Company's business prospects, financial condition, results of operations and cash flows.

United accounted for approximately 29%, 35% and 36% of the Company's passenger revenue in fiscal 2008, 2007 and 2006, respectively. In most cases under our code share arrangement, the Company is contractually responsible for procuring the fuel necessary to conduct its operations, and fuel costs are then passed through to code-share partners via weekly invoicing. The United code-share agreement contains an option that allows United to assume the contractual responsibility for procuring and providing the fuel necessary to operate the flights that Mesa operates for United. United exercised this options at 15 of the stations we operate and as a result we no longer incur fuel expense or recognnize related fuel pass-through revenue for these eight United stations. A termination of the United agreement would have a material adverse effect on the Company's business prospects, financial condition, results of operations and cash flows.

Delta accounted for approximately 19%, 19% and 9% of the Company's passenger revenue in fiscal 2008, 2007 and 2006, respectively. See Note 18 for further discussion regarding Delta.

5. Restricted Cash

As of September 30, 2008, the Company had $13.9 million in restricted cash. The company has an agreement with a financial institution for a $15.0 million letter of credit facility and to issue letters of credit for landing fees, workers compensation insurance and other business needs. Pursuant to the agreement, $11.6 million of outstanding letters of credit are required to be collateralized by amounts on deposit. Approximately $2.0 million relates to maintenance deposits and reserves associated with aircraft leased to Kunpeng Airlines. The increase in restricted cash is due to the required deposit for maintenance reserves on the five aircraft leased to Kunpeng Airlines.

As of September 30, 2007, the Company had $12.2 million in restricted cash on deposit with two financial institutions. The Company had an agreement with a financial institution for $15 million letter of credit facility and to issue letters of credit for landing fees, workers compensation insurance and other business needs. Pursuant to the agreement, $7.2 million of outstanding letters of credit are required to be collateralized by amounts on deposit. The Company maintained $5.0 million on deposit with another financial institution to collaterialize its direct deposit payroll.

6. Marketable Securities

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

SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," requires that all applicable investments be classified as trading securities, available for sale securities or held-to-maturity securities. At September 30, 2008 and 2007, the Company had $224,000 and $124.0 million respectively in marketable securities that include US Treasury notes, government bonds and corporate bonds. These investments are classified as trading securities during the periods presented and accordingly, are carried at market value with changes in value reflected in the current period operations. The large decrease in marketable securities from the previous year was due to the payment of $52.8 million for the Hawaiian Airlines settlement, principal payments on long-term debt of $73.2 million and the purchase and retirement of common stock of $7.1 million. Unrealized losses relating to trading securities held at September 30, 2008 and 2007, were $12,000 and $3.8 million, respectively.

7. Property and Equipment

Property and equipment consists of the following:

	September 30, 2008	September 30, 2007
	(In thousands)	
Flight equipment, substantially pledged	$ 713,302	$ 748,395
Other equipment	32,149	28,208
Leasehold improvements	3,741	3,736
Furniture and fixtures	1,141	1,127
Buildings	2,768	2,768
Vehicles	1,484	1,435
	754,585	785,669
Less accumulated depreciation and amortization	(177,402)	(158,533)
Net property and equipment	$ 577,183	$ 627,136

8. Equity Method Investments

Equity method investments consisted of the following:

	For The Year Ended September	
	2008	2007
	(In thousands)	
Investment in airline company	$ 9,244	$ 9,669
Investment in payment processing company	-	1,027
Investment in Kunpeng Airlines Co., Ltd.	4,453	5,668
Total equity method investments	$ 13,697	$ 16,364

Gain (loss) from equity method investments:

	For The Year Ended September		
	2008	2007	2006
		(In thousands)	
Equity method loss from airline investment	$ (3,204)	$ (2,778)	$ (2,490)
Equity method loss from payment processing company	(265)	(283)	-
Impairment loss on payment processing company	(762)	-	-
Equity method gain (loss) from Kunpeng Airlines Co., Ltd.	127	(807)	-
Impairment loss on Kunpeng Airlines Co., Ltd.	(1,342)	-	-
Loss from equity method investments	$ (5,446)	$ (3,868)	$ (2,490)

In fiscal 2006, our wholly-owned subsidiary, Ping Shan, entered into a joint venture agreement (the "Joint Venture Agreement") with Shan Yue SRL ("Shan Yue") and Shenzhen Airlines, pursuant to which the parties agreed to form Kunpeng, an equity joint venture company organized under the laws of China. Ping Shan holds a 25% share of the registered capital of Kunpeng. Additionally, Shan Yue, a Barbados society with restricted liability, holds 24% of the registered capital of Kunpeng. Shan Yue holds 5% of the 24% interest in Kunpeng for the exclusive benefit of an unaffiliated third party. Wilmington Trust Company holds 100% of the outstanding equity of Shan Yue as trustee of Shan Yue Trust, a Delaware statutory trust. We are the sole beneficiary of Shan Yue Trust. Kunpeng's fiscal year ends on December 31st. Pursuant to the Joint Venture Agreement, Ping Shan and Shan Yue will receive 25% and 24%, respectively, of the after-tax net profit of Kunpeng, if any, at the end of the fiscal year unless Kunpeng's board of directors determines that such profits should be reinvested. Additionally, the amount of profit available for distribution will be reduced by an amount equal to allocations to a reserve fund and expansion fund of Kunpeng and a bonus and welfare fund for Kunpeng's employees, as determined by Kunpeng's board of directors. No profit will be distributed unless any cumulative deficit carried forward for previous years is made up. Kunpeng's board consists of seven members, four of whom are appointed by Shenzhen Airlines, two are appointed by Ping Shan and one is appointed by Shan Yue. As of September 30, 2008, the Company has made capital contributions totaling $6.5 million, which represents a 25% direct ownership and 19% beneficial ownership of the joint venture. On September 28, 2007 Kunpeng commenced common carrier service in China.

During the third quarter of 2008, the Company entered into a Letter of Intent ("LOI") to sell its interest in Kunpeng to Shenzhen. As a result of the negotiated valuation of the interest by the parties set forth in the LOI, the Company recorded a loss on its investment in Kunpeng of $1.3 million during the third quarter of 2008. The loss recorded on the LOI was based on the Company's share of Kunpeng's losses through June 30, 2008. This loss reflects the expected proceeds from the sale of $4.8 million less the Company's investment of $5.8 million and estimated transaction costs of $300,000. The loss has been recorded in the gain (loss) from equity method investments in the consolidated statement of operations.

The Company also subleases five regional jets to Kunpeng. These leases are not affected by the LOI. Total sublease revenue for the year ended September 30, 2008 was $4.4 million. At September 30, 2008, the Company had gross receivables from Kunpeng of approximately $2.9 million. The settlement of these receivables in full are required by the LOI.

In fiscal 2007, we participated with a private equity fund in making an investment, through a limited liability limited partnership, in the preferred shares of a closely held emerging markets payment processing related business (the "2007 Investee"). Through our subsidiary Patar, Inc., we invested $1.3 million, which represented approximately 19.6% of the 2007 Investee's preferred stock. In fiscal 2008, due to the improbability of recovering our investment, the Company wrote-off the remaining $0.8 million of the investment.

In fiscal 2006, the Company participated with a private equity fund in making an investment in the common stock and notes of a closely held airline related business (the "2006 Investee"). The Company, through its subsidiary Nilchii, invested $15 million, which represents approximately 20% and 11.8% of the 2006 Investee's common stock and notes, respectively. On December 17, 2008, the Company received a letter from the 2006 Investee requesting that, pursuant to the terms of the governing limited liability company agreement, the Company purchase from the 2006 Investee $3.0 million in aggregate principal amount of notes by December 31, 2008. As of January 12, 2009, the Company has not determined whether or not it will meet these obligations. In the event Company does not do so, it will suffer dilution of its equity interest in the 2006 Investee.

The Company accounts for these investments using the equity method of accounting. Under the equity method, the Company adjusts the carrying amount of its investment for its share of the earnings or losses of the 2006 Investee subsequent to the date of investment and reports the recognized earnings or losses in the consolidated statements of operations. The Company's share of the 2006 Investee's losses subsequent to the date of investment have exceeded the carrying value of the common stock investment, which has been reduced to zero. In accordance with EITF Issue No. 99-10, "Percentage Used to Determine the Amount of Equity Method Losses," the Company recognizes equity method losses based on the ownership level of the 2006 Investee capital held by the Company. If the carrying value of its investment in the common or preferred stock is reduced to zero, as is the case with its' 2006 airline related business investment, then equity method losses are based on the ownership level of the 2006 Investee notes held by the Company. During fiscal 2008, the Company recorded equity method losses from these investments of $3.3 million.

During fiscal 2008, approximately $2.8 million was added to the investment in the airline company related to the conversion of interest to principal. All interest on a 17% note with the airline company that has been accrued, but not paid on each annual payment date of December 31, at the option of the 2006 Investee, shall be added to the principal amount of the note and shall no longer be deemed to be accrued and unpaid.

9. Other Accrued Expenses

Other accrued expenses were as follows at September 30,

	2008	2007
	(In thousands)	
Accrued property taxes	$ 10,466	$ 11,470
Accrued vacation	4,489	4,128
Accrued AAR payable	3,638	3,862
Accrued legal	3,562	1,782
Accrued excise tax	3,529	1,796
Accrued landing fees	3,373	3,637
Accrued workers compensation, net of long-term portion	2,574	2,934
Accrued interest	2,547	3,608
Hawaii legal reserve	-	86,870
Other items less than 5%	16,468	23,749
	$ 50,646	$ 143,836

On April 30, 2008, the Company reached a settlement of its suit with Hawaiian Airlines. Under the terms of the settlement and without admitting any wrong doing, Mesa received $37.5 million from the bond it had previously posted with the United States Bankruptcy court for the District of Hawaii. Hawaiian Airlines retained the remaining collateral of the bond totaling $52.5 million. This settlement did not restrict in any way ***go!***'s ability to continue to offer services in the Hawaiian inter-island market. As a result of this settlement, the Company adjusted the contingent liability recorded in fiscal 2007 of $86.9 million and recorded a gain of $34.1 million at March 31, 2008 to reflect the amount ultimately paid.

10. Deferred Credits

The Company accounts for purchase incentives provided by aircraft manufacturers as deferred credits. These credits are amortized over the life of the related aircraft lease as a reduction of lease expense, which is included in flight operations in the statements of operations. Purchase incentives include credits that may be used to purchase spare parts, pay for training expenses or reduce other aircraft operating costs. The Company also accounts for proceeds from settlement of a claim in the Delta bankruptcy as a deferred credit (See Note 21). This credit is amortized over the life of the Delta Connection Agreement as revenue. Deferred credits also include deferred gains on the sale and leaseback of engines and interim financed aircraft. These deferred gains are also amortized over the life of the related leases as a reduction of lease expense, which is included in flight operations in the statements of operations.

11. Long-Term Debt

Long-term debt consists of the following:

	September 30, 2008	September 30, 2007
	(In thousands)	
Notes payable to bank, principal and interest due monthly, interest at LIBOR plus 3% (5.927% at September 30, 2008) collateralized by the underlying aircraft, due 2019. (6) (7)	$ 288,956	$ 309,646
Senior convertible notes due June 2023 (1)	23,241	37,834
Senior convertible notes due February 2024 (2)	77,802	100,000
Notes payable to manufacturer, principal and interest due monthly through 2011, interest at LIBOR plus 1.8% (7.12% at September 30, 2007), collateralized by the underlying aircraft (3)	-	30,544
Note payable to financial institution due 2013, principal and interest due monthly at 7% per annum through 2008 converting to 12.5% thereafter, collateralized by the underlying aircraft (8)	19,826	21,384
Notes payable to financial institution, principal and interest due monthly through 2022, interest at LIBOR plus 2.25% (5.177% at September 30, 2008), collateralized by the underlying aircraft (5)	112,643	117,609
Notes payable to financial institution, principal and interest due monthly through 2012, interest at 8.3% per annum, collateralized by the underlying aircraft (5)	12,566	14,167
Unsecured note payable to supplier, principal due semi-annually, interest at LIBOR plus 6% (8.93% at September 30, 2008), due quarterly through 2012 (4)	21,333	-
Unsecured note payable to supplier, principal and interest at 9.5% due monthly through 2015 (9)	1,624	-
Mortgage note payable to bank, principal and interest at 7.5% due monthly through 2009, collateralized by Del rio Hotel	790	837
Other	87	104
Total debt	558,868	632,125
Less current portion	(137,990)	(70,179)
Long-term debt	$ 420,878	$ 561,946

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

	Years Ending September 30,
	(In thousands)
2009	$ 137,990
2010	37,827
2011	43,412
2012	42,912
2013	45,127
Thereafter	251,600
	$ 558,868

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

and the note guarantees are junior to any secured obligations of the Company and any of its wholly owned subsidiaries to the extent of the collateral pledged.

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

During fiscal 2006, holders of $156.8 million in aggregate principal amount at maturity ($62.3 million carrying amount) of the 2003 Notes converted their notes into shares of Mesa common stock. In connection with these conversions, the Company issued an aggregate of 6,227,845 shares of Mesa common stock in accordance with the terms of the indenture and also paid approximately $11.3 million to these Noteholders. The Company also wrote off $1.8 million in debt issue costs related to these notes. Amounts paid to Noteholders and the write-off of debt issue costs were recorded as other expense in the consolidated statements of operations. Under the terms of the 2003 Notes, each $1,000 of aggregate principal amount at maturity of Notes is convertible into 39.727 shares of Mesa common stock at the option of the Noteholders.

On May 20, 2008, the Company's board of directors approved separate agreements reached by the Company with certain of the holders of 2003 Notes. As discussed above, holders of the 2003 Notes had the right to require the Company to repurchase the 2003 Notes on June 16, 2008 ("the Put") at a price of $397.27 per $1,000 note ("the Put Price") plus any accrued and unpaid cash interest. If all of the holders of the 2003 Notes had exercised this right, the Company would have been required to repurchase the 2003 Notes for approximately $37.8 million in cash, common stock, or a combination thereof.

Under the terms of these separate agreements, holders holding approximately $77.8 million in aggregate face amount of the 2003 Notes (representing approximately 82% of the aggregate face amount of 2003 Notes outstanding) agreed to forbear from exercising their Put right with respect to 75% in aggregate face amount of 2003 Notes owned by such holders (i.e. $23.2 million of the $37.8 million subject to the Put). In consideration for such agreement, the Company agreed to purchase 25% in aggregate face amount of such holder's 2003 Notes at a purchase price equal to 75% of the Put Price and the right to require the Company to repurchase such 2003 Notes on January 31, 2009. The Put Price payable on January 31, 2009 will also be payable in cash, common stock, or a combination thereof, at the Company's election. The Company's aggregate payment obligation with respect to such purchased 2003 Notes was approximately $5.8 million and was paid on or before May 27, 2008. In consideration for such forbearance, the Company also agreed to issues to such holders two-year warrants to purchase 25,000 shares of common stock for each $1 million in aggregate face amount of 2003 Notes deferred (or an aggregate of approximately 1.46 million shares of common stock). The warrants were valued at $.26 per share using the Black-Sholes model for an aggregate amount of $0.4 million. The warrants have a per share exercise price of $1.00, contains anti-dilutive protection for major corporate events, such as stock splits and stock dividends, and will not be exercisable to the extent the exercise thereof would cause the holder to beneficially own greater than 4.99% of the Company's outstanding capital stock. The Company recognized a gain in the third quarter on the repurchase of the 2003 Notes of $1.5 million which is included in gain on extinguishment of debt in the consolidated statement of operations. In addition, in the third quarter, the Company purchased approximately $7.0 million of these 2003 Notes at no gain or loss.

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

senior basis. The February 2004 Notes and the note guarantees are senior unsecured obligations and rank equally with the Company's existing and future senior unsecured and unsubordinated indebtedness. These notes and the note guarantees are junior to any secured obligations of the Company and any of its wholly owned subsidiaries to the extent of the collateral pledged.

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

In the event that the holders of these notes exercise their right to require the company to repurchase the notes on February 10, 2009 at a price of $583.40 per note, the Company could be obligated to pay $77.8 million in fiscal 2009. The Company may pay the purchase price of such notes in cash, common stock, or a combination thereof. During the second quarter ended March 31, 2008, the Company purchased certain of these senior convertible notes due February 2024 with a carrying value of approximately $22.2 million, on the open market. This debt was purchased at a significant discount, and resulted in a gain, net of broker fees, of approximately $7.4 million and is included in gain on extinguishment of debt in the consolidated statement of operations.

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

(3) On May 16, 2008, the Company sold 14 of its 34 Beechcraft 1900D aircraft to Raytheon Aircraft Company and Raytheon Aircraft Credit Corporation (collectively "Raytheon") pursuant to an agreement reached between the parties regarding such aircraft. The Company sold the aircraft "as is", made a payment of $500,000, and in return Raytheon eliminated approximately $28 million of long-term debt due to Raytheon associated with such aircraft. This transaction resulted in a net gain of $5.8 million which is recorded in gain on extinguishment of debt in the consolidated statement of operations in the third quarter. Pursuant to the terms of the agreement Raytheon has reserved the right to rescind the agreement should certain events occur. The Company believes that the occurrence of the events which would trigger such action by Raytheon are remote.

At September 30, 2008, approximately $38.0 million of the remaining debt due to Raytheon on the remaining 20 beechcraft 1900D is included in discontinued operations.

(4) In July 2008, Mesa and General Electric ("GE") terminated their agreement for Maintenance Cost Management Program dated January 15, 1997 and Amendment No 1 dated December 31, 2002 (collectively, the "MCMP Agreement"). The MCMP Agreement was for the maintenance and repair of Mesa's owned or operated CF34-3B1 engines (i.e. CRJ- 200 aircraft engines).

In consideration for the termination of the MCMP Agreement, Mesa agreed to pay GE $6 million for past due receivables and executed a four-year non-negotiable promissory note with GE for the principal sum of approximately $22 million ("the GE Note"). The GE Note was executed in part, in connection with the termination of the MCMP Agreement, and in part for other past due amounts for services rendered to Mesa by GE. The GE Note was executed to document the payment obligations owed to GE by Mesa under the MCMP Agreement through the scheduled termination date, and does not, in any respect, evidence an obligation independent from or in addition to the obligations under the MCMP Agreement.

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

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

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

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

(9) In August 2008, the Company financed, with a supplier, $1.65 million in connection with prior accounts receivable to be paid in 84 monthly installments of $27,000 of principal plus interest at a rate of 9.494%.

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

12. Common Stock Purchase and Retirement

The Company's Board of Directors has authorized the Company to purchase up to 29.4 million shares of the Company's outstanding common stock. As of September 30, 2008, the Company has acquired and retired approximately 17.9 million shares of its outstanding common stock at an aggregate cost of approximately $113.9 million, leaving approximately 11.5 million shares available for purchase under the current Board authorizations. Purchases are made at management's discretion based on market conditions and the Company's financial resources.

13. Income Taxes

Income tax expense (benefit) consists of the following:

	Years Ended September 30,		
	2008	2007	2006
		(In thousands)	
Current:			
Federal	$ -	$ -	$ 642
State	480	2,461	680
	480	2,461	1,322
Check Figure	42,935		
Deferred:			
Federal	3,702	(37,933)	22,054
State	141	(1,912)	1,463
	3,843	(39,845)	23,517
	$ 4,323	$ (37,384)	$ 24,839

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

	Years Ended September 30,		
	2008	2007	2006
		(In thousands)	
Computed "expected" tax expense (benefit)	$ (494)	$ (38,123)	$ 21,680
Increase (reduction) in income taxes resulting from:			
State taxes, net of federal taxes	474	549	2,094
Nondeductible stock compensation expense	417	13	406
Nondeductible compensation	1,596		204
Valuation allowance	2,070		
Other	260	177	455
	$ 4,323	$ (37,384)	$ 24,839

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

	September 30, 2008	September 30, 2007
	(In thousands)	
Deferred tax assets:		
Net operating loss carryforwards	$ 86,843	$ 55,321
Deferred credits	41,024	42,936
Other accrued expenses	12,209	1,357
Deferred gains	2,656	2,573
Other	2,589	1,400
Alternative minimum tax	3,746	3,247
Expendable parts		-
Other reserves and estimated losses	1,763	39,229
Equity in loss of unconsolidated subsidiary	3,442	2,040
Allowance for doubtful receivables	3,899	2,132
Intangibles	74	175
Unrealized trading losses	132	1,438
Equity and deferred compensation	925	2,821
123R windfall in NOLs not yet reducing current tax	(2,653)	(2,653)
Valuation allowance	(12,241)	(1,763)
Total deferred tax assets	$ 144,408	$ 150,253
Deferred tax liabilities:		
Property and equipment	$ (141,763)	$ (143,488)
Other	-	(2,960)
Total deferred tax liabilities	$ (141,763)	$ (146,448)

Deferred tax assets, before valuation allowance, include benefits expected to be realized from the utilization of alternative minimum tax credit carryforwards of approximately $3.7 million that do not expire and gross federal net operating loss carryforwards of approximately $229.0 million that expire in years 2017 through 2028. The Company also has tax benefits of state net operating loss carryforwards of approximately $7.0 million that expire in years 2008 and 2027. Due to requirements under SFAS 123R, a portion of recognized equity compensation includeds in the NOL carryovers previously noted are not yet recorded by the company as an adjustment to Additional Paid in Capital in the amount of $2.7 million. Recording of this asset will occur when the deductions to which it relates actually reduce current tax payable. Periodically, the Company evaluates the realization of its net deferred tax assets. As a result of this review the Company determined that a history of cumulative losses and uncertainties regarding the settlement of certain issues related to their convertible debt and section 382 limitations in the future cast sufficient doubt about the recovery of these amounts in the future. Therefore, the company has provided a valuation allowance of $12.2 million against this asset.

Internal Revenue Code Section 382 rules apply to limit a corporation's ability to utilize existing net operating loss carryforwards once the corporation experiences an ownership change as defined in the rules of Section 382. Generally, an ownership change occurs when, within a span of 36 months there is an increase in the stock ownership by one or more shareholders of more than 50 percentage points. If the Company should incur a future ownership change or significant equity event in the future, the Company may be limited to an annual limitation on the use of its net operating loss carryforwards.

14. Raytheon Agreement

In February 2002, the Company entered into an agreement with Raytheon Aircraft Company (the "Raytheon Agreement") to, among other things, reduce the operating costs of the Company's Beechcraft 1900D fleet. In connection with the Raytheon Agreement and subject to the terms and conditions contained therein, Raytheon agreed to provide up to $5.5 million in annual operating subsidy payments to the Company contingent upon the Company continuing, in part, to fly such aircraft and remaining current on its payment obligations to Raytheon. Approximately $4.5 million and $5.2 million and $5.3 million was recorded as a reduction to flight operations during fiscal 2008, 2007 and 2006, respectively. As discussed in Note 2, the Company is attempting to sell Air Midwest or certain assets thereof, and began soliciting bids for the sale of the 20 Beechcraft 1900D aircraft used in operations by Air Midwest. This operating subsidy will decrease proportionally with the reduction of each aircraft.

15. Stock-Based Compensation

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

Stock-based compensation costs recognized in the financial statements for the year ended September 30, 2008 include: (a) compensation cost for all share-based payments granted prior to October 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share- based payments granted subsequent to September 30, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R).

As of September 30, 2008, the Company had seven stock-based incentive plans, which are described below. Generally, options are granted with an exercise price equal to the market price of the Company's stock at the date of grant. Options and restricted stock granted to employees generally vest over a three to five year period and have a contractual term of ten years. Options and restricted stock granted to directors vest over varying periods following the date of grant and have a contractual term of ten years.

The compensation cost that has been charged against income for stock options and restricted shares issued under these plans was $25,000 and $0.4 million, respectively, for fiscal 2008, and $0.8 million and $1.2 million, respectively, for fiscal 2007 and $2.3 million and $1.3 million, respectively, for fiscal 2006. The total income tax benefit recognized in the consolidated statements of operations for share based compensation arrangements was $0.2 million for fiscal 2008.

Prior to the adoption of SFAS No. 123(R), the Company presented all tax benefits resulting from the exercise of stock options as operating cash flows in the consolidated statement of cash flows. SFAS No. 123(R) requires cash flows resulting from excess tax benefits to be classified as financing cash flows. Excess tax benefits result from tax deductions in excess of the compensation cost recognized for those options. For the fiscal year ended September 30, 2008 the Company did not recognize any excess tax benefits due to federal and state net operating losses.

In April 1996, the Company adopted an employee stock option plan under the new management incentive program (the "1996 Stock Option Plan") that provides for the granting of options to purchase up to 2,800,000 shares of the Company's common stock at the fair value on the date of grant. On July 24, 1998, an additional 1,500,000 options were approved by the stockholders to be granted under this plan. At September 30, 2008, there were 825,132 options outstanding. No future grants will be made under this plan.

In June 1998, the Company adopted a Key Officer Stock Option Plan for compensating the Company's Chief Executive Officer and Chief Operating Officer, which provided for the grant of options to purchase up to 1,600,000 shares of the Company's common stock at the fair value on the date of grant. At September 30, 2008 there were 112,533 options outstanding. There are no options available for grant under this plan.

In July 1998, the Company adopted a second stock option plan for outside directors (the "Outside Directors Plan"). This plan, as amended, provides for the grant of options to purchase up to 275,000 shares of the Company's common stock at the fair value on the date of the grant. On February 11, 2003 an additional 200,000 options were approved by the stockholders to be granted under this plan. On February 6, 2007, the stockholders approved an Amended and Restated Director Incentive Plan (the "Director Incentive Plan"), which does not increase the number of shares available for issuance under the existing Outside Directors Plan, provides for the possibility of granting restricted stock as well as options. At September 30, 2008, there were 124,873 options outstanding, 68,652 unvested restricted stock awards outstanding and 64,588 options or restricted stock awards available for future grants under this plan.

In October 2001, the Company adopted a Key Officer Stock Option Plan for compensating the Company's Chief Executive Officer and Chief Operating Officer, which provided for the grant of options to purchase up to 2,000,000 shares of the Company's common stock at the fair value on the date of grant. At September 30, 2008, there were 836,000 options outstanding and no options available for future grants under this plan.

In February 2005 the Company's stockholders approved the adoption of the 2005 Employee Stock Incentive Plan. The plan provides for the granting of options to purchase or the issuance of restricted stock of up to 1,500,000 shares of common stock to officers and key employees. At September 30, 2008, there were 328,301 options outstanding, 305,540 unvested restricted stock awards outstanding and 835,929 options or restricted stock awards available for future grants under this plan, which includes 342,371 options authorized but not issued under the 1996 Option Plan.

During fiscal 2008 the Company granted 41,325 shares of restricted shares to employees under the 2005 Employee Stock Incentive Plan. In addition, the Company granted 54,000 shares of restricted stock to outside directors under the Director Incentive Plan.

On May 27, 2008, the Company issued, to holders of the 2003 Notes, two-year warrants to purchase 25,000 shares of common stock for each $1 million in aggregate face amount of 2003 Notes deferred as a result of the forbearance, (or an aggregate of approximately 1.46 million share of common stock). The warrants were valued at $.26 per share using the Black-Sholes model for an aggregate amount of $0.4 million. The warrants have a per share exercise price of $1.00, will contain anti-dilutive protection for major corporate events, such as stock splits and stock dividends, and will not be exercisable to the extent the exercise thereof would cause the holder to beneficially own greater than 4.99% of the Company's outstanding capital stock.

The following table summarizes the restricted stock activity as of September 30, 2008:

	Number of Shares	Weighted-Average Grant Date Fair Value
	(000s)	
Restricted shares unvested at beginning of year	552,575	$ 6.88
Granted	95,325	2.89
Vested	(123,213)	7.31
Cancelled	(136,442)	6.60
Restricted shares unvested at end of year	388,245	$ 5.86

A summary of stock option award activity under the stock-based compensation plans as of September 30, 2008, 2007 and 2006 and changes during the years then ended are summarized as follows:

	2008		2007		2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
	(000)		(000)		(000)	
Outstanding at beginning of year	3,616	$ 7.43	3,917	$ 7.44	5,338	$ 6.98
Granted	-	-	-	-	69	10.61
Exercised	-	-	(101)	5.49	(1,146)	5.39
Forfeited	(357)	6.82	(167)	9.38	(140)	7.11
Expired	(1,032)	8.19	(33)	4.51	(204)	8.24
Outstanding at end of year	2,227	$ 7.19	3,616	$ 7.43	3,917	$ 7.44
Exercisable at end of year	2,222	$ 7.18	3,334	$ 7.51	3,185	$ 7.48

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

	Year Ended September 30,		
	2008 (1)	2007 (1)	2006
Dividend yield	-	-	0.0%
Expected volatility	-	-	67.7%
Risk-free interest rate	-	-	5.1%
Forfeiture rate	8.0%	9.0%	12.2%
Expected term (in years)	-	-	6.1

(1) Certain assumptions not provided as there no options were granted in fiscal 2008 and 2007

There were no options granted during fiscal 2008 or 2007. The weighted average grant date fair value of options granted during fiscal 2006 was $6.72. The total intrinsic value of options exercised during the years ended September 30, 2008, 2007 and 2006 was $0.0 million, $0.2 million and $3.9 million, respectively.

A summary of the status of the Company's unvested options as of September 30, 2008 and changes during the year ended September 30, 2008, is presented below:

	Shares
	(000)
Nonvested at October 1, 2007	281
Granted	-
Vested	(230)
Forfeited	(40)
Expired	(6)
Nonvested at September 30, 2008	5

As of September 30, 2008, there was $1.4 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plans. That cost is expected to be recognized over a weighted average period of 2.2 years. During fiscal year 2008 the Company did not modify any of its outstanding stock-based compensation plans.

The following table summarizes information concerning options outstanding at September 30, 2008:

	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$3.34 - $12.56	2,226,839	4.2 Years	$ 7.19	2,222,049	$ 7.18

Compensation cost for options granted prior to October 1, 2005 was recognized on an accelerated amortization method over the vesting period of the options. Compensation cost for options granted after September 30, 2005 was recognized on a straight-line basis over the vesting period. Compensation cost for restricted stock awards are recognized on a straight-line basis over the vesting period. The following amounts were recognized for stock-based compensation for fiscal 2008, 2007 and 2006 (in thousands):

	2008	2007	2006
General and administrative expenses:			
Stock options expense	$ 24	$ 805	$ 2,313
Restricted stock expense	399	1,165	1,261
Total	$ 423	$ 1,970	$ 3,574

16. Benefit Plans

The Company has a 401(k) plan covering all employees (the "Plan"). Under the Plan, employees may contribute up to 85% of their pretax annual compensation, subject to certain Internal Revenue Code limitations. Employer contributions are made at the discretion of the Board of Directors. During fiscal 2008 and 2007, the Company made matching contributions of 30% of employee contributions up to 10% of annual employee compensation. Employees are eligible to participate in the Plan upon completion of one year of service. The employee vests 20% per year in employer contributions. Employees become fully vested in employer contributions after completing six years of employment. The Company has the right to terminate the Plan at any time. Contributions by the Company to the Plan for the years ended September 30, 2008, 2007, and 2006 were approximately $1.3 million, $1.3 million, and $1.2 million , respectively.

17. Lease Commitments

At September 30, 2008, the Company leased 145 aircraft under non-cancelable operating leases with remaining terms of up to 16.5 years. The aircraft leases require the Company to pay all taxes, maintenance, insurance and other operating expenses. The Company has the option to terminate certain of the leases at various times throughout the lease. Aggregate rental expense under all operating leases totaled approximately $208.5 million, $217.8 million and $237.4 million for the years ended September 30, 2008, 2007 and 2006, respectively.

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

		Years Ending September 30,
		(In millions)
2009	$	199
2010		198
2011		204
2012		206
2013		208
Thereafter		877
Total	$	1,892

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46R"), which requires the consolidation of variable interest entities. The majority of the Company's leased aircraft are owned and leased through trusts whose sole purpose is to purchase, finance and lease these aircraft to the Company; therefore, they meet the criteria of a variable interest entity. However, since these are single owner trusts in which the Company does not participate, the Company is not at risk for losses and is not considered the primary beneficiary. As a result, the Company is not required to consolidate any of these trusts in applying FIN 46R. Management believes that the Company's maximum exposure under these leases is the remaining lease payments.

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

18. Commitments and Contingencies

On January 9, 2007, Aloha Airlines filed suit against Mesa Air Group in the United States District Court for the District of Hawaii. The complaint seeks damages and injunctive relief. Aloha alleges that Mesa's inter-island air fares are below cost and that Mesa is, therefore, violating specific provisions of the Sherman Act. Aloha also alleges breach of contract and fraud by Mesa in connection with two confidentiality agreements, one entered into in 2005 and the other in 2006. Mesa denies any attempt at monopolization of the inter-island market and further denies any improper use of the data furnished by Aloha while Mesa was considering a bid for Aloha during its bankruptcy proceedings. On November 28, 2008, Mesa Air Group, Inc. ("Mesa") entered into a settlement and release agreement ("Settlement Agreement"), effective as of November 28, 2008, with certain affiliates of The Yucaipa Companies LLC (collectively, "Yucaipa") relating to the action entitled *Aloha Airlines, Inc., et al. v. Mesa Air Group, Inc.* before the United States District Court for the District of Hawaii (Case No. CV 07-00007 DAE/BMK) (the "Action"). The Settlement Agreement fully and finally settles all issues and disputes that were raised, or could have been raised, by Yucaipa, Mesa, or Aloha Airlines, Inc. and Aloha Air Group Inc. (collectively, "Aloha") in connection with the Action.

In connection with the Settlement Agreement, Mesa has agreed to issue approximately 2.7 million shares of its common stock to Yucaipa and make a cash payment of $2 million to Yucaipa. Accordingly, the Company recorded a charge of approximately $2.8 million in the consolidated statements of operations in the fourth quarter of fiscal 2008.

In connection with a June 2007 agreement modifying certain Canadair Regional Jet purchase obligations, the Company committed to purchase 10 new CRJ-700 NextGen aircraft. In conjunction with this purchase agreement, Mesa had $500,000 on deposit in accordance with the Bombardier Regional Aircraft Agreement ("BRAD") that was included in lease and equipment deposits at September 30, 2008. The remaining deposits are expected to be returned upon completion of permanent financing on each of the ten aircraft.

In adopting FIN 48, we changed our methodology for estimating our potential liability for income tax positions for which we are uncertain regardless of whether taxing authorities will challenge our interpretation of the income tax laws. Previously, we recorded a liability computed at the statutory income tax rate if we determined that (i) we did not believe that it is probable that we would prevail and the uncertainty is not related to the timing of recognition. However, under FIN 48 we do not recognize any benefits in our financial statements for any uncertain income tax position if we believe the position in the aggregate has less than a 50% likelihood that the position will be sustained, we recognize a benefit in our financial statements equal to the largest amount that we believe is more likely than not to be sustained upon audit. As a result of implementing FIN 48 the only effect on the Company was to reclassify a $2.7 million tax reserve from long-term deferred income tax liability to other noncurrent liabilities under FIN 48. There were no other changes during 2008 resulting from the implementation of FIN 48.

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

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

During the second quarter of fiscal 2007, the Company amended a five-year heavy equipment maintenance agreement with a vendor. The agreement provides a rebate based upon annual volumes up to $10.0 million over the next five years. The agreement also includes penalties in the event our annual volumes fall below certain levels. The maximum penalty possible would be $19.0 million if our annual volumes were zero for all five years. Rebates of approximately $2.96 million have been recognized in fiscal 2008.

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

On March 28, 2008, Delta notified the Company of its intent to terminate the Delta Connection Agreement among Delta, the Company and the Company's wholly owned subsidiary, Freedom Airlines, Inc. alleging failure to maintain a specified completion rate with respect to its ERJ-145 Delta Connection flights during three months of the six-month period ended February, 2008. Following Delta's termination notification, the Company filed a Complaint on April 7, 2008 in the United States District Court for the Northern District of Georgia ("the Court") seeking declaratory and injunctive relief. An evidentiary hearing was conducted on May 27 through May 29, 2008. Following the hearing, the Court ruled in the Company's favor and issued a preliminary injunction against Delta.

The effect of this ruling is to prohibit Delta from terminating the Delta Connection Agreement covering the ERJ-145 aircraft operated by Freedom, based on Freedom's completion rate prior to April 2008, pending a final trial at a date to be determined by the Court. On June 27, 2008, Delta filed a Notice of Appeal and on July 15, 2008, Delta filed a motion requesting that the appeal be heard on an expedited basis. The Company has responded to Delta's motion in accordance with the applicable rules and the Court of Appeals, after reviewing the filings, denied Delta's request. Delta and the Company have fully briefed the issue on appeal and oral argument in the 11th Circuit Court of Appeals have been scheduled for January 30, 2009.

On April 30, 2008, the Company reached a settlement of its suit with Hawaiian Airlines. Under the terms of the settlement and without admitting any wrongdoing, Mesa received $37.5 million from the bond it had previously posted with the United States Bankruptcy Court for the District of Hawaii. Hawaiian Airlines retained the remaining collateral of the bond totaling $52.5 million. This settlement did not restrict in any way ***go!***'s ability to continue to offer services in the Hawaiian inter-island market. As a result of this settlement, the Company adjusted the contingent liability recorded in fiscal 2007 of $86.9 million and recorded a gain of $34.1 million at March 31, 2008 to reflect the amount ultimately paid.

On May 12, 2008, the Company and a code share partner executed an Amendment to the Code Share Agreement which resolved certain commercial issues between the parties. As a result of the amendment, the Company recorded a charge of approximately $3.0 million dollars during the second quarter which is included in operating expenses in the consolidated statements of operations. In accordance with the amendment, Mesa entered into a deferred payment plan. Under this deferred payment plan if Mesa fails to make any of the payments the code share partner may reduce certain aircraft in operation.

On May 12, 2008, the Company reached a settlement agreement with MAIR Holdings, Inc., the parent company of Big Sky Airlines ("Big Sky"), in relation to the early return of ten (10) Beechcraft 1900D aircraft leased to Big Sky following Big Sky's announcement that it was ceasing operations and liquidating its assets. Pursuant to the settlement agreement, Mesa received $1.5 million from Big Sky and has retained Big Sky's security deposits and special supplemental rent. The net gain on this settlement of approximately $2.1 million is recorded in other income (expense) in the consolidated statements of operations.

On May 16, 2008, the Company sold fourteen of its 34 Beechcraft 1900D aircraft to Raytheon pursuant to an agreement reached between the parties regarding such planes. The Company sold the aircraft "as is", made a payment of $500,000 and in return Raytheon eliminated approximately $28 million of long-term debt due to Raytheon associated with such aircraft. This transaction resulted in a net gain of $5.8 million, which is recorded in extinguishment of debt in the consolidated statements of operations. Pursuant to the agreement Raytheon has reserved the right to rescind the agreement should certain events occur. The Company believes that the occurrence of the events which would trigger such action by Raytheon are remote.

On August 1, 2008, Delta notified the Company of the termination of the CRJ-900 Delta Connection Agreement citing an alleged failure to meet certain contractual benchmarks contained in the CRJ-900 Delta Connection Agreement.

On August 6, 2008 Mesa filed a complaint against Delta Air Lines seeking the return of seven aircraft engines that Delta improperly retained possession of following the termination of an engine maintenance memorandum of understating executed between Mesa and Delta. Delta has claimed its retention of these engines is justified as a means to secure recovery of certain disputed amounts related to the memorandum of understating. The memorandum of understanding does not contain provisions regarding Delta's claims and does not permit Delta's retention of the engines. Delta did not have a legal basis upon which to retain continued unauthorized possession of the engines. On or about August 13, 2008, Delta returned possession of the engines at issue. On August 22, 2008, Delta recorded mechanics' liens on the engines and filed a counterclaim seeking to foreclose on the liens as well as seeking certain payments allegedly related to the MOU. Mesa's action filed in the United States District Court sought the immediate return of all engines currently in Delta's possession and/or control, forfeiture of all claimed liens, as well as damages related to Delta's improper retention of the engines. On November 12, 2008, the Court heard oral arguments on Mesa's motion to dismiss Delta's purported liens and Delta's motion to foreclose on the liens. On November 14 ,2008, the Court ruled that Delta forfeited its lien claims as a result of its failure to comply with the timelines set out in the Georgia Lien Statute. The parties' competing claims for money damages are still pending before the Court. A judgment in Delta's favor for damages related to its counterclaim could have a material adverse impact on our financial condition or results of operations.

On October 20, 2008, Mesa filed a complaint against Mokulele Air Group, Inc. ("Mokulele") alleging claims for breach of contract related to certain amounts owed to the Company by Mokulele under the code-share agreement dated February 7, 2007. Mesa's complaint was filed in the United States District Court for the District of Arizona. On November 4, 2008, Mokulele filed a complaint in the United States District Court for the District of Hawaii alleging claims for breach of the code-share agreement, attempted monopolization in violation of the Sherman Anti-Trust Act and unfair competition under Hawaii statutes. On November 7, 2008, Mesa amended its complaint filed in the District Court of Arizona to add claims for breach of contract, breach of the covenant of good faith and fair dealing, breach of an open account, unjust enrichment, coercion, trademark infringement in violation of the Hawaii and Arizona statutes and the federal Lanham Act, misappropriation of trade secrets, deceptive trade practices and unfair competition. This litigation is in the initial stages and the Company strongly denies having violated any statutory or common law duty owed to Mokulele.

In accordance with the terms our joint venture agreement in China, we are obligated to contribute an additional RMB 196,000,000 or $28.6 million to Kunpeng in accordance with Kunpeng's operational requirements as determined by Kunpeng's board of directors, but in any event, prior to May 16, 2009.

On January 6, 2009, the Company's shareholders approved the amendment of the Company's Articles of Incorporation to increase the number of authorized shares of common stock from 75,000,000 shares to 900,000,000 shares.

The Company is also currently involved in a dispute with another vendor in connection with an engine maintenance agreement regarding approximately $1.8 million in unauthorized repairs performed by the vendor. The Company believes it is not obligated to make this payment. In the event the payment was found to be required, the Company will incur an additional $1.8 million in maintenance expenses.

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

19. Financial Instruments

The carrying amount of cash and cash equivalents, receivables, accounts payable, accrued compensation and other liabilities approximates fair market value due to the short maturity periods of these instruments. The fair value of the Company's marketable securities is based on quoted marked prices. The Company's variable rate long-term debt had a carrying value of approximately $423.0 million at September 30, 2008.

The majority of the Company's fixed rate debt is comprised of convertible notes due in June of 2023 and February 2024. These notes are mandatorily redeemable in 2009 in either cash or the Company's common stock (Note 11). There is not an active market for the Company's notes and given the current financial condition of the Company, it is not practicable to determine the fair value of the Company's fixed rate debt.

20. Related Party Transactions

In addition to our joint venture interest in Kunpeng Airlines, the Company currently subleases five regional jets to Kunpeng and are in negotiations to sublease additional aircraft in the future. Total sublease income, which is recorded as freight and other revenue in the consolidated statements of operation, totaled $4.4 million in fiscal 2008 and $0.1 million in fiscal 2007.

Prior to September 2006, the Company provided reservation services to Europe-By-Air, Inc. The Company billed Europe-By-Air approximately $53,000 for these services during fiscal 2006. The Company did not have any billings or contractual relationships with Europe-By-Air in fiscal years 2007 and 2008. The Company's CEO, Mr. Ornstein, is a major shareholder of Europe-By-Air. In September 2006, Europe-By-Air stopped using the Company's reservation services.

The Company uses the services of the law firm of Baker & Hostetler for labor related legal services. The Company paid the firm an aggregate of $0.3 million, $0.2 million and $0.3 million for legal-related services in fiscal 2008, 2007 and 2006, respectively. Mr. Joseph Manson, a member of the Company's Board of Directors, is a partner with Baker & Hostetler.

In fiscal 2001, the Company established Regional Airline Partners ("RAP"), a political interest group formed to pursue the interests of regional airlines, communities served by regional airlines and manufacturers of regional airline equipment. RAP has been involved in various lobbying activities related to maintaining funding for the Essential Air Service program under which the Company operated the majority of its Beechcraft 1900 aircraft. Mr. Maurice Parker, a member of the Company's Board of Directors, is the Executive Director of RAP. During fiscal 2008, 2007 and 2006, the Company paid RAP's operating costs totaling approximately $272,000, $284,000 and $312,000, respectively. Included in these amounts are the wages of Mr. Parker, which amounted to $154,000, $113,000 and $119,000 in fiscal 2008, 2007 and 2006, respectively. Since inception, the Company has financed 100% of RAP's operations. Subsequent to fiscal year end 2008 and in connection with the Company's shutdown of Air Midwest, the Company has terminated all funding of RAP's operation including any wages of Mr. Parker.

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

21. Bankruptcy Settlements

In fiscal 2007, the Company received 48,000 shares of US Airways common stock from its Pre-Merger US Airways bankruptcy claim. These shares were sold, and proceeds of approximately $2.4 million were received. In fiscal 2006, the Company received 351,456 shares of US Airways common stock from its Pre-Merger US Airways bankruptcy claim. The Company sold the stock in the fourth quarter of fiscal 2006, and realized proceeds of $17.6 million. Proceeds of $5.5 million were first applied to existing receivables that were previously reserved and the remaining amount of $12.1 million was recorded as a bankruptcy settlement in the consolidated statements of operations. In fiscal 2008, the company sold the remaining shares with proceeds of $26,780.

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

On February 15, 2008, Mesa sold its remaining interest (i.e. 11%) in the Delta claim to Goldman Sachs Credit Partners, LP for $1,925,000. The remaining 11% was recorded in a manner that is consistent with the recording of the first 89%, so the $1,925,000 was recorded as a deferred credit and will be amortized to revenue over the remaining term of the Delta agreement.

22. Impairment of Long-Lived Assets

In accordance with SFAS No. 144, the Company continually considers events or changes in circumstances that indicate the carrying amount of a long-term asset may not be recoverable. For the quarter ended June 30, 2008, the Company recorded an impairment charge of $1.3 million on its investment in Kunpeng which is classified in loss from equity method investment in the consolidated statements of operations (See Note 8). During the third quarter the company sold 14 of its 34 Beechcraft 1900D aircraft. In connection with these negotiations and in preparation for marketing the remaining 20 Beechcraft 1900D aircraft the Company concluded that the fair value of the remaining 20 aircraft was less than the carrying value and therefore recorded an impairment charge of $9.1 million during the quarter ended March 31, 2008. The impairment charge is included within loss from discontinued operations in the consolidated statements of operations (See Note 2)

During the second quarter of 2007, the Company evaluated two impairment cases. In each instance the gross undiscounted cash flows related to a long-term asset were computed and found to be less than the carrying value of the long-lived asset. The fair market value of the two assets was then determined and an impairment charge, equal to the excess of the carrying value over fair value, was recorded totaling $37.7 million during the second quarter.

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

The second impairment charge taken during the second quarter, totaling $6.0 million related to the unamortized balance of leasehold improvements for 12 Dash 8-100 aircraft operating under one of our Delta code share agreements. During the second quarter of fiscal 2007, Delta exercised it right to reduce the number of aircraft in the code share agreement by notifying the Company of its intention to remove all 12 aircraft from service by September 2007. In order to determine whether or not this asset was impaired, the Company estimated the future gross undiscounted cash flows related to these aircraft and found them to be less than the leasehold improvements' unamortized balance. Accordingly, an impairment charge of $6.0 million was taken during the second quarter.

23. Segment Reporting

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

Mesa Airlines and Freedom Airlines provide passenger service under revenue-guarantee contracts with United, Delta and US Airways. As of September 30, 2008, Mesa Airlines and Freedom Airlines operated a fleet of 154 aircraft - 104 CRJs, 34 ERJs and 16 Dash-8's.

go!, provides independent inter-island Hawaiian passenger service where revenue is derived from ticket sales. As of September 30, 2008, ***go!*** operated a fleet of five CRJ-200 aircraft.

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

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

Year Ended September 30, 2008 (000's)	Mesa/ Freedom	go!	Other	Eliminations	Total
Total net operating revenues	$ 1,283,923	$ 43,718	$ 207,178	$ (208,708)	$ 1,326,111
Depreciation and amortization	32,947	1,914	2,813	-	37,674
Operating income (loss)	22,086	(29,963)	46,108	(28,226)	10,005
Interest expense	(29,091)	-	(7,572)	582	(36,081)
Interest income	3,350	164	3,579	(582)	6,511
Income (loss) before income tax	3,872	(29,817)	52,759	(28,226)	(1,412)
Income tax provision (benefit)	3,179	(8,872)	19,092	(9,076)	4,323
Total assets	1,269,200	14,981	533,901	(883,682)	934,400
Capital expenditures (including non-cash)	6,643	234	179	(286)	6,770

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

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

24. Valuation and Qualifying Accounts

	Balance at Beginning of Year	Additions / Subtractions Charged to Costs and Expenses	Deductions	Balance at End of Year
	(In thousands)			
Allowance for Obsolescence Deducted from Expendable Parts and Supplies				
September 30, 2008	$ 3,791	$ 2,724	$ (2,468)	$ 4,047
September 30, 2007	2,706	2,071	(986)	3,791
September 30, 2006	2,147	559	-	2,706
Allowance for Doubtful Accounts Deducted Expendable Parts and Supplies	42,935	42,935	42,935	
from Accounts Receivable				
September 30, 2008	$ 5,555	$ 6,790	$ (2,023)	$ 10,322
September 30, 2007	1,598	4,565	(608)	5,555
September 30, 2006 (1)	8,855	(6,607)	(650)	1,598

(1) See Note 21 - Bankruptcy Settlement.

25. Selected Quarterly Financial Data (Unaudited)

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2008 (1) (2) (3) (4)				
Operating revenues	$ 326,592	$ 320,329	$ 353,914	$ 325,276
Operating income (loss)	77	27,676	(3,159)	(14,589)
Net income (loss) from continuing operations	(2,758)	17,463	1,818	(22,258)
Loss from discontinued operations	(1,448)	(8,043)	(5,578)	(8,356)
Basic income (loss) per common share:				
Income (loss) from continuing operations	$ (0.10)	$ 0.65	$ 0.07	$ (0.83)
Loss from discontinued operations	$ (0.05)	$ (0.30)	$ (0.21)	$ (0.31)
Net income (loss) per share	$ (0.15)	$ 0.35	$ (0.14)	$ (1.15)
Diluted income (loss) per common share:				
Income (loss) from continuing operations	$ (0.10)	$ 0.51	$ 0.07	$ (0.83)
Loss from discontinued operations	$ (0.05)	$ (0.22)	$ (0.21)	$ (0.31)
Net income (loss) per share	$ (0.15)	$ 0.29	$ (0.14)	$ (1.15)
2007 (4) (5) (6)				
Operating revenues	$ 333,533	$ 296,315	$ 340,373	$ 327,843
Operating income (loss)	19,815	(23,484)	13,613	(83,716)
Net income (loss) from continuing operations	8,886	(22,634)	4,366	(62,156)
Loss from discontinued operations	(874)	(1,352)	(1,761)	(6,036)
Basic income (loss) per common share:				
Income (loss) from continuing operations	$ 0.26	$ (0.71)	$ 0.15	$ (2.16)
Loss from discontinued operations	$ (0.02)	$ (0.04)	$ (0.06)	$ (0.21)
Net income (loss) per share	$ 0.24	$ (0.75)	$ 0.09	$ (2.37)
Diluted income (loss) per common share:				
Income (loss) from continuing operations	$ 0.22	$ (0.71)	$ 0.13	$ (2.16)
Loss from discontinued operations	$ (0.02)	$ (0.04)	$ (0.05)	$ (0.21)
Net income (loss) per share	$ 0.20	$ (0.75)	$ 0.08	$ (2.37)

(1) - Second quarter results include a $9.1 million impairment charge on 20 Beechcraft 1900D, pretax effect of recognizing $34.1 million credit on a partial return of a $90.0 million bond posted for a loss contingency with Hawaiian Airlines, a gain on extinguishment of debts of $7.4 million from the purchase of certain senior convertible notes due February 2024 and a pretax sale of bankruptcy stock received from US Airways of $26,780.
(2) - Third quarter results include a $1.3 million impairment charge on the investment in Kunpeng, which is classified in loss from equity method of investment, a gain on extinguishment of debt of $1.5 million from the purchase of certain senior convertible notes due June 2023, gain on extinguishment of debt of $5.8 million from retirement of debt associated with the sale of 14 Beechcraft 1900D to Raytheon.
(3) The fourth quarter results include a pretax loss contingency of $2.8 million with Aloha Airlines and a $10.5 million charge to income tax expense for the valuation allowance against deferred tax assets.
(4) - The sum of quarterly earnings per share may not equal annual earnings per share due to rounding.
(5) - Second quarter amounts include impairment of contract incentives and aircraft leasehold improvements of $37.7 million (pretax).
(6) - Fourth quarter includes an $86.9 million loss contingency related to our Hawaiian litigation.

Note 26. Subsequent Events

In fiscal 2006, the Company participated with a private equity fund in making an investment in the common stock and notes of a closely held airline related business (the "2006 Investee"). The Company, through its subsidiary Nilchii, invested $15.0 million, which represents approximately 20% and 11.8% of the 2006 Investee's common stock and notes, respectively. On December 17, 2008, the Company received a letter from the 2006 Investee requesting that, pursuant to the terms of the governing limited liability company agreement, the Company purchase from the 2006 Investee $3.0 million in aggregate principal amount of notes by December 31, 2008. As of January 12, 2009, the Company has not determined whether or not it will meet these obligations. In the event Company does not do so, it will suffer dilution of its equity interest in the 2006 Investee.

In October 2008, Mesa entered into a Change Order Agreement ("CO") with Bombardier, Inc. on the Master Purchase Agreement, which deferred schedule delivery dates for ten CRJ-700 Aircraft by 36 months.

In November 2008, Mesa MAG-AIM entered into an equipment sales agreement with Fokker Services, Inc. ("FSI"), for the sale of Bombardier DHC8-200 airframe inventory parts in consideration for $2.9 million payable upon delivery of the parts. The transaction was completed and payment received in November 2008.

Pursuant to this agreement, Mesa and FSI entered into a separate Aircraft Parts Consignment Access and Maintenance Agreement in which the parts will be consigned and made available to Mesa for use in and on certain aircraft currently available in its and its affiliates' operation. The term of the agreement is for 60 months. Early termination options are available under the agreement with associated early termination fees.

On January 9, 2007, Aloha filed suit against Mesa in the United States District Court for the District of Hawaii. The complaint seeks damages and injunctive relief. Aloha alleges that Mesa's inter-island air fares are below cost and that Mesa is, therefore, violating specific provisions of the Sherman Act. Aloha also alleges breach of contract and fraud by Mesa in connection with two confidentiality agreements, one entered into in 2005 and the other in 2006.Mesa denies any attempt at monopolization of the inter-island market and further denies any improper use of the data furnished by Aloha while Mesa was considering a bid for Aloha during its bankruptcy proceedings. On November 28, 2008, Mesa Air Group, Inc. ("Mesa") entered into a settlement and release agreement ("Settlement Agreement"), effective as of November 28, 2008, with certain affiliates of The Yucaipa Companies LLC (collectively, "Yucaipa"), which purchased Aloha suit in the bankruptcy case, relating to the action entitled *Aloha Airlines, Inc., et al. v. Mesa Air Group, Inc.* before the United States District Court for the District of Hawaii (Case No. CV 07-00007 DAE/BMK) (the "Action"). The Settlement Agreement fully and finally settles all issues and disputes that were raised, or could have been raised, by Yucaipa, Mesa, or Aloha Airlines, Inc. and Aloha Air Group Inc. (collectively, "Aloha") in connection with the Action.

In connection with the Settlement Agreement, Mesa has agreed to issue approximately 2.7 million shares of its common stock to Yucaipa and make a cash payment of $2 million to Yucaipa. Accordingly, the Company recorded a charge or approximately $2.8 million in the consolidated statements of operations in the fourth quarter of fiscal 2008.

On January 6, 2009 the Company's shareholders approved the increase in the number of authorized shares of common stock to 900,000,000 shares, which management believes is a sufficient number of authorized shares to satisfy the repurchase of all the Convertible Notes if required, although management's negotiations with the Holders of the Convertible Notes are ongoing.

Note 27. Other income (expense)

As of September 30, 2008 and 2007, other income (expense) was $8.9 million and $(6.2) million respectively. The large increase in other income from prior year of $15.2 million was due to a $2.1 million gain from the termination of the sublease agreement with Big Sky, increase net realized gains from the sales of investment securities of $8.0 million, decreased unrealized losses of investment securities of $3.6 million and increased other net gains of $1.5 million.

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

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

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

Evaluation of Disclosure Controls and Procedures.

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

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Our management, including our Chief Executive Officer and Principal Accounting Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting as of September 30, 2008. In making this assessment, our management used the criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The Company identified a material weakness in its internal control over financial reporting as of September 30, 2008, based on the following:

The Company's internal controls over the financial reporting and close process were inadequate due to timely and accurate account reconciliations not consistently prepared. Accordingly, accounting control activities were not performed consistently and timely, and as a result, post-closing adjusting journal entries were not recorded in a timely manner. In addition, there were deficiencies relating to controls over the accounting for non-routine transactions.

As a result of the material weakness described above, management has concluded that the Company did not maintain effective internal control over financial reporting as of September 30, 2008, based on the criteria established in COSO's Internal Control - Integrated Framework.

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

(b) Changes in Internal Control Over Financial Reporting

Other than for the material weakness noted above, there was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Subsequent to September 30, 2008, we have begun taking steps to remediate the material weakness noted in (a) above. We have implemented a system to identify and manage account reconciliations more efficiently, reinforced training of audit controls and have hired qualified professionals to assist with adhering to accounting control activities.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Mesa Air Group, Inc. and subsidiaries (the "Company") as of September 30, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. The Company did not have adequate internal controls over the financial reporting and closing process as of September 30, 2008. Timely and accurate preparation of account reconciliations was not consistently performed and post-closing adjusting journal entries were not recorded in a timely manner. In addition, there were deficiencies relating to controls over the accounting for nonroutine transactions. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the Company's consolidated financial statements, as of and for the year ended September 30, 2008, and this report does not affect our report on such financial statements.

In our opinion, because of the effect of the material weakness identified above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of September 30, 2008, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended September 30, 2008 of the Company and our report dated January 12, 2009 expressed an unqualified opinion on those financial statements and included an explanatory paragraph relating to the holders of the Company's Senior Convertible Notes having the option of requiring the Company to repurchase the Senior Convertible Notes on January 31, 2009 and February 10, 2009, respectively, for cash, stock or a combination thereof, an explanatory paragraph relating to an action taken by Delta Airlines, Inc. to terminate the Company's code-share agreement covering the ERJ-145 aircraft, and an explanatory paragraph relating to the Company's significant code-sharing agreements.

/s/ DELOITTE & TOUCHE LLP

Phoenix, Arizona
January 12, 2009

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

None.

PART III

All items in Part III are incorporated herein by reference as indicated below to our definitive proxy statement for our 2009 annual meeting of stockholders anticipated to be held in the first calendar quarter of 2009, which will be filed with the SEC, except for information relating to executive officers which can be found in Item 10 below.

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

The information required by Item 10 is incorporated herein by reference to the information contained under the headings "Election of Directors" and "Executive Officers" as set forth in our definitive proxy statement for our 2009 annual meeting of stockholders.

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

Name	Age	Position
Jonathan G. Ornstein	51	Chief Executive Officer
Michael J. Lotz	48	President and Chief Financial Officer
Paul Foley	56	Executive Vice President and Chief Operating Officer
Brian S. Gillman	39	Executive Vice President, General Counsel and Secretary
Michael Ferverda	64	Senior Vice President - Operations
David K. Butler	53	Senior Vice President, Administration & Human Resources

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

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

Paul Foley, Executive Vice President, Chief Operating Officer, joined the Company on October 1, 2008. From September 1999, Mr. Foley served as President and Chief Executive Officer of MAIR Holdings Inc. ("MAIR"), a holding company for regional air carriers, as well as a member of its Board of Directors and its Executive and Safety Committees. In addition, from September 1999 until October 2002, Mr. Foley also served as President and Chief Executive Officer of Mesaba Aviation, a regional air carrier based in Minneapolis, Minnesota and formerly a subsidiary of MAIR.

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

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

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

Item 11. *Executive Compensation*

The information required by Item 11 relating to our directors is incorporated herein by reference to the information under the heading "Compensation of Directors" and the information relating to our executive officers is incorporated herein by reference to the information under the heading "Executive Compensation" as set forth in our definitive proxy statement for our 2009 annual meeting of stockholders.

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

The information required by Item 12 is incorporated herein by reference to the information under the headings "Election of Directors", "Equity Compensation Plan Information", and "Security Ownership of Certain Beneficial Owners and Management" as set forth in our definitive proxy statement for our 2009 annual meeting of stockholders.

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

The information required by Item 13 is incorporated herein by reference to the information under the heading "Certain Relationships and Related Transactions" as set forth in our definitive proxy statement for our 2009 annual meeting of stockholders.

Item 14. *Principal Accountants Fees and Services*

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

PART IV

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

(A) Documents filed as part of this report:

1. Reference is made to Item 8 hereof.

2. Exhibits

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

Exhibit Number	Description	Reference
3.1	Articles of Incorporation of Registrant dated May 28, 1996	Filed as Exhibit 3.1 to Registrant's Form 10-K for the fiscal year ended September 30, 1996, incorporated herein by reference
3.2	Bylaws of Registrant as amended	Filed as Exhibit 3.3 to Registrant's Form 10-Q for the quarterly period ended June 30, 2007, incorporated herein by reference
4.1	Indenture dated as of June 16, 2003 between the Registrant, the guarantors signatory thereto and U.S. Bank National Association, as Trustee, relating to Senior Convertibles Notes due 2023	Filed as Exhibit 4.1 to Form 10-Q for the quarterly period ended June 30, 2003, incorporated herein by reference
4.2	Registration Rights Agreement dated as of June 16, 2003 between the Registrant, the subsidiaries of the Registrant listed on the signature pages thereto, and Merrill Lynch & Co., as representatives of the Initial Purchasers of Senior Convertibles Notes due 2023	Filed as Exhibit 4.2 to Form 10-Q for the quarterly period ended June 30, 2003, incorporated herein by reference
4.3	Form of Guarantee (Exhibit A-2 to Indenture filed as Exhibit 4.1 above)	Filed as Exhibit 4.1 to Form 10-Q for the quarterly period ended June 30, 2003, incorporated herein by reference
4.4	Form of Senior Convertible Note due 2023 (Exhibit A-1 to Indenture filed as Exhibit 4.1 above)	Filed as Exhibit 4.1 to Form 10-Q for the quarterly period ended June 30, 2003, incorporated herein by reference
4.5	Indenture, dated as of February 10, 2004 between Mesa Air Group, Inc., the guarantors named therein and U.S. Bank National Association, as Trustee, relating to Senior Convertible Notes due 2024	Filed as Exhibit 4.1 to Form S-3 filed on May 7, 2004, incorporated herein by reference
4.6	Registration Rights Agreement dated as of February 10, 2004 between Mesa Air Group, Inc., the subsidiaries of Mesa Air Group, Inc. listed on the signature pages thereto, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Initial Purchaser of the Senior Convertible Notes due 2024	Filed as Exhibit 4.2 to Form S-3 filed on May 7, 2004, incorporated herein by reference
4.7	Form of Guarantee (included in Exhibit 4.5)	Filed as Exhibit 4.1 to Form S-3 filed on May 7, 2004, incorporated herein by reference
4.8	Form of Senior Convertible Notes due 2024 (included in Exhibit 4.5)	Filed as Exhibit 4.1 to Form S-3 filed on May 7, 2004, incorporated herein by reference
4.9	Form of Forbearance Agreement relating to Senior Convertible Notes due 2023, dated as of May 19, 2008	Filed herewith

Exhibit Number	Description	Reference
10.1	1998 Key Officer Stock Option Plan	Filed as Appendix A to Registrant's Definitive Proxy Statement, dated June 17, 1998 and incorporated herein by reference
10.2	2001 Key Officer Stock Option Plan, as amended	Filed as Exhibit 5.2 to Form 10-K for fiscal year ended September 30, 2003 and incorporated herein by reference
10.3	Outside Directors' Stock Option Plan, as amended	Filed as Exhibit 5.3 to Form 10-K for fiscal year ended September 30, 2003 and incorporated herein by reference
10.4	1996 Employee Stock Option Plan, as amended	Filed as Exhibit 5.4 to Form 10-K for fiscal year ended September 30, 2003 and incorporated herein by reference
10.5	2005 Employee Stock Incentive Plan	Filed as Exhibit 10.5 to Form 10-K for fiscal year ended September 30, 2005 and incorporated herein by reference
10.6	Deferred Compensation Plan, adopted July 13, 2001	Filed as Exhibit 10.6 to Form 10-K for fiscal year ended September 30, 2005 and incorporated herein by reference
10.7	2005 Deferred Compensation Plan, adopted February 7, 2005	Filed as Exhibit 10.7 to Form 10-K for fiscal year ended September 30, 2005 and incorporated herein by reference
10.8	Form of Directors' and Officers' Indemnification Agreement	Filed as Exhibit 10.1 to Form 10-K for fiscal year ended September 30, 2002 and incorporated herein by reference
10.9(1)	Code Share and Revenue Sharing Agreement, dated as of March 20, 2001, by and between Mesa Airlines, Inc. and America West, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.1 to Form 10-Q for the period ended March 31, 2001, incorporated herein by reference
10.10	First Amendment to Code Share and Revenue Sharing Agreement dated as of April 27, 2001, by and between Mesa Airlines, Inc. and America West, Inc.	Filed as Exhibit 10.10 to Form 10-K for fiscal year ended September 30, 2002 and incorporated herein by reference
10.11(1)	Second Amendment to Code Share and Revenue Sharing Agreement dated as of October 24, 2002, by and between Mesa Airlines, Inc. and America West, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.4 to Form 10-K for fiscal year ended September 30, 2003 and incorporated herein by reference
10.12(1)	Third Amendment to Code Share and Revenue Sharing Agreement dated as of December 2, 2002, by and between Mesa Airlines, Inc., Freedom Airlines, Inc. and America West, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.5 to Form 10-K for fiscal year ended September 30, 2003 and incorporated herein by reference
10.13(1)	Fourth Amendment to Code Share and Revenue Sharing Agreement dated as of September 5, 2003, by and between Mesa Airlines, Inc., Freedom Airlines, Inc., Air Midwest, Inc. and America West, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.6 to Form 10-K for fiscal year ended September 30, 2003 and incorporated herein by reference
10.14(1)	Fifth Amendment to Code Share and Revenue Sharing Agreement dated as of January 28, 2005, by and between Mesa Airlines, Inc., Freedom Airlines, Inc., Air Midwest, Inc. and America West, Inc.	Filed as Exhibit 10.14 to Form 10-K for fiscal year ended September 30, 2005 and incorporated herein by reference
10.15(1)	Sixth Amendment to Code Share and Revenue Sharing Agreement dated as of July 27, 2005, by and between Mesa Airlines, Inc., Freedom Airlines, Inc., Air Midwest, Inc. and America West, Inc.	Filed as Exhibit 10.15 to Form 10-K for fiscal year ended September 30, 2005 and incorporated herein by reference

Exhibit Number	Description	Reference
10.16(1)	Seventh Amendment to Code Share and Revenue Sharing Agreement, dated as of September 10, 2007, by and between Mesa Airlines, Inc., Freedom Airlines, Inc., Air Midwest, Inc. and America West, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.16 to Form 10-K for fiscal year ended September 30, 2007 and incorporated herein by reference
10.17(1)	Eighth Amendment to Code Share and Revenue Sharing Agreement, dated as of May 12, 2008, by and between Mesa Airlines, Inc., Freedom Airlines, Inc., Air Midwest, Inc. and US Airways, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.1 to the Form 10-Q for the quarter ended June 30, 2008 and incorporated herein by reference
10.23(1)	Joint Venture Contract as of December 22, 2006, by and between Shenzhen Airlines Co., Ltd, Ping Shan SRL and Shan Yue SRL. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.23 to Form 10-K for fiscal year ended September 30, 2007 and incorporated herein by reference
10.25(1)	Amended and Restated United Express Agreement dated as of January 28, 2004, between United Airlines, Inc. and Mesa Air Group, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.17 to the Form 10-K for the year ended September 30, 2004 and incorporated herein by reference
10.26(1)	Amendment to United Express Agreement, dated as of June 3, 2005, between Mesa Air Group, Inc. and United Airlines, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.1 to the Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference
10.27(1)	Third Amendment to United Express Agreement, dated as of August 28, 2007, between Mesa Air Group, Inc. and United Airlines, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.27 to Form 10-K for fiscal year ended September 30, 2007 and incorporated herein by reference
10.28(1)	Fourth Amendment to United Express Agreement, dated as of August 28, 2007, between Mesa Air Group, Inc. and United Airlines, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.28 to Form 10-K for fiscal year ended September 30, 2007 and incorporated herein by reference
10.29(1)	Fifth Amendment to United Express Agreement, dated as of February 6, 2008, between Mesa Air Group, Inc. and United Airlines, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed herewith
10.30(1)	Sixth Amendment to United Express Agreement, dated as of September 22, 2008, between Mesa Air Group, Inc. and United Airlines, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed herewith
10.31(1)	Delta Connection Agreement, dated May 3, 2005, between Mesa Air Group, Inc. and Delta Air Lines, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.2 to the Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference
10.32	Amendment Number One to Delta Connection Agreement dated as of March 31, 2007, between Freedom Airlines, Inc. and Delta Air Lines, inc.	Filed as Exhibit 10.1 to Registrant's Form 10-Q for the quarter ended March 31, 2007
10.33(1)	Delta Connection Agreement dated as of March 13, 2007 between Freedom Airlines, Inc. and Delta Air Lines, Inc.	Filed as Exhibit 10.2 to Registrant's Form 10-Q for the quarter ended March 31, 2007

Exhibit Number	Description	Reference
10.34(1)	Master Purchase Agreement between Bombardier, Inc. and the Registrant Dated May 18, 2001 (Certain portions deleted pursuant to confidential treatment)	Filed as exhibit 10.1 to the Form 10-Q for the quarter ended June 30, 2001 and incorporated herein by reference
10.35	Employment Agreement dated as of January 1, 2009, between the Registrant and Jonathan G. Ornstein	Filed herewith.
10.36	Employment Agreement, dated as of January 1, 2009, between the Registrant and Michael J. Lotz	Filed herewith.
10.37	Employment Agreement, dated as of January 1, 2009, between the Registrant and Brian S. Gillman	Filed herewith.
10.38	Three Gateway Office Lease between Registrant and DMB Property Ventures Limited Partnership, dated October 16, 1998, as amended, including Amendments 1 through 4	Filed as Exhibit 10.29 to Registrant's Form 10-K for fiscal year ended September 30, 2002 and incorporated herein by reference
10.39(1)	Amendments Number 5 through 8 to Three Gateway Office Lease between Registrant and DMB Property Ventures Limited Partnership, dated October 16, 1998	Filed as Exhibit 10.36 to Form 10-K for fiscal year ended September 30, 2005 and incorporated herein by reference
10.40	Non-Negotiable Promissory Note between Mesa Air Group, Inc. and GE Engine Services, Inc., dated July 11, 2008.	Filed as Exhibit 10.2 to the Form 10-Q for the quarter ended June 30, 2008 and incorporated herein by reference
10.41	Settlement Agreement, dated as of November 28, 2008 by and amongst Yucaipa Corporate Initiatives Funds I, LP and Yucaipa Corporate Initiative Funds I, LLC and Mesa Air Group, Inc.	Filed herewith
21.1	Subsidiaries of the Registrant	Filed herewith
23.1	Consent of Independent Registered Public Accounting Firm	Filed herewith
31.1	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended	Filed herewith
31.2	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended	Filed herewith
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith

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

SIGNATURES

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

MESA AIR GROUP, INC.

By: /s/ JONATHAN G. ORNSTEIN
Jonathan G. Ornstein
Chairman and Chief Executive Officer
(Principal Executive Officer)

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

Dated: January 12, 2009

POWER OF ATTORNEY

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

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

/s/ JONATHAN G. ORNSTEIN Jonathan G. Ornstein	Chairman of the Board, Chief Executive Officer and Director	January 12, 2009
/s/ DANIEL J. ALTOBELLO Daniel J. Altobello	Director	January 12, 2009
/s/ MAURICE A. PARKER Maurice A. Parker	Director	January 12, 2009
/s/ JOSEPH L. MANSON Joseph L. Manson	Director	January 12, 2009
/s/ ROBERT BELESON Robert Beleson	Director	January 12, 2009
/s/ PETER F. NOSTRAND Peter F. Nostrand	Director	January 12, 2009
/s/ CARLOS BONILLA Carlos Bonilla	Director	January 12, 2009
/s/ RICHARD THAYER Richard Thayer	Director	January 12, 2009

EXHIBIT INDEX

Exhibit Number	Description	Reference
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4 .1	Indenture dated as of June 16, 2003 between the Registrant, the guarantors signatory thereto and U.S. Bank National Association, as Trustee, relating to Senior Convertibles Notes due 2023	Filed as Exhibit 4.1 to Form 10-Q for the quarterly period ended June 30, 2003, incorporated herein by reference
4 .2	Registration Rights Agreement dated as of June 16, 2003 between the Registrant, the subsidiaries of the Registrant listed on the signature pages thereto, and Merrill Lynch & Co., as representatives of the Initial Purchasers of Senior Convertibles Notes due 2023	Filed as Exhibit 4.2 to Form 10-Q for the quarterly period ended June 30, 2003, incorporated herein by reference
4 .3	Form of Guarantee (Exhibit A-2 to Indenture filed as Exhibit 4.1 above)	Filed as Exhibit 4.1 to Form 10-Q for the quarterly period ended June 30, 2003, incorporated herein by reference
4 .4	Form of Senior Convertible Note due 2023 (Exhibit A-1 to Indenture filed as Exhibit 4.1 above)	Filed as Exhibit 4.1 to Form 10-Q for the quarterly period ended June 30, 2003, incorporated herein by reference
4 .5	Indenture, dated as of February 10, 2004 between Mesa Air Group, Inc., the guarantors named therein and U.S. Bank National Association, as Trustee, relating to Senior Convertible Notes due 2024	Filed as Exhibit 4.1 to Form S-3 filed on May 7, 2004, incorporated herein by reference
4 .6	Registration Rights Agreement dated as of February 10, 2004 between Mesa Air Group, Inc., the subsidiaries of Mesa Air Group, Inc. listed on the signature pages thereto, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Initial Purchaser of the Senior Convertible Notes due 2024	Filed as Exhibit 4.2 to Form S-3 filed on May 7, 2004, incorporated herein by reference
4 .7	Form of Guarantee (included in Exhibit 4.5).	Filed as Exhibit 4.1 to Form S-3 filed on May 7, 2004, incorporated herein by reference
4 .8	Form of Senior Convertible Notes due 2024 (included in Exhibit 4.5).	Filed as Exhibit 4.1 to Form S-3 filed on May 7, 2004, incorporated herein by reference
4 .9	Form of Forbearance Agreement relating to Senior Convertible Notes due 2023, dated as of May 19, 2008	Filed herewith PDF
10 .1	1998 Key Officer Stock Option Plan	Filed as Appendix A to Registrant's Definitive Proxy Statement, dated June 17, 1998 and incorporated herein by reference
10 .2	2001 Key Officer Stock Option Plan, as amended	Filed as Exhibit 5.2 to Form 10-K for fiscal year ended September 30, 2003 and incorporated herein by reference
10 .3	Outside Directors' Stock Option Plan, as amended	Filed as Exhibit 5.3 to Form 10-K for fiscal year ended September 30, 2003 and incorporated herein by reference
10 .4	1996 Employee Stock Option Plan, as amended	Filed as Exhibit 5.4 to Form 10-K for fiscal year ended September 30, 2003 and incorporated herein by reference

Exhibit Number	Description	Reference
10 .5	2005 Employee Stock Incentive Plan	Filed as Exhibit 10.5 to Form 10-K for fiscal year ended September 30, 2005 and incorporated herein by reference
10 .6	Deferred Compensation Plan, adopted July 13, 2001	Filed as Exhibit 10.6 to Form 10-K for fiscal year ended September 30, 2005 and incorporated herein by reference
10 .7	2005 Deferred Compensation Plan, adopted February 7, 2005	Filed as Exhibit 10.7 to Form 10-K for fiscal year ended September 30, 2005 and incorporated herein by reference
10 .8	Form of Directors' and Officers' Indemnification Agreement	Filed as Exhibit 10.1 to Form 10-K for fiscal year ended September 30, 2002 and incorporated herein by reference
10 .9(1)	Code Share and Revenue Sharing Agreement, dated as of March 20, 2001, by and between Mesa Airlines, Inc. and America West, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.1 to Form 10-Q for the period ended March 31, 2001 and incorporated herein by reference
10 .10(1)	First Amendment to Code Share and Revenue Sharing Agreement dated as of April 27, 2001, by and between Mesa Airlines, Inc. and America West, Inc.	Filed as Exhibit 10.10 to Form 10-K for fiscal year ended September 30, 2002 and incorporated herein by reference
10 .11(1)	Second Amendment to Code Share and Revenue Sharing Agreement dated as of October 24, 2002, by and between Mesa Airlines, Inc. and America West, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.4 to Form 10-K for fiscal year ended September 30, 2003 and incorporated herein by reference
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10 .14(1)	Fifth Amendment to Code Share and Revenue Sharing Agreement dated as of January 28, 2005, by and between Mesa Airlines, Inc., Freedom Airlines, Inc., Air Midwest, Inc. and America West, Inc.	Filed as Exhibit 10.14 to Form 10-K for fiscal year ended September 30, 2005 and incorporated herein by reference
10 .15(1)	Sixth Amendment to Code Share and Revenue Sharing Agreement dated as of July 27, 2005, by and between Mesa Airlines, Inc., Freedom Airlines, Inc., Air Midwest, Inc. and America West, Inc.	Filed as Exhibit 10.15 to Form 10-K for fiscal year ended September 30, 2005 and incorporated herein by reference
10 .16(1)	Seventh Amendment to Code Share and Revenue Sharing Agreement, dated as of September 10, 2007, by and between Mesa Airlines, Inc., Freedom Airlines, Inc., Air Midwest, Inc. and America West, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.16 to Form 10-K for fiscal year ended September 30, 2007 and incorporated herein by reference
10 .17(1)	Eighth Amendment to Code Share and Revenue Sharing Agreement, dated as of May 12, 2008, by and between Mesa Airlines, Inc., Freedom Airlines, Inc., Air Midwest, Inc., America West, Inc. and US Airways, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.1 to the Form 10-Q for the quarter ended June 30, 2008 and incorporated herein by reference

Exhibit Number	Description	Reference
10 .23(1)	Joint Venture Contract as of December 22, 2006, by and between Shenzhen Airlines Co., Ltd, Ping Shan SRL and Shan Yue SRL. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.23 to Form 10-K for fiscal year ended September 30, 2007 and incorporated herein by reference
10 .25(1)	Amended and Restated United Express Agreement dated as of January 28, 2004 between United Airlines, Inc. and Mesa Air Group, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.17 to the Form 10-K for the year ended September 30, 2004 and incorporated herein by reference
10 .26(1)	Amendment to United Express Agreement, dated as of June 3, 2005, between Mesa Air Group, Inc. and United Airlines, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.1 to the Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference
10 .27(1)	Third Amendment to United Express Agreement, dated as of August 28, 2007, between Mesa Air Group, Inc. and United Airlines, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.27 to Form 10-K for fiscal year ended September 30, 2007 and incorporated herein by reference
10 .28(1)	Fourth Amendment to United Express Agreement, dated as of August 28, 2007, between Mesa Air Group, Inc. and United Airlines, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.28 to Form 10-K for fiscal year ended September 30, 2007 and incorporated herein by reference
10 .29(1)	Fifth Amendment to United Express Agreement, dated as of February 6, 2008, between Mesa Air Group, Inc. and United Airlines, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed herewith PDF
10 .30(1)	Sixth Amendment to United Express Agreement, dated as of September 22, 2008, between Mesa Air Group, Inc. and United Airlines, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed herewith PDF
10 .31(1)	Delta Connection Agreement, dated May 3, 2005, between Mesa Air Group, Inc. and Delta Air Lines, Inc. (Certain portions deleted pursuant to confidential treatment.)	Filed as Exhibit 10.2 to the Form 10-Q for the quarter ended June 30, 2005 and incorporated herein by reference
10 .32	Amendment Number One to Delta Connection Agreement dated as of March 31, 2007, between Freedom Airlines, Inc. and Delta Air Lines, inc.	Filed as Exhibit 10.1 to Registrant's Form 10-Q for the quarter ended March 31, 2007
10 .33(1)	Delta Connection Agreement dated as of March 13, 2007 between Freedom Airlines, Inc. and Delta Air Lines, Inc.	Filed as Exhibit 10.2 to Registrant's Form 10-Q for the quarter ended March 31, 2007
10 .34(1)	Master Purchase Agreement between Bombardier, Inc. and the Registrant dated May 18, 2001 (Certain portions deleted pursuant to confidential treatment)	Filed as exhibit 10.1 to the Form 10-Q for the quarter ended June 30, 2001 and incorporated herein by reference
10 .35	Employment Agreement dated as of January 1, 2009, between the Registrant and Jonathan G. Ornstein	Filed herewith PDF
10 .36	Employee Agreement, dated as of January 1, 2009, between the Registrant and Michael J. Lotz	Filed herewith PDF
10 .37	Employment Agreement, dated as of January 1, 2009, entered into by and between the Registrant and Brian S. Gillman	Filed herewith PDF

Exhibit Number	Description	Reference
10 .38	Three Gateway Office Lease between Registrant and DMB Property Ventures Limited Partnership, dated October 16, 1998, as amended, including Amendments 1 through 4	Filed as Exhibit 10.29 to Registrant's Form 10-K for fiscal year ended September 30, 2002 and incorporated herein by reference
10 .39(1)	Amendments Number 5 through 8 to Three Gateway Office Lease between Registrant and DMB Property Ventures Limited Partnership, dated October 16, 1998	Filed as Exhibit 10.36 to Form 10-K for fiscal year ended September 30, 2005 and incorporated herein by reference
10 .40	Non-Negotiable Promissory Note between Mesa Air Group, Inc. and GE Engine Services, Inc., dated July 11, 2008.	Filed as Exhibit 10.2 to the Form 10-Q for the quarter ended June 30, 2008 and incorporated herein by reference
10 .41	Settlement Agreement, dated as of November 28, 2008 by and amongst Yucaipa Corporate Initiatives Funds I, LP and Yucaipa Corporate Initiative Funds I, LLC and Mesa Air Group, Inc.	Filed herewith PDF
21 .1	Subsidiaries of the Registrant	Filed herewith PDF
23 .1	Consent of Independent Registered Public Accounting Firm	Filed herewith PDF
31 .1	Certification Pursuant to Rule 13a-14(a)/ 15d-14(a) of the Securities Exchange Act of 1934, as amended	Filed herewith PDF
31 .2	Certification Pursuant to Rule 13a-14(a)/ 15d-14(a) of the Securities Exchange Act of 1934, as amended	Filed herewith PDF
32 .1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith PDF
32 .2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith PDF

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

FORBEARANCE AGREEMENT

Relating To Senior Convertible Notes Due 2023

Mesa Air Group, Inc. (the "Company") and the undersigned holder (the "Holder") of the Company's Senior Convertible Notes due 2023 in an amount set forth below next to such Holder's name on the signature page hereto, (the "Notes") issued pursuant to the Indenture dated June 16, 2003 among the Company, the Guarantors named on the signature pages thereto and U.S. Bank National Association as Trustee thereunder (the "Indenture") hereby enter into this Forbearance Agreement (the "Agreement"), dated as of the date set forth below on the signature page hereto:

W I T N E S S E T H :

WHEREAS, pursuant to the terms of the Notes and the Indenture, the Holder has the right pursuant to Section 3.08 of the Indenture and Section 6 of the Notes to elect to require the Company to repurchase the Notes (the "Initial Repurchase Right") held by such Holder on June 16, 2008 (the "Initial Repurchase Date") and on other Purchase Dates in accordance with the terms of the Indenture and the Notes (the "Repurchase Rights");

WHEREAS, the Notes were originally issued at an issue price of $397.27 per $1,000 note and will pay cash interest until the Initial Repurchase Date and upon such date shall cease to pay interest and Original Issue Discount shall accrue; and

WHEREAS, the Holder has agreed to forbear from exercising its Initial Repurchase Rights with respect to not less than 75% in aggregate principal amount of the Notes beneficially owned by the Holder as of the effective date of this Agreement, in consideration for the Company's purchase of 25% in aggregate principal amount of the Holder's Notes and the right to exercise a Repurchase Right on January 31, 2009.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and provisions hereinafter contained, the parties hereto hereby agree as follows:

1. **Definitions.** Terms used herein but not defined herein shall have the meaning assigned to such terms in the Indenture.

2. **Forbearance; Waiver.** Holder hereby (1) agrees to forbear from exercising its Initial Repurchase Right under the Notes and Indenture with respect to the Initial Repurchase Date and agrees to not require the Company to repurchase its Notes on the Initial Repurchase Date, and (2) waives any Defaults or Events of Default arising out of any such failure to make payment under the June 16, 2008 installment provided for in Section 3.08 of the Indenture and reserves all other rights. The forbearance agreement and waiver set forth in this Section 2 shall apply to the Holder's Notes not purchased pursuant to this Agreement, including any Notes acquired by the Holder subsequent to the date hereof.

3. **Note Purchase; Warrant.**

   a. In consideration of the agreements set forth in Section 2 hereto, the Company agrees to purchase from the Holder, and Holder agrees to sell to the Company, such number of Notes as shall equal 25% of the aggregate principal amount of the Holder's Notes (the "Purchased Notes") for a cash payment equal to $297.95 per $1,000 in aggregate principal amount of Notes (the "Cash Payment").

   b. The Company agrees that it shall pay Holder the Cash Payment for the Purchased Notes not later than Friday, May 23, 2008.

   c. In consideration for Holder's forbearance agreement set forth in Section 2, the Company agrees to issue Holder a warrant to purchase 25,000 shares of common stock of the Company for each $1,000,000 in aggregate principal amount of Notes deferred pursuant to Section 2. The warrant shall have a per share exercise price of $1.00, be exercisable for a period of two years from the date of issuance, contain anti-dilution provisions with respect to major corporate events (i.e. stock splits, Extraordinary Cash Dividends and stock dividends only), and include a provision limiting such holder's right to exercise the warrant in the event such exercise would result in such holder beneficially owning greater than 4.99% of the Company's outstanding capital stock.

4. **Additional Repurchase Date**. In further consideration of the agreements set forth in Section 2 hereto, the Company hereby grants Holder the right to elect to require the Company to repurchase the Notes held by such Holder on January 31, 2009 (the "Additional Repurchase Date"). The purchase price of the Notes on the Additional Repurchase Date shall be calculated in the same manner as set forth in Section 3.08 of the Indenture and Section 6 of the Notes, such that the purchase price on such date shall reflect a price equal to the sum of the issue price and accrued original issue discount on such Notes as of the Additional Repurchase Date---$412.89 per $1,000 Note. The Company shall be entitled to pay the purchase price for such Notes on the Additional Repurchase Date in cash, shares of common stock, or in any combination of the foregoing, in the same manner as set forth in Section 3.08 of the Indenture.

5. **Representations and Warranties**.

   a. The Company hereby represents and warrants to the Holder as follows:

      i. The execution, delivery and performance by the Company of this Agreement have been duly authorized by all requisite corporate action on the part of the Company and will not violate any of the articles of incorporation or bylaws (or other constituent documents) of the Company.

      ii. This Agreement has been duly executed and delivered by the Company and constitutes the legal, valid and binding obligation of the Company enforceable against it in accordance with its terms, except as the same may be limited by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting the rights of creditors generally and by general principles of equity.

b. The Holder hereby represents and warrants to the Company as follows:

iii. The execution, delivery and performance by the Holder of this Agreement have been duly authorized by all requisite corporate action on the part of the Holder and will not violate any of the articles of incorporation or bylaws (or other constituent documents) of the Holder.

iv. The Holder is, and will be on the effective date of this Agreement, the sole beneficial and record owner of the Purchased Notes, free and clear of any lien or encumbrance whatsoever. Upon deliver of the Purchased Notes (through DTC DWAC or otherwise) to the Company pursuant to the provisions of this Agreement, the Company will acquire good, valid and marketable title to the Purchased Notes, free and clear of any liens or encumbrances whatsoever.

v. This Agreement has been duly executed and delivered by the Holder and constitutes the legal, valid and binding obligation of the Holder enforceable against it in accordance with its terms, except as the same may be limited by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting the rights of creditors generally and by general principles of equity.

vi. The Notes held by Holder are owned beneficially by Holder's investment advisory clients. Holder has sole power of disposition and sole power to agree to all of the matters set forth in this Agreement with respect to all of such Notes, with no limitations, qualifications or restrictions on such rights, subject to applicable federal securities laws and the terms of this Agreement.

vii. Holder has received, carefully reviewed, and is familiar with the Company's public filings made with the Securities and Exchange Commission.

viii. Holder understands that to the extent this Agreement ever constitutes the sale or exchange of securities, it is being made without registration under the Securities Act of 1933, as amended (the "Act"), or any state laws and is being made pursuant to an exemption from registration pursuant to Section 4(2) or Section 3(a)(9) of the Act.

ix. Holder agrees that the transactions contemplated herein do not involve a public offering and Holder has not been offered to enter into this Agreement by any form of general solicitation or general advertising, including, but not limited to, any advertisement, article, notice or other communication published in any newspaper, magazine or similar media or broadcast over television or radio or any seminar or meeting whose attendees have been invited by any general solicitation or general advertising.

x. Holder is a Qualified Institutional Buyer as defined pursuant to the Act and the rules and regulations thereunder.

6. **Effectiveness of Agreement**. This Agreement shall be effective upon (i) execution hereof by each of the parties hereto; and (ii) the execution of a Forbearance Agreement by ____ percent (___%) of the current holders of the Notes. Until such time, neither party hereto shall have any obligation to the other party, whether as a result of oral understandings, course of conduct or otherwise.

7. **Subsequent Holders.** Holder acknowledges and agrees that pursuant to Section 9.04 of the Indenture, this Agreement shall be effective as of the date it is signed by the parties hereto and any subsequent holder of the Holder's Notes will be bound by the terms of this Agreement. In connection with any transfer of that portion of Holder's Notes not purchased by the Company pursuant to the terms of this Agreement, Holder shall (a) disclose the terms of this Agreement to such transferee, (b) notify the Company of such transfer, and (c) cause, if required by the Company, prior to such transfer that such transferee enter into a separate agreement with the Company containing substantially the same terms as this Agreement. Upon such actions and such transfer, the transferee (a "Subsequent Holder") shall be a "Holder" hereunder. Holder hereby agrees to indemnify, defend and hold harmless the Company for, from and against, any and all claims, damages, losses and expenses, including reasonable attorneys' fees resulting from Holder's failure to comply with this Section 7.

8. **Further Assurances.** Holder and Company agree to execute and deliver any further agreements, instruction letters, certificates, amendments to the Notes or Indenture, letters of transmittal or other documents, and take all such further lawful action as may be necessary or desirable, to consummate and make effective in the most expeditious manner practicable, this Agreement and the transactions contemplated hereby. Holder and Company agree to cooperate with each other, the Trustee and the Depository Trust Company to effect this Agreement and to enter into any related agreements with such parties as may be reasonably required or desirable in connection therewith.

9. **Reference to and Effect on the Notes.** Except for the rights of the Holder under the Notes and Indenture waived or modified hereby, all of the terms and provisions of the Notes and the Indenture shall remain in full force and effect.

10. **Counterparts**. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

11. **Governing Law**. This Agreement and the rights and obligations of the parties hereto shall be governed by, and construed and interpreted in accordance with, the law of the State of New York.

12. **Entire Agreement; No Third Party Beneficiaries**. This Agreement constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof, and is not intended to confer upon any person other than the parties hereto any rights or remedies hereunder, other than a Subsequent Holder in accordance with Section 7 above. Once the Agreement is effective, the Company shall not later than one (1) business day thereafter release publicly or otherwise make available to all holders of the securities of the Company all information conveyed to Holder that then constitutes material nonpublic information.

13. **Headings**. Section headings contained in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purposes.

14. **Waiver of Jury Trial. EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES TRIAL BY JURY IN ANY ACTION OR PROCEEDING WITH RESPECT TO THIS WAIVER OR ANY OTHER LOAN DOCUMENT.**

[signature page follows]

IN WITNESS WHEREOF, the undersigned parties have executed this Agreement and Agreement to be effective for all purposes as of the date set forth below.

Company

MESA AIR GROUP, INC.

By: ________________________________
Name:
Title:

Holder

,

On behalf of its investment advisory clients

By: ________________________________
Name:
Title:

Principal Amount at Maturity of Notes held by Holder: _____

Date: May __, 2008

Exhibit 10.29

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

163872-5

FIFTH AMENDMENT TO UNITED EXPRESS AGREEMENT

This Amendment to the United Express Agreement (the "**Amendment**") is effective as of February 6, 2008 by and between **UNITED AIR LINES, INC.**, a Delaware corporation, with its operations center located at 1200 East Algonquin Road, Elk Grove Township, Illinois 60007 ("**United**"), and **MESA AIR GROUP, INC.,** a Nevada corporation, having its principal mailing address at 410 N 44th St. Suite 700, Phoenix, AZ 85008 (**"Mesa"** or **"Contractor"**).

WHEREAS, the parties previously entered into that certain Amended and Restated United Express® Agreement, dated as of January 28, 2004 (United Contract # 163872) as amended on June 3, 2005 (the "**First Amendment**"), March 7, 2005 (the "**Second Amendment**", August 28, 2007 (the "**Third Amendment**"), August 28, 2007 (the "**Fourth Amendment**") (collectively, the "**Agreement**"); and

WHEREAS, pursuant to Article XXXI of the Agreement, the parties may modify or amend the Agreement; and

WHEREAS, Appendix A provides for the schedule of a Fleet Plan; and

WHEREAS, the parties desire to further amend the Agreement to provide for the permanent reductions of RJ-50 aircraft by Contractor in accordance with the Fleet Plan set forth on Appendix A; and

WHEREAS, the parties desire to further amend the Agreement to provide for the increase of RJ-70 aircraft by Contractor in accordance with the Fleet Plan set forth on Appendix A; and

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

I. DEFINITIONS

A. Defined Terms. Capitalized terms used in this Amendment and not otherwise defined in this Amendment shall have the meanings assigned to them in the Agreement.

II. SCOPE, TERM, and CONDITIONS

A. Attachment A to this Amendment is the revised iteration of Appendix A, Aircraft Used in United Express Service, to the Agreement (Fleet Plan) and is modified to include details and explanations of permanent reductions and increases to aircraft in fleet.

B. In addition to the explanation given on Attachment A, this Article II.B further documents the agreement by Contractor and United to permanently remove exactly four (4) Expansion RJ-50 aircraft effective on the dates specified in Attachment A to this Amendment.

C. In addition to the explanation given on Attachment A, this Article II.C further documents the agreement by Contractor and United to increase exactly one (1) RJ-70 aircraft effective on the dates specified in Attachment A to this Amendment.

   i. The actual monthly aircraft ownership cost of these (1) RJ-70 aircraft will not exceed [*]. All other rates are the same as specified in the Agreement.

   ii. This (1) RJ-70 aircraft will be removed on September 3, 2018.

   iii. This (1) RJ-70 aircraft will be delivered and ready to enter the United Express schedule on September 4, 2008 in accordance with United's Décor 5.5 livery specifications. These aircraft will be subject to United's inspection to assure compliance with United's Décor 5.5 specifications before acceptance.

III. MISCELLANEOUS. Except as otherwise amended herein, the Agreement will remain in full force and effect. The terms of this Amendment are deemed to be incorporated in, and made a part of, the Agreement. This Amendment may be executed in any number of counterparts, by original or facsimile signature, each of which when executed and delivered shall be deemed an original and such counterparts together shall constitute one and the same instrument.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have by their duly authorized officers caused this Amendment to be entered into and signed as of the day and year first above written.

UNITED AIRLINES, INC.	MESA AIR GROUP, INC.
By: __________________________	By: __________________________
Peter McDonald&	Jonathan Ornstein
Chief Operating Officer	Chief Executive Officer

Attachment A

APPENDIX A

FLEET PLAN

Exhibit 10.30

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

163872-6

SIXTH AMENDMENT TO UNITED EXPRESS AGREEMENT

This Amendment to the United Express Agreement (the "**Amendment**") is effective as of September 22, 2008 by and between **UNITED AIR LINES, INC**., a Delaware corporation, with its operations center located at 1200 East Algonquin Road, Elk Grove Township, Illinois 60007 ("United"), and **MESA AIR GROUP, INC.**, a Nevada corporation, having its principal mailing address at 410 N 44th St. Suite 700, Phoenix, AZ 85008 ("**Mesa**" or "**Contractor**").

WHEREAS, the parties previously entered into that certain Amended and Restated United Express® Agreement, dated as of January 28, 2004 (United Contract # 163872) as amended on June 3, 2005 (the "**First Amendment**"), March 7, 2005 (the "**Second Amendment**", August 28, 2007 (the "**Third Amendment**"), August 28, 2007 (the "**Fourth Amendment**"), February 6, 2008 (the "**Fifth Amendment**") (collectively, the "**Agreement**"); and

WHEREAS, pursuant to Article XXXI of the Agreement, the parties may modify or amend the Agreement; and

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

I. DEFINITIONS

A. Defined Terms. Capitalized terms used in this Amendment and not otherwise

defined in this Amendment shall have the meanings assigned to them in the Agreement.

II. SCOPE, TERM, and CONDITIONS

A. Mesa agrees to implement the Aerodata variable mach speed cruise program (the "Aerodata Program") on the United CRJ200 and CRJ700 aircraft no later than October 1, 2008. United will bear all start up and recurring costs for this United aircraft initiative. The start up costs are estimated to be [*]. As of September 2008, the recurring costs are [*]. These costs shall be considered as [*] under the Agreement, and Mesa will pass these costs through to United as part of the monthly reconciliation process.

B. Mesa agrees to provide United monthly performance reports (identifying utilization of Aerodata product) no later than October 31, 2008 to ensure that all of the United CRJ200 and CRJ700 flights are being released and flown using the Aerodata Program.

C. United reserves the right to terminate the Aerodata Program at any time and for any reason, [*], and upon the effective date of Mesa's termination with Aerodata, United will no longer reimburse Mesa for any [*] or other costs associated therewith. Aerodata has confirmed there are no associated termination costs for the Aerodata Program.

III. MISCELLANEOUS. Except as otherwise amended herein, the Agreement will remain in full force and effect. The terms of this Amendment are deemed to be incorporated in, and made a part of, the Agreement. This Amendment may be executed in any number of counterparts, by original or facsimile signature, each of which when executed and delivered shall be deemed an original and such counterparts together shall constitute one and the same instrument.

[Signature Page Follows]

Exhibit 10.35

EMPLOYMENT AGREEMENT
BY AND BETWEEN
JONATHAN G. ORNSTEIN
AND
MESA AIR GROUP, INC.
DATED AS OF JANUARY 1, 2009

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (this "Agreement") made and entered into this 31st day of December, 2008, effective as of January 1, 2009, by and between Mesa Air Group, Inc., a Nevada corporation (the "Company"), and Jonathan G. Ornstein ("Executive").

RECITALS

The Company and Executive were parties to an employment agreement dated as of March 31, 2004, as amended. The parties have agreed to enter into this Agreement, which supersedes the existing agreement.

ARTICLE I

DUTIES AND TERM

1.1 EMPLOYMENT. In consideration of their mutual covenants and other good and valuable consideration, the receipt, adequacy and sufficiency of which are acknowledged, the Company agrees to hire Executive, and Executive agrees to remain in the employ of the Company, upon the terms provided in this Agreement.

1.2 POSITION AND RESPONSIBILITIES.

(a) Executive shall serve as the Chairman of the Board of Directors and Chief Executive Officer of the Company. Executive agrees to perform services, not inconsistent with his position, as are from time to time assigned to him by the Board of Directors of the Company.

(b) During the period of his employment under this Agreement, Executive shall devote substantially all of his business time, attention, skill and efforts to the faithful performance of his duties under this Agreement, but Executive shall have the right to engage in personal business and to participate in charitable and civic activities, during normal business hours and otherwise, as long as such business and activities do not unreasonably interfere with Executive's duties to the Company.

1.3 TERM. The term of Executive's employment under this Agreement commenced on March 31, 2004, and shall continue, unless sooner terminated, through March 30, 2012 (the "Expiration Date").

1.4 LOCATION. During the period of his employment under this Agreement, Executive shall not be required, except with his prior written consent (which may be withheld in his discretion), to relocate his principal place of employment outside Maricopa County, Arizona. Required travel on the Company's business shall not be deemed a relocation so long as Executive is not required to provide his services under this Agreement outside of Maricopa County, Arizona, for more than 50% of his working days during any consecutive six-month period.

ARTICLE II

COMPENSATION

For all services rendered by Executive in any capacity during his employment under this Agreement, including, without limitation, services as a director, officer or member of any committee of the Board of the Company or of the board of directors of any subsidiary of the Company, the Company shall compensate Executive as set forth in this Article II and as provided in Article IV.

2.1 BASE SALARY. The Company shall pay to Executive an annual base salary of not less than the amount indicated below during the 12-month period beginning on March 31 of the years indicated below (the "Base Salary"):

Year	Base Salary
2004	$ 300,000
2005	$ 375,000
2006	$ 450,000

Executive's Base Salary shall be paid every other week in equal installments. The Base Salary shall be reviewed annually by the Board or a committee designated by the Board, and the Board or such committee may, in its discretion, increase the Base Salary. Subject to the consent of Executive (which consent shall not be unreasonably withheld), the Company may reduce the Base Salary under circumstances in which the Company has suffered severe financial losses and has imposed cuts in salary of other officers on an across the board basis, but any such reduction may not be at a greater percentage than the reduction imposed on any other officer (an "Across the Board Reduction").

2.2 BONUS PAYMENTS. During the period of Executive's employment under this Agreement, Executive shall be entitled to the bonus payments specified on Exhibit A. Any bonus payable to Executive under the plan described in Exhibit A is referred to as an "Incentive Bonus." Any Incentive Bonuses will be paid on a quarterly basis, not later than 45 days after the end of each fiscal quarter (or 90 days after the end of any fiscal year), based on the Company's financial statements in its Form 10-Q or Form 10-K, as the case may be; payments made with respect to any fiscal quarter other than the last fiscal quarter of a fiscal year of the Company will be made on an estimated basis (based on annualized results), and the parties will account to one another and make appropriate payment adjustments promptly after the financial statements for any fiscal year become available but no later than 90 days after the end of the fiscal year. The Company in its discretion may pay bonuses to Executive in addition to the Incentive Bonuses set forth in Exhibit A.

2.3 STOCK OPTIONS. As of April 1st of each year during the term of this Agreement (or the next business day if April 1st of any year is not a business day), the Company shall issue options to purchase not fewer than 150,000 shares of common stock of the Company (adjusted appropriately for any stock dividend, stock split, spin-off, reorganization, or similar transaction), under the 2001 Key Officer Stock Option Plan.

2.4 RESTRICTED STOCK.

The Company previously granted to the Executive an award of 238,156 Restricted Stock Units pursuant to a Restricted Stock Agreement between the Company and the Executive.

2.5 ADDITIONAL BENEFITS.

(a) GENERAL BENEFITS. During the term of this Agreement, Executive shall be entitled (i) to participate in all employee benefit and welfare programs, plans and arrangements (including, without limitation, pension, profit sharing, supplemental pension and other retirement plans, insurance, hospitalization, medical and group disability benefits, travel or accident insurance plans) and (ii) to receive fringe benefits, such as dues and fees of professional organizations and associations, in each case under (i) and (ii) to the extent that such programs, plans, arrangements, and benefits are from time to time available to the Company's executive personnel (the programs and benefits in (i) and (ii) are referred to as "General Benefits"). During the period of his employment under this Agreement, the Company shall continue to provide the General Benefits to Executive at a level which shall in no event be less, in any material respect, than the General Benefits made available to Executive by the Company as of the date of this Agreement. Subject to the consent of Executive (which consent shall not be unreasonably withheld), the Company may reduce the General Benefits under circumstances in which the Company has suffered severe financial losses and has imposed reductions in coverage of the General Benefits of other officers on an across the board basis, but any such reduction may not be disproportionately greater than the reduction imposed on any other officer.

(b) DEATH BENEFIT. The Company shall maintain term life insurance on the life of Executive such that the aggregate death benefit under existing and new policies held by the Company totals $5,000,000. Such insurance shall be obtained under one or more policies from insurers reasonably acceptable to Executive. As long as Executive is employed by the Company, (i) the Company shall pay the premiums on the policy (or policies) and shall maintain the policy (or policies) in full force and effect, and (ii) Executive shall have the exclusive right to designate the beneficiary under such policy (or policies). The Company shall assign the policy (or policies) to Executive, without any cost to Executive, effective immediately after Executive ceases to be an employee of the Company, regardless of the reason for Executive's termination of employment. The Company shall not pledge or otherwise encumber the policy (or policies) at any time.

(c) DISABILITY BENEFITS. The Company shall provide Executive with the following disability benefits:

(i) During any period of disability, illness or incapacity during the term of this Agreement which renders Executive at least temporarily unable to perform the services required under this Agreement, Executive shall receive the Base Salary payable under Section 2.1 plus any cash bonus compensation earned pursuant to the provisions of this Agreement or any incentive compensation plan then in effect but not yet paid, less any cash benefits received by him under any disability insurance carried by or provided by the Company. Upon Executive's Total Disability (as defined below), which Total Disability continues during the payment periods specified in this Section, the Company shall pay to Executive, on a monthly basis, for the period specified below, an amount (the "Disability Payment") equal to (A) one-twelfth of the sum of (1) Executive's Base Salary in effect immediately prior to the time such Total Disability occurs, plus (2) an amount equal to the greater of (x) the Threshold Bonus or (y) one half of the sum of (i) the bonuses (whether Incentive Bonuses or other bonuses) that have been paid to Executive with respect to the two fiscal years immediately preceding the fiscal year in which the Total Disability occurs, and (ii) the bonuses (whether Incentive Bonuses or other bonuses) that have been accrued with respect to the two fiscal years immediately preceding the fiscal year in which the Total Disability occurs but have not been paid (or if Executive has been employed by the Company for less than two full fiscal years at the time of such Total Disability, then an amount equal to the sum of such paid and accrued bonuses with respect to the fiscal year immediately preceding the fiscal year in which the Total Disability occurs), which payments shall be due in full regardless of any compensation paid to Executive as a result of his employment by any other person after the date that Total Disability occurs, (B) reduced by the amount of any monthly payments under any policy of disability income insurance paid for by the Company (including the policy described in Section 2.5(c)(ii)) which payments are received during the time when any Disability Payment is being made to Executive following Executive's Total Disability. The Company shall pay the Disability Payment to Executive in equivalent installments, at the same time or times as would have been the case for payment of Base Salary if Executive had not become Totally Disabled and had remained employed by the Company, and such payments shall continue until the later of the expiration of the term of this Agreement and 48 months, except that the Company's obligation to make such payments shall cease upon the death of Executive. Upon Executive's Total Disability, except as provided in this Agreement, all rights of Executive under this Agreement shall terminate.

(ii) In order to provide a ready source of funds with which to pay the benefits provided for in clause (i) above, if Executive becomes disabled (determined in accordance with the policy described below) during the term of this Agreement and such disability extends beyond 180 days, then Executive shall be paid the benefits provided for under the disability insurance policy issued by UNUM Life Insurance Company (Policy #LAR 442810), which the Company agrees to maintain in full force and effect during the term of this Agreement. The Company promptly (and in any event not later than 60 days after this Agreement is executed) shall have endeavored to cause such policy to be amended to the extent necessary to cause Executive to be eligible for disability payments for a minimum of four years from the date of such disability (that is, providing for 3-1/2 years of coverage, taking into account the 180-day coverage provided by the Company directly under Section 2.5(c)(i)), to remove any exclusion for pre-existing conditions (including any treatment or operation or complications arising from the foregoing), and to increase the amount payable to a minimum of $58,000 per month. To the extent the

Company is unable to cause such policy to be so amended, then the Company nonetheless shall be obligated to provide such payments to Executive directly. Such coverage shall apply regardless of whether such four-year period extends beyond the term of this Agreement.

(d) RELOCATION EXPENSES. During the term of this Agreement, if Executive's principal place of employment is relocated outside Maricopa County, Arizona (with Executive's consent, in accordance with Section 1.4), the Company shall reimburse Executive for all usual relocation expenses incurred by Executive and his household in moving to the new location, including, without limitation, moving expenses and rental payments for temporary living quarters in the area of relocation for a period not to exceed six months, real estate brokerage commissions incurred by Executive in the sale of his then existing principal residence, and loan financing charges and closing costs incurred in connection with the acquisition and financing of a new residence.

(e) REIMBURSEMENT OF BUSINESS EXPENSES. During the term of this Agreement, the Company shall, in accordance with standard Company policies, pay, or reimburse Executive for, all reasonable travel and other expenses incurred by Executive in performing his obligations under this Agreement. In addition, during the term of this Agreement, the Company shall provide to Executive a supplemental allowance, in the amount of $3,000 per month to be used by Executive in his discretion for investigation of business opportunities and strategic allegiances for the Company and for client and customer development. The amount of the yearly allowance that is not used each year ($36,000) shall be forfeited and shall not carry over to be used in any subsequent year.

(f) VACATIONS. During the term of this Agreement, Executive shall be entitled to vacations with pay, and to such personal and sick leave with pay, in accordance with the policy of the Company as may be established from time to time by the Company and as applies to other executive officers of the Company. In no event shall Executive be entitled to fewer than four weeks' annual vacation. Unused vacation days may be carried over from one year to the next in the maximum amount of four weeks' annual vacation; that is, to the extent that vacation days to which Executive is entitled remain unused, such unused vacation days will cumulate and be useable in any subsequent year, but no more than four weeks' of annual vacation in the aggregate can be carried over from one year to the next. Any vacation days which remain unused at the end of a calendar year that are in excess of such four weeks' annual vacation shall expire and shall thereafter no longer be useable by Executive, but the Company shall compensate Executive for any such unused vacation days in accordance with the formula set forth in Section 4.1(b), by payment in January of the next year. Similarly, any unused paid holidays may be carried over from one year to the next but not in excess of an aggregate of five days of paid holidays may be carried over from one year to the next; to the extent any paid holidays remain unused at the end of a calendar year that are in excess of such five paid holidays, such paid holidays shall expire and shall thereafter no longer be useable by Executive, but the Company shall compensate Executive for any such unused paid holidays in accordance with the formula set forth in Section 4.1(b), by payment in January of the next year. Accrued but unpaid vacation and holidays as of December 31, 2008, will be paid in January 2009.

(g) DIRECTOR FEES. During the term of this Agreement, Executive shall not be entitled to be paid any fees for attendance at meetings of the Board of Directors or any committee of the Board of Directors (or the board or committee of the board of any subsidiary).

(h) AIRLINE PASSES. During the term of this Agreement and for any period during which the Consulting Agreement is in effect, the Company shall use reasonable efforts to obtain for the benefit of Executive and Executive's immediate family (Executive's spouse, Executive's children, and the spouse and children of any of Executive's children), the right to fly on a complimentary basis on the aircraft of other airlines, on a positive space basis. Such efforts shall include negotiating in good faith with other carriers for such rights and offering reciprocal rights to the executives (and their immediate family members) of such other carriers. The Company shall provide to Executive and Executive's immediate family, during the life of each such individual, the right to fly on a complimentary basis on any aircraft operated by the Company or any affiliate at any time on a positive space basis; the Company shall use its best efforts to cause any successor or subsequent successor to the business or assets of the Company to grant such rights as to all routes operated by such successor (or subsequent successor) and any of its affiliates.

(i) USE OF COMPANY AIRCRAFT. During the term of this Agreement, the Company shall provide to Executive, for Executive's personal use or business use (or a combination of such uses), at no cost to Executive, the use of any Company owned or operated aircraft selected by Executive (together with pilots, fuel, landing fees, and other related costs and personnel associated with such use), for up to 100 flight hours per calendar year. The selection of aircraft and the scheduling of the use of such aircraft shall be subject to reasonable requirements of the Company concerning availability of such aircraft and personnel to operate such aircraft.

(j) PROFESSIONAL SERVICES. During the term of this Agreement, the Company shall reimburse Executive for his out-of-pocket costs incurred in connection with the retention of professionals by Executive to provide Executive with income tax, estate planning, and investment advisory services. The maximum amount of reimbursable expenses for such purposes shall be $5,000 for each calendar year during the term of this Agreement. The amount that is not used each calendar year shall be forfeited and shall not carry over to be used in any subsequent year. The Company shall reimburse Executive for such costs promptly after Executive submits an invoice to Company. In order to preserve Executive's rights to confidentiality, Executive may satisfy the requirement of submitting an invoice by providing the Company with a copy of the facing page of the invoice showing the fees and expenses for the services rendered and the general nature of the services rendered but without any detail concerning the substance of the services rendered.

(k) EXECUTIVE SECURITY. During the term of this Agreement, the Company shall provide to Executive such security services as are reasonably necessary for the protection of the life and property of Executive and Executive's immediate family members.

2.6 PAYMENT OF EXCISE TAXES. If any payment received by Executive under this Agreement or under the Consulting Agreement provided for in Section 4.3(i), as a result of or following any termination of employment under this Agreement, is subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986 (as amended from time to time, the "Code"), or any successor or similar provision of the Code (the "Excise Tax"), the Company shall pay Executive an additional cash amount (the "Gross Up") such that the net after-tax amount received by Executive under this Agreement is the same as if the Excise Tax had not applied to any payments made under this Agreement. The Company shall pay such amounts promptly after the calculation referred to in Section 2.7 has been made, subject, however, to the six month delay of payment described in Section 6.10, but no later than December 31 of the year following the year in which the Executive remits the related taxes.

2.7 CERTAIN ADJUSTMENT PAYMENTS. For purposes of determining the Gross Up, Executive shall be deemed to pay the federal income tax at the highest marginal rate of taxation (currently 39.6%) in the calendar year in which the payment to which the Gross Up applies is to be made. The determination of whether such Excise Tax is payable and the amount of the Excise Tax shall be made upon the opinion of a national accounting firm selected by Executive and reasonably acceptable to the Company. If such opinion is not finally accepted by the Internal Revenue Service upon audit or otherwise, then appropriate adjustments shall be computed (with interest at the rate required to be paid by Executive under the Code and with Gross Up, if applicable) by such tax counsel based upon the final amount of the Excise Tax so determined, and (a) any additional amount due Executive as a result of such adjustment shall be paid to Executive by the Company in cash in a lump sum within 30 days after such computation, or (b) any amount due the Company as a result of such adjustment shall be paid to the Company by Executive in cash in a lump sum within 30 days after such computation. The Gross Up payment shall be subject to the six month delay of payment described in Section 6.10, but shall be made by December 31 of the year following the year in which the Executive remits the related taxes.

2.8 DEFERRED COMPENSATION AGREEMENT. On March 31 of each year during the term of this Agreement, the Company shall contribute an amount equal to the Base Salary then in effect to an account for the benefit of Executive under the Deferred Compensation Plan in the form of the attached Exhibit C.

ARTICLE III

TERMINATION OF EMPLOYMENT

3.1 DEATH OR RETIREMENT OF EXECUTIVE. Executive's employment under this Agreement shall automatically terminate upon the death or Retirement of Executive.

3.2 BY EXECUTIVE. Executive shall be entitled to terminate his employment under this Agreement by giving Notice of Termination to the Company:

(a) for Good Reason;

(b) at any time without Good Reason.

3.3 BY COMPANY. The Company shall be entitled to terminate Executive's employment under this Agreement by giving Notice of Termination to Executive:

(a) in the event of Executive's Total Disability;

(b) for Cause; and

(c) at any time without Cause.

ARTICLE IV

COMPENSATION UPON TERMINATION OF EMPLOYMENT

If Executive's employment under this Agreement is terminated prior to March 30, 2012, then except for any other rights or benefits specifically provided for in this Agreement, the Company shall be obligated to provide compensation and benefits to Executive following his period of employment only as follows:

4.1 UPON TERMINATION FOR DEATH OR TOTAL DISABILITY. If Executive's employment under this Agreement is terminated by reason of his death or Total Disability, the Company shall:

(a) pay Executive (or his estate) any Base Salary which has accrued but not been paid as of the termination date (the "Accrued Base Salary");

(b) pay Executive (or his estate) for unused vacation days and paid holidays accrued as of the termination date in an amount equal to his Base Salary multiplied by a fraction the numerator of which is the number of accrued unused vacation days and paid holidays, and the denominator of which is 260 (the "Accrued Vacation Payment");

(c) reimburse Executive (or his estate) for expenses incurred by him prior to the date of termination which are subject to reimbursement pursuant to this Agreement (the "Accrued Reimbursable Expenses");

(d) provide to Executive (or his estate) any accrued and vested benefits required to be provided by the terms of any Company-sponsored benefit plans or programs (the "Accrued Benefits"), together with any benefits required to be paid or provided in the event of Executive's death or disability under applicable law;

(e) pay Executive (or his estate) any Incentive Bonus or other bonus with respect to a prior fiscal quarter which has accrued but has not been paid;

(f) contribute to the Deferred Compensation Plan any amount that has been accrued but not yet paid to the account provided for in such plan;

(g) permit Executive (or his estate) to convert all vested Restricted Stock Units outstanding at the termination date in accordance with the terms of the Restricted Stock Agreement described in Section 2.4 hereof; and

(h) permit Executive (or his estate) to exercise all vested unexercised stock options (including stock options which by their terms become exercisable upon death or disability) and warrants outstanding at the termination date in accordance with the terms of the plans and agreements pursuant to which such options or warrants were issued.

4.2 UPON TERMINATION BY COMPANY FOR CAUSE OR BY EXECUTIVE WITHOUT GOOD REASON. If Executive's employment is terminated by the Company for Cause, or if Executive terminates his employment with the Company prior to March 31, 2012, other than (x) upon Executive's death or Total Disability or (y) for Good Reason, the Company shall:

(a) pay Executive the Accrued Base Salary;

(b) pay Executive the Accrued Vacation Payment;

(c) reimburse Executive for the Accrued Reimbursable Expenses;

(d) provide Executive the Accrued Benefits, together with any benefits required to be paid or provided under applicable law;

(e) pay Executive any accrued Incentive Bonus or other bonus with respect to a prior fiscal quarter which has accrued but has not been paid;

(f) contribute to the Deferred Compensation Plan any amount that has been accrued but not yet paid to the account provided for in such plan;

(g) permit Executive to convert all vested Restricted Stock Units outstanding at the termination date in accordance with the terms of the Restricted Stock Agreement described in Section 2.4 hereof; additionally, any unvested Restricted Stock Units shall continue to vest in accordance with such Agreement; and

(h) permit Executive to exercise all vested unexercised stock options and warrants outstanding at the termination date in accordance the terms of the plans and agreements pursuant to which such options and warrants were issued.

4.3 UPON EXPIRATION OF THIS AGREEMENT. In order to induce the Executive to continue his employment with the Company throughout the term of this Agreement and until the Expiration Date of this Agreement, upon termination of the Executive's employment on the Expiration Date, the Company shall:

(a) pay Executive the Accrued Base Salary;

(b) pay Executive the Accrued Vacation Payment;

(c) reimburse Executive the Accrued Reimbursable Expenses;

(d) provide Executive the Accrued Benefits, together with any benefits required to be paid or provided under applicable law;

(e) pay Executive any Incentive Bonus or other bonus with respect to a prior fiscal quarter which has accrued but has not been paid;

(f) contribute to the Deferred Compensation Plan any amount that has been accrued but not yet paid to the account provided for in such plan;

(g) maintain in full force and effect, for Executive's and his eligible beneficiaries' continued benefit, continued health insurance coverage, for a period of 36 months following the Expiration Date of this Agreement, except to the extent that, as to any such coverage, Executive receives the substantial equivalent of such coverage under the Consulting Agreement or as a result of his employment with another employer after the Expiration Date. If Executive's continued participation in the health insurance plan is not permitted under the terms of the plan, program or arrangement under which the benefit was provided to Executive by the Company, the Company shall arrange to provide Executive with health insurance coverage substantially similar to the coverage which Executive would have been entitled to receive under such plan, program or arrangement;

(h) permit Executive to convert all vested Restricted Stock Units outstanding at the Expiration Date in accordance with the terms of the Restricted Stock Agreement described in Section 2.4 hereof; and

(i) Executive shall have the right to exercise all vested unexercised stock options and warrants outstanding at the Expiration Date in accordance with the terms of the plans and agreements pursuant to which such options and warrants were issued.

4.4 UPON TERMINATION BY THE EXECUTIVE FOR GOOD REASON. If Executive's employment is terminated by the Executive for Good Reason, the Company shall:

(a) pay Executive the Accrued Base Salary;

(b) pay Executive the Accrued Vacation Payment;

(c) reimburse Executive the Accrued Reimbursable Expenses;

(d) provide Executive the Accrued Benefits, together with any benefits required to be paid or provided under applicable law;

(e) pay Executive any Incentive Bonus or other bonus with respect to a prior fiscal quarter which has accrued but has not been paid;

(f) contribute to the Deferred Compensation Plan any amount that has been accrued but not yet paid to the account provided for in such plan;

(g) subject to the six month delay of payment described in Section 6.10, pay directly to Executive on March 30 of each year after such termination through March 30, 2012, twice the amount that would have been payable to the account established under the Deferred Compensation Plan if this Agreement had not been terminated;

(h) subject to the six month delay of payment described in Section 6.10, pay Executive an amount equal to three multiplied by the sum of (1) Executive's Base Salary in effect immediately prior to the time such termination occurs, plus (2) an amount equal to the greater of (x) the Threshold Bonus and (y) one half of the sum of (i) the bonuses (whether Incentive Bonuses or other bonuses) that have been paid to Executive with respect to the two fiscal years immediately preceding the fiscal year in which the termination occurs, and (ii) the bonuses (whether Incentive Bonuses or other bonuses) that have been accrued with respect to the two fiscal years immediately preceding the fiscal year in which the termination occurs but have not been paid (or if Executive has been employed by the Company for less than two full fiscal years at the time of such termination, then an amount equal to the sum of such paid and accrued bonuses with respect to the fiscal year immediately preceding the fiscal year in which the termination occurs), which payment shall be due in full regardless of any compensation paid to Executive as a result of his employment by any other person after the termination date;

(i) maintain in full force and effect, for Executive's and his eligible beneficiaries' continued benefit, continued health insurance coverage, for a period of 36 months following the termination date of his employment under this Agreement, except to the extent that, as to any such coverage, Executive receives the substantial equivalent of such coverage under the Consulting Agreement or as a result of his employment with another employer after the termination date. If Executive's continued participation in the health insurance plan is not permitted under the terms of the plan, program or arrangement under which the benefit was provided to Executive by the Company, the Company shall arrange to provide Executive with health insurance coverage substantially similar to the coverage which Executive would have been entitled to receive under such plan, program or arrangement;

(j) permit Executive to convert all vested and unvested Restricted Stock Units outstanding at the termination date in accordance with the terms of the Restricted Stock Agreement described in Section 2.4 hereof; and

(k) Executive shall have the right to exercise all unexercised (vested and unvested) stock options and warrants outstanding at the termination date in accordance with the terms of the plans and agreements pursuant to which such options and warrants were issued.

4.5 UPON TERMINATION BY THE COMPANY WITHOUT CAUSE OR IF THERE IS A CHANGE OF CONTROL. If Executive's employment is terminated by the Company without Cause or if there is a Change of Control, the Company shall:

(a) pay Executive the Accrued Base Salary;

(b) pay Executive the Accrued Vacation Payment;

(c) reimburse Executive the Accrued Reimbursable Expenses;

(d) provide Executive the Accrued Benefits, together with any benefits required to be paid or provided under applicable law;

(e) pay Executive any Incentive Bonus or other bonus with respect to a prior fiscal quarter which has accrued but has not been paid;

(f) contribute to the Deferred Compensation Plan any amount that has been accrued but not yet paid to the account provided for in such plan;

(g) subject to the six month delay of payment described in Section 6.10, pay directly to Executive on March 30 of each year after such termination or Change of Control through March 30, 2012, twice the amount that would have been payable to the account established under the Deferred Compensation Plan if this Agreement had not been terminated or there had not been a Change of Control;

(h) subject to the six month delay of payment described in Section 6.10 for a payment due to the Executive's termination of employment, or if payment is made due to a Change of Control, within thirty (30) days after the Change of Control, pay Executive an amount equal to six multiplied by the sum of (1) Executive's Base Salary in effect immediately prior to the time such termination or Change of control occurs, plus (2) an amount equal to the greater of (x) the Threshold Bonus and (y) one half of the sum of (i) the bonuses (whether Incentive Bonuses or other bonuses) that have been paid to Executive with respect to the two fiscal years immediately preceding the fiscal year in which the termination or Change of control occurs, and (ii) the bonuses (whether Incentive Bonuses or other bonuses) that have been accrued with respect to the two fiscal years immediately preceding the fiscal year in which the termination or Change of control occurs but have not been paid (or if Executive has been employed by the Company for less than two full fiscal years at the time of such termination or Change of control, then an amount equal to the sum of such paid and accrued bonuses with respect to the fiscal year immediately preceding the fiscal year in which the termination or Change of control occurs), which payment shall be due in full regardless of any compensation paid to Executive as a result of his employment by any other person after the termination date or Change of control;

(i) maintain in full force and effect, for Executive's and his eligible beneficiaries' continued benefit, continued health insurance coverage, for a period of 36 months following the Change of control or termination date of his employment under this Agreement, except to the extent that, as to any such coverage, Executive receives the substantial equivalent of such coverage under the Consulting Agreement or as a result of his employment with another employer after the termination date or Change of control. If Executive's continued participation in the health insurance plan is not permitted under the terms of the plan, program or arrangement under which the benefit was provided to Executive by the Company, the Company shall arrange to provide Executive with health insurance coverage substantially similar to the coverage which Executive would have been entitled to receive under such plan, program or arrangement;

(j) permit Executive to convert all vested and unvested Restricted Stock Units outstanding at the termination date or Change in Control date in accordance with the terms of the Restricted Stock Agreement described in Section 2.4 hereof; and

(k) Executive shall have the right to exercise all unexercised (vested or unvested) stock options and warrants outstanding at the termination or Change of Control date in accordance with the terms of the plans and agreements pursuant to which such options and warrants were issued.

4.6 CONSULTING AGREEMENT. If Executive's employment is terminated (whether by the Company or Executive) for any reason, the Company and Executive shall enter into a consulting agreement (the "Consulting Agreement") in the form of Exhibit D.

4.7 CALL RIGHTS.

(a) Upon any termination of employment under Section 4.1, Section 4.3, Section 4.4 or Section 4.5, the Company shall have the right to redeem any stock option, whether vested or unvested, that is held by Executive as of the date of such termination and that is designated by the Company in a notice to Executive (a "Call Election"), at a price equal to 100% of the Black-Scholes Value of such stock option.

(b) The Black-Scholes Value for any option shall be determined using the Black-Scholes formula but in any event shall be not less than the Market Price for the common stock on the date the Call Election is made (the "Calculation Date"), less the exercise price under the stock option. The Black-Scholes Value shall be calculated by an independent major investment banking firm selected by the Company, subject to the approval of Executive; if Executive does not approve the firm selected by the Company, then the Black-Scholes Value shall be the average of the amount calculated by the firm selected by Executive and a major investment banking firm selected by the Company. The Black-Scholes Value shall be calculated as of the Calculation Date, and any unvested options for this purpose shall be treated as if fully vested. The Company shall bear the cost of the firm or firms that conduct the Black-Scholes valuation. In determining the Black-Scholes Value of any option, the following rules will apply:

(i) The time to maturity of any option will be equal to the period beginning on the Calculation Date and ending on the final expiration date of the option (the "Option Life"), without regard to any analysis of the effect, or likelihood of occurrence, of any event that might cause the expiration date to occur sooner.

(ii) The "risk free rate" as to any option will be determined as of the Calculation Date, by the U.S. Treasury YTM, with a maturity approximately equal to the Option Life, as stated by the Federal Reserve.

(iii) The volatility factor will be based on an historical sampling of daily stock prices over a period of not less than 24 months from the valuation date, and not more than 120 months from the valuation date, whichever period yields the highest value.

(iv) No illiquidity or other discount will be applied to the value determined by application of the Black-Scholes formula, whether by reason of the fact that the options are not publicly traded or otherwise.

(c) Unless Executive consents, the Company shall not exercise a Call Election to the extent that the Company would be unable, without violating the provisions of the General Corporation Law of Nevada or the fraudulent conveyance laws of any state, to pay any amount due to Executive under Section 4.7(a); if Executive consents to the exercise of a Call Election by the Company under such circumstances, then, to the extent that the Company is unable, without violating the provisions of the General Corporation Law of Nevada, to pay any amount due Executive under Section 4.7(a), the Company's obligation to make such payment shall be deferred, but only until the legal restriction lapses, at which time the payment shall be due, and in any event, all amounts that otherwise would have been payable but for such restriction shall bear interest at the rate provided for in Section 6.11, from the date such payments would have been payable (but for such legal restriction) until the date they actually are made.

(d) All payments due by the Company in connection with any Call Election are payable within 10 business days after the Call Election is made.

(e) Any stock option redeemed by the Company under Section 4.7(a) shall be cancelled.

ARTICLE V

RESTRICTIVE COVENANTS

5.1 CONFIDENTIAL INFORMATION AND MATERIALS. Executive agrees that during the course of his employment with the Company, he has obtained and shall likely obtain in the future "Confidential Information." "Confidential Information" is information concerning the Company which the Company attempts to keep confidential, has not been publicly disclosed by the Company, is not a matter of common knowledge in the airline industry, and was not known by Executive prior to his employment by the Company, including, but not limited to, certain information relating to the business plans, trade practices, finances, accounting methods, methods of operations, trade secret, marketing plans or programs, forecasts, statistics relating to routes and markets, contracts, customers, compensation arrangements, and business opportunities. Executive agrees that the Confidential Information is proprietary to the Company.

5.2 GENERAL KNOWLEDGE. The general skills and experience gained by Executive during Executive's employment or engagement by the Company, and information publicly available without breach of any duty owed by any person to the Company or generally known within the airline industry, is not considered Confidential Information. Executive is not restricted from working with a person or entity which has independently developed information or materials similar to the Confidential Information, but in such a circumstance, Executive agrees not to disclose the fact that any similarity exists between the Confidential Information and the independently developed information and materials, and Executive understands that such similarity does not excuse Executive from the non-disclosure and other obligations in this Agreement.

5.3 EXECUTIVE OBLIGATIONS AS TO CONFIDENTIAL INFORMATION AND MATERIALS. During Executive's employment or engagement by the Company, Executive shall have access to the Confidential Information and shall occupy a position of trust and confidence with respect to the Confidential Information and the Company's affairs and business. Executive agrees to take the following steps to preserve the confidential and proprietary nature of the Confidential Information:

(a) NON-DISCLOSURE. During Executive's Employment or engagement by the Company and for a period of two years after the termination of Executive's Employment or engagement by the Company for any reason, Executive shall not use, disclose or otherwise permit any person or entity access to any of the Confidential Information other than as required in the performance of Executive's duties with the Company and other than is required to be disclosed by law or by any court, administrative agency, or arbitration panel.

(b) PREVENT DISCLOSURE. During and for a period of two years after Executive's Employment or engagement by the Company, other than as required in the performance of Executive's duties with the Company and other than is required to be disclosed by law or by any court, administrative agency, or arbitration panel, Executive shall take all reasonable precautions to prevent disclosure of the Confidential Information to unauthorized persons or entities, other than is required to be disclosed by law or by any court, administrative agency, or arbitration panel.

(c) RETURN ALL MATERIALS. Upon termination of Executive's employment or engagement by the Company for any reason whatsoever, or earlier if requested by the Company, Executive shall deliver to the Company all tangible materials relating to, but not limited to, the Confidential Information and any other information regarding the Company, including any documentation, records, listings, notes, data, sketches, drawings, memoranda, models, accounts, reference materials, samples, machine-readable media and equipment which in any way relate to the Confidential Information and shall not retain any copies of any of the above materials.

ARTICLE VI

MISCELLANEOUS

6.1 DEFINITIONS. For purposes of this Agreement, the following terms shall have the following meanings:

(b) "Accrued Base Salary" - as defined in Section 4.1(a);

(c) "Accrued Benefits" - as defined in Section 4.1(d);

(d) "Accrued Reimbursable Expenses" - as defined in Section 4.1(c);

(e) "Accrued Vacation Payment" - as defined in Section 4.1(b);

(f) "Base Salary" - as defined in Section 2.1;

(g) "Board" - shall mean the Board of Directors of the Company;

(h) "Cause" shall mean the occurrence of any of the following:

(i) Executive's willful misconduct with respect to the Company's business which results in a material detriment to the Company;

(ii) Executive is convicted of, or enters a plea of nolo contendere with respect to, a felony offense; or

(iii) the continued failure or refusal by Executive, other than by reason of Executive's disability, to perform the duties required of him by this Agreement, which failure or refusal is material and is not cured within 45 days following receipt by Executive of written notice from the Board specifying the factors or events constituting such failure or refusal, except that, as to any failure or refusal that is curable but cannot reasonably be cured within such 45-day period, no Cause shall be deemed to have occurred unless Executive fails to take reasonable steps to cure such failure or refusal within such 45-day period, and furthermore, no failure of Executive to satisfy any goals, forecasts, or other financial or business criteria established by the Company, standing alone, shall constitute Cause.

(i) "Change of Control" shall mean and shall be deemed to have occurred if one of the following occurs and the event is also a "change in control event" as defined in Section 409A (defined below):

(i) After the date of this Agreement, any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any successor provision), or any other persons who the Board of Directors determines in good faith is acting as a group, becomes the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act or any successor provision) directly or indirectly of securities of the Company representing more than 50% of the combined voting power of the Company's then outstanding securities ordinarily having the right to vote at an election of directors; (ii) a majority of the members of the Company's Board of Directors is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the Company's Board of Directors before the date of appointment or election; or

(iii) A tender offer or exchange offer is made where the intent of such offer is to take over control of the Company, and such offer is consummated for the equity securities of the Company representing thirty percent (30%) or more of the combined voting power of the Company's then outstanding voting securities over a twelve month period; or

(iv) Consummation of

(A) a reorganization, merger, consolidation, or sale or other disposition of all or substantially all of the assets of the Company, in each case, with or to a corporation or other person or entity

(1) of which persons who were the holders of each class of the Company's capital stock immediately prior to such transaction do not receive voting securities, as a result of their ownership of such capital stock immediately prior to such transaction, that constitute both

(x) more than 51% of each class of capital stock and

(y) more than 51% of the combined voting power of the outstanding voting securities entitled to vote generally in the election of directors of the reorganized, merged, consolidated or purchasing corporation (or in the case of a non-corporate person or entity, functionally equivalent voting power), or

(2) 80% of the members of the Board of which corporation (or functional equivalent in the case of a non-corporate person or entity) were not members of the Incumbent Board at the time of the execution of the initial agreement providing for such reorganization, merger, consolidation or sale; or

(B) the sale or other disposition of any material route system operated by the Company or any subsidiary (regardless of how such sale or disposition is effected); for this purpose a route system is "material" if the gross revenues attributable to such route system exceed or would exceed 50% of the Company's gross revenues on a consolidated basis or if the gross profits reasonably attributable to such route system exceed or would exceed 50% of the gross profits of the Company on a consolidated basis, either

(x) for the fiscal year of the Company immediately prior to the sale or disposition or

(y) based on reasonable projections, for the fiscal year in which the sale or disposition occurs.

(j) "Confidential Information" - as defined in Section 5.1;

(k) "Continued Benefits" - as defined in Section 4.3(g);

(l) "Expiration Date" - as defined in Section 1.3;

(m) "Good Reason" shall mean the occurrence of any of the following:

(i) Any change by the Company in Executive's title, or any significant diminishment in Executive's function, duties or responsibilities from those associated with his functions, duties or responsibilities as of March 31, 2004;

(ii) Any material breach of this Agreement or any other agreement between the Company and Executive (and for purposes of this Agreement, any default by the Company to make any payment or to provide any fringe benefit shall be considered material) which remains uncured for a period of 10 days after Executive gives the Company notice of such breach specifying in reasonable detail the event(s) constituting such breach;

(iii) Except with Executive's prior written consent, relocation of Executive's principal place of employment to a location greater than 50 miles from Phoenix, Arizona, or requiring Executive to travel on the Company's business more than is required by Section 1.4; or

(iv) Other than an Across the Board Reduction, any reduction by the Company in Executive's Base Salary, bonus opportunity or benefits to which Executive is entitled under this Agreement.

(n) "Incentive Bonus" - as defined in Section 2.2;

(o) "Market Price" means the officially quoted closing price of the common stock of the Company, as reported by the principal exchange on which the common stock of the Company is traded for the date in question. If there are no transactions on such date, the Market Price shall be determined as of the immediately preceding date on which there were transactions. If no such prices are reported on such exchange, then Market Price shall mean the average of the high and low sale prices for the common stock of the Company (or if no sales prices are reported, the average of the high and low bid prices) as reported by a quotation system of general circulation to brokers and dealers. If the common stock of the Company is not traded on any exchange or in the over-the-counter market, the Market Price of the common stock of the Company on any date shall be determined in good faith by the parties.

(p) "Notice of Termination" shall mean a notice which shall indicate the specific termination provision of this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated. Each Notice of Termination shall be delivered at least 30 days prior to the effective date of termination.

(q) "Prime Rate" means the prime rate announced by The Wall Street Journal from time to time.

(r) "Retirement" shall mean the attainment of age 65;

(s) "Threshold Bonus" shall mean a cash bonus equal to $105,000 (which is based on the "Threshold" level of bonus under "Bonus Level Fiscal 2004" as set forth in Exhibit A).

(t) "Total Disability" or "Totally Disabled" shall mean that (i) the Executive is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) if applicable, that for at least three months the Executive is receiving income replacement benefits under a Company sponsored plan by reason of any medically determinable physical or mental impairment expected to last at least twelve consecutive months or result in death, or (iii) the Executive is determined to be disabled under a Company disability plan with the same or substantially similar definition of disability, as described in Section 409A (defined below). If there is a dispute as to whether Executive is Totally Disabled, such dispute shall be submitted for resolution to a licensed physician selected by Executive but subject to the reasonable approval of the Company. If such dispute arises, Executive shall submit to such examinations and shall provide such information as such physician may request, and the determination of the physician as to whether Executive is Totally Disabled under this definition shall be binding and conclusive.

6.2 KEY MAN INSURANCE. In addition to the insurance policy described in Section 2.5(c), the Company shall have the right, in its sole discretion, to purchase "key man" insurance on the life of Executive. The Company shall be the owner and beneficiary of any such policy. If the Company elects to purchase such a policy, Executive shall take such physical examinations and supply such information as may be reasonably requested by the insurer.

6.3 SUCCESSORS, BINDING AGREEMENT. This Agreement shall be binding upon and run to the benefit of the Company, its successors and assigns, and shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, beneficiaries, designees, executors, administrators, heirs, distributees, devisees and legatees.

6.4 MODIFICATION; NO WAIVER. This Agreement may not be modified or amended except by an instrument in writing signed by the parties to this Agreement. No term or condition of this Agreement shall be deemed to have been waived, nor shall there be any estoppel against the enforcement of any provision of this Agreement, except by written instrument by the party charged with such waiver or estoppel. No such written waiver shall be deemed a continuing waiver unless specifically stated in such waiver, and each such waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any other term or condition. No amendment agreed by the parties in writing shall be deemed to give rise to "Good Reason."

6.5 SEVERABILITY. The covenants and agreements contained in this Agreement are separate and severable and the invalidity or unenforceability of any one or more of such covenants or agreements, if not material to the employment arrangement that is the basis for this Agreement, shall not affect the validity or enforceability of any other covenant or agreement contained in this Agreement. If, in any judicial proceeding, a court shall refuse to enforce one or more of the covenants or agreements contained in this Agreement because the duration thereof is too long, or the scope thereof is too broad, it is expressly agreed between the parties to this Agreement that such duration or scope shall be deemed reduced to the extent necessary to permit the enforcement of such covenants or agreements.

6.6 NOTICES. All the notices and other communications required or permitted under this Agreement shall be in writing and shall be delivered personally or sent by registered or certified mail, return receipt requested, to the parties to this Agreement at the following addresses:

If to the Company, to it at:

Mesa Air Group, Inc.
410 North 44th Street, Suite 700
Phoenix, AZ 85008
Attn: Chair of Board of Directors

If Executive, to him at:

410 North 44th Street, Suite 700
Phoenix, AZ 85008

With a copy to:

James F. Wood, Esq.
Sherman & Howard L.L.C.
3000 First Interstate Tower North
633 17th Street, Suite 3000
Denver, CO 80202

Notices shall be deemed to have been given and received upon personal delivery or three business days after having been deposited, if sent by registered or certified mail.

6.7 ASSIGNMENT. This Agreement and any rights under this Agreement shall not be assignable by either party without the prior written consent of the other party (which may be withheld in the discretion of such other party) except as otherwise specifically provided for in this Agreement.

6.8 ENTIRE UNDERSTANDING. This Agreement (together with the Exhibits incorporated as a part of this Agreement) constitutes the entire understanding between the parties to this Agreement and no agreement, representation, warranty or covenant has been made by either party except as expressly set forth in this Agreement.

6.9 EXECUTIVE'S REPRESENTATIONS. Executive represents and warrants that neither the execution and delivery of this Agreement nor the performance of his duties under this Agreement violates the provisions of any other agreement to which he is a party or by which he is bound.

6.10 SECTION 409A. This Agreement is intended to comply with, or otherwise be exempt from, Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and any regulations and Treasury guidance promulgated thereunder ("Section 409A"). If the Company determines in good faith that any provision of this Agreement would cause the Executive to incur an additional tax, penalty, or interest under Section 409A, the Compensation Committee and the Executive shall use reasonable efforts to reform such provision, if possible, in a mutually agreeable fashion to maintain to the maximum extent practicable the original intent of the applicable provision without violating the provisions of Section 409A or causing the imposition of such additional tax, penalty, or interest under Section 409A. The preceding provisions, however, shall not be construed as a guarantee by the Company of any particular tax effect to Executive under this Agreement.

For purposes of Section 409A, the right to a series of installment payments under this Agreement shall be treated as a right to a series of separate payments.

With respect to any reimbursement of expenses of, or any provision of in-kind benefits to, the Executive, as specified under this Agreement, such reimbursement of expenses or provision of in-kind benefits shall be subject to the following conditions: (1) the expenses eligible for reimbursement or the amount of in-kind benefits provided in one taxable year shall not affect the expenses eligible for reimbursement or the amount of in-kind benefits provided in any other taxable year, except for any medical reimbursement arrangement providing for the reimbursement of expenses referred to in Section 105(b) of the Code; (2) the reimbursement of an eligible expense shall be made no later than the end of the year after the year in which such expense was incurred; and (3) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit.

"Termination of employment," or words of similar import, as used in this Agreement means, for purposes of any payments under this Agreement that are payments of deferred compensation subject to Section 409A, the Executive's "separation from service" as defined in Section 409A.

If a payment obligation under this Agreement arises on account of the Executive's separation from service while the Executive is a "specified employee" (as defined under Section 409A and determined in good faith by the Compensation Committee), any payment of "deferred compensation" (as defined under Treasury Regulation Section 1.409A-1(b)(1), after giving effect to the exemptions in Treasury Regulation Sections 1.409A-1(b)(3) through (b)(12)) that is scheduled to be paid within six (6) months after such separation from service shall accrue with interest as described in Section 6.11 and shall be paid within 15 days after the end of the six-month period beginning on the date of such separation from service or, if earlier, within 15 days after the appointment of the personal representative or executor of the Executive's estate following his death.

6.11 INTEREST ON PAST DUE AMOUNTS; ATTORNEYS FEES. All amounts under this Agreement that are not paid when due shall bear interest at the rate of 4% per annum above the Prime Rate, from the date such payments were due until paid. In addition, any party who breaches this Agreement shall be obligated to pay the reasonable attorneys fees and costs incurred by the other party in seeking to enforce the terms of this Agreement.

6.12 GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED FOR ALL PURPOSES BY THE LAWS OF THE STATE OF ARIZONA APPLICABLE TO CONTRACTS EXECUTED AND WHOLLY PERFORMED WITHIN SUCH STATE.

[Signature Pages Follow]

Mesa Air Group, Inc. (Company)

By: ______________________________________

Title: Chairman, Compensation Committee

____

Jonathan G. Ornstein (Executive)

[Signature Page Employment Agreement]

EXHIBIT A

MINIMUM INCENTIVE BONUS

INCENTIVE BONUS

BONUS LEVEL FISCAL 2004 (1)	% CHANGE IN EPS (2)	QUARTERLY AMOUNT (3)	FISCAL 2004 AMOUNT (4)
MINIMUM	POSITIVE	$ 13,125	$ 52,500
THRESHOLD	5%	$ 26,250	$ 105,000
TARGET	10%	$ 52,500	$ 210,000
MAXIMUM	15%	$ 105,000	$ 420,000

NOTE 1 - FOR EACH FISCAL YEAR ONLY THE % CHANGE IN EPS WILL BE REVIEWED. THE % CHANGE IN EPS WILL NOT BE GREATER THAN THE INITIAL YEAR.

NOTE 2 - EPS IS DEFINED AS GROSS PROFIT/LOSS BEFORE TAXES AND ONE-TIME NON-RECURRING ITEMS DIVIDED BY BASIC OUTSTANDING SHARES. THESE PERCENTAGES WILL CHANGE ANNUALLY BUT NOT BE GREATER THEN THE INITIAL YEAR.

NOTE 3 - THE QUARTERLY AMOUNT WILL BE PAID FOR EACH OF THE FIRST THREE FISCAL QUARTERS BASED ON THE 10Q FINANCIAL REPORTS FILED WITH THE SEC. THE ANNUAL AMOUNT WILL BE PAID FOR THE FOURTH QUARTER LESS ANY AMOUNTS PAID FOR THE FIRST THREE QUARTERS BASED ON THE 10K FINANCIAL REPORTS FILED WITH THE SEC. THESE AMOUNTS WILL NOT BE DECREASED OVER THE TERM OF THE AGREEMENT.

NOTE 4 - THESE AMOUNTS WILL NOT BE DECREASED OVER THE TERM OF THE AGREEMENT.

Exhibit 10.36

EMPLOYMENT AGREEMENT
BY AND BETWEEN
MICHAEL J. LOTZ
AND
MESA AIR GROUP, INC.
DATED AS OF JANUARY 1, 2009

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (this "Agreement") made and entered into this 31st day of December, 2008, effective as of January 1, 2009, by and between Mesa Air Group, Inc., a Nevada corporation (the "Company"), and Michael J. Lotz ("Executive").

RECITALS

The Company and Executive were parties to an employment agreement dated as of March 31, 2004, as amended. The parties have agreed to enter into this Agreement, which supersedes the existing agreement.

ARTICLE I

DUTIES AND TERM

1.1 EMPLOYMENT. In consideration of their mutual covenants and other good and valuable consideration, the receipt, adequacy and sufficiency of which are acknowledged, the Company agrees to hire Executive, and Executive agrees to remain in the employ of the Company, upon the terms provided in this Agreement.

1.2 POSITION AND RESPONSIBILITIES.

(a) Executive shall serve as the President and Chief Operating Officer of the Company. Executive agrees to perform services, not inconsistent with his position, as are from time to time assigned to him by the Board of Directors of the Company.

(b) During the period of his employment under this Agreement, Executive shall devote substantially all of his business time, attention, skill and efforts to the faithful performance of his duties under this Agreement, but Executive shall have the right to engage in personal business and to participate in charitable and civic activities, during normal business hours and otherwise, as long as such business and activities do not unreasonably interfere with Executive's duties to the Company.

1.3 TERM. The term of Executive's employment under this Agreement commenced on March 31, 2004, and shall continue, unless sooner terminated, through March 30, 2012 (the "Expiration Date").

1.4 LOCATION. During the period of his employment under this Agreement, Executive shall not be required, except with his prior written consent (which may be withheld in his discretion), to relocate his principal place of employment outside Maricopa County, Arizona. Required travel on the Company's business shall not be deemed a relocation so long as Executive is not required to provide his services under this Agreement outside of Maricopa County, Arizona, for more than 50% of his working days during any consecutive six-month period.

ARTICLE II

COMPENSATION

For all services rendered by Executive in any capacity during his employment under this Agreement, including, without limitation, services as a director, officer or member of any committee of the Board of the Company or of the board of directors of any subsidiary of the Company, the Company shall compensate Executive as set forth in this Article IV.

2.1 BASE SALARY. The Company shall pay to Executive an annual base salary of not less than the amount indicated below during the 12-month period beginning on March 31 of the years indicated below (the "Base Salary"):

Year	Base Salary
2004	$ 250,000
2005	$ 325,000
2006	$ 400,000

Executive's Base Salary shall be paid every other week in equal installments. The Base Salary shall be reviewed annually by the Board or a committee designated by the Board, and the Board or such committee may, in its discretion, increase the Base Salary. Subject to the consent of Executive (which consent shall not be unreasonably withheld), the Company may reduce the Base Salary under circumstances in which the Company has suffered severe financial losses and has imposed cuts in salary of other officers on an across the board basis, but any such reduction may not be at a greater percentage than the reduction imposed on any other officer (an "Across the Board Reduction").

2.2 BONUS PAYMENTS.

During the period of Executive's employment under this Agreement, Executive shall be entitled to the bonus payments specified on Exhibit A. Any bonus payable to Executive under the plan described in Exhibit A is referred to as an "Incentive Bonus." Any Incentive Bonuses will be paid on a quarterly basis, not later than 45 days after the end of each fiscal quarter (or 90 days after the end of any fiscal year), based on the Company's financial statements in its Form 10-Q or Form 10-K, as the case may be; payments made with respect to any fiscal quarter other than the last fiscal quarter of a fiscal year of the Company will be made on an estimated basis (based on annualized results), and the parties will account to one another and make appropriate payment adjustments promptly after the financial statements for any fiscal year become available but no later than 90 days after the end of the fiscal year. The Company in its discretion may pay bonuses to Executive in addition to the Incentive Bonuses set forth in Exhibit A.

2.3 STOCK OPTIONS.

(a) As of January 1st of each year (commencing in January 2005) during the term of this Agreement (or the next business day if January 1st of any year is not a business day), the Company shall issue options to purchase not fewer than 100,000 shares of common stock of the Company (adjusted appropriately for any stock dividend, stock split, spin-off, reorganization, or similar transaction), under the 2001 Key Officer Stock Option Plan.

2.4 RESTRICTED STOCK .

The Company previously granted to the Executive an award of 190,141 Restricted Stock Units pursuant to a Restricted Stock Agreement between the Company and the Executive.

2.5 ADDITIONAL BENEFITS.

(a) GENERAL BENEFITS. During the term of this Agreement, Executive shall be entitled (i) to participate in all employee benefit and welfare programs, plans and arrangements (including, without limitation, pension, profit sharing, supplemental pension and other retirement plans, insurance, hospitalization, medical and group disability benefits, travel or accident insurance plans) and (ii) to receive fringe benefits, such as dues and fees of professional organizations and associations, in each case under (i) and (ii) to the extent that such programs, plans, arrangements, and benefits are from time to time available to the Company's executive personnel (the programs and benefits in (i) and (ii) are referred to as "General Benefits"). During the period of his employment under this Agreement, the Company shall continue to provide the General Benefits to Executive at a level which shall in no event be less, in any material respect, than the General Benefits made available to Executive by the Company as of the date of this Agreement. Subject to the consent of Executive (which consent shall not be unreasonably withheld), the Company may reduce the General Benefits under circumstances in which the Company has suffered severe financial losses and has imposed reductions in coverage of the General Benefits of other officers on an across the board basis, but any such reduction may not be disproportionately greater than the reduction imposed on any other officer.

(b) DEATH BENEFIT. The Company shall maintain term life insurance on the life of Executive such that the aggregate death benefit under existing and new policies totals $2,000,000; such insurance shall be obtained under one or more policies from insurers reasonably acceptable to Executive. As long as Executive is employed by the Company, (i) the Company shall pay the premiums on the policy (or policies) and shall maintain the policy (or policies) in full force and effect, and (ii) Executive shall have the exclusive right to designate the beneficiary under such policy (or policies). The Company shall assign the policy (or policies) to Executive, without any cost to Executive, effective immediately after Executive ceases to be an employee of the Company, regardless of the reason for Executive's termination of employment. The Company shall not pledge or otherwise encumber the policy (or policies) at any time.

(c) DISABILITY BENEFITS. The Company shall provide Executive with the following disability benefits:

(i) During any period of disability, illness or incapacity during the term of this Agreement which renders Executive at least temporarily unable to perform the services required under this Agreement, Executive shall receive the Base Salary payable under Section 2.1 plus any cash bonus compensation earned pursuant to the provisions of this Agreement or any incentive compensation plan then in effect but not yet paid, less any cash benefits received by him under any disability insurance carried by or provided by the Company. Upon Executive's Total Disability (as defined below), which Total Disability continues during the payment periods specified in this Section, the Company shall pay to Executive, on a monthly basis, for the period specified below, an amount (the "Disability Payment") equal to (A) one-twelfth of the sum of (1) Executive's Base Salary in effect immediately prior to the time such Total Disability occurs, plus (2) an amount equal to the greater of (x) the Threshold Bonus or (y) one half of the sum of (i) the bonuses (whether Incentive Bonuses or other bonuses) that have been paid to Executive with respect to the two fiscal years immediately preceding the fiscal year in which the Total Disability occurs, and (ii) the bonuses (whether Incentive Bonuses or other bonuses) that have been accrued with respect to the two fiscal years immediately preceding the fiscal year in which the Total Disability occurs but have not been paid (or if Executive has been employed by the Company for less than two full fiscal years at the time of such Total Disability, then an amount equal to the sum of such paid and accrued bonuses with respect to the fiscal year immediately preceding the fiscal year in which the Total Disability occurs), which payments shall be due in full regardless of any compensation paid to Executive as a result of his employment by any other person after the date that Total Disability occurs, (B) reduced by the amount of any monthly payments under any policy of disability income insurance paid for by the Company (including the policy described in Section 2.5(c)(ii)) which payments are received during the time when any Disability Payment is being made to Executive following Executive's Total Disability. The Company shall pay the Disability Payment to Executive in equivalent installments, at the same time or times as would have been the case for payment of Base Salary if Executive had not become Totally Disabled and had remained employed by the Company, and such payments shall continue until the later of the expiration of the term of this Agreement and 48 months, except that the Company's obligation to make such payments shall cease upon the death of Executive or if Executive ceases to be Totally Disabled. Upon Executive's Total Disability, except as provided in this Agreement, all rights of Executive under this Agreement shall terminate.

(ii) In order to provide a ready source of funds with which to pay the benefits provided for in clause (1) above, if Executive becomes disabled (determined in accordance with the policy described below) during the term of this Agreement and such disability extends beyond 180 days, then Executive shall be paid the benefits provided for under the disability insurance policy issued by UNUM Life Insurance Company (Policy #IBD 060676), which the Company agrees to maintain in full force and effect during the term of this Agreement. The Company promptly (and in any event not later than 60 days after this Agreement is executed) shall have endeavored to cause such policy to be amended to the extent necessary to cause Executive to be eligible for disability payments for a minimum of four years from the date of such disability (that is, providing for 3-1/2 years of coverage, taking into account the 180-day coverage provided by the Company directly under Section 2.5(c)(i)), and to increase the amount payable to a minimum of

$47,0000 per month. To the extent the Company is unable to cause such policy to be so amended, then the Company shall be obligated to provide such payments to Executive directly. Such coverage shall apply regardless of whether such four-year period extends beyond the term of this Agreement.

(d) RELOCATION EXPENSES. During the term of this Agreement, if Executive's principal place of employment is relocated outside Maricopa County, Arizona, in accordance with Section 1.4, the Company shall reimburse Executive for all usual relocation expenses incurred by Executive and his household in moving to the new location, including, without limitation, moving expenses and rental payments for temporary living quarters in the area of relocation for a period not to exceed six months, real estate brokerage commissions incurred by Executive in the sale of his then existing principal residence, and loan financing charges and closing costs incurred in connection with the acquisition and financing of a new residence.

(e) REIMBURSEMENT OF BUSINESS EXPENSES. During the term of this Agreement, the Company shall, in accordance with standard Company policies, pay, or reimburse Executive for, all reasonable travel and other expenses incurred by Executive in performing his obligations under this Agreement. In addition, during the term of this Agreement, the Company shall provide to Executive a supplemental allowance, in the amount of $3,000 per month to be used by Executive in his discretion for investigation of business opportunities and strategic allegiances for the Company and for client and customer development. The amount of the yearly allowance that is not used each year ($36,000) shall be forfeited and shall not carry over to be used in any subsequent year.

(f) VACATIONS. During the term of this Agreement, Executive shall be entitled to vacations with pay, and to such personal and sick leave with pay, in accordance with the policy of the Company as may be established from time to time by the Company and as applies to other executive officers of the Company. In no event shall Executive be entitled to fewer than four weeks' annual vacation. Unused vacation days may be carried over from one year to the next in the maximum amount of four weeks' annual vacation; that is, to the extent that vacation days to which Executive is entitled remain unused, such unused vacation days will cumulate and be useable in any subsequent year, but no more than four weeks' of annual vacation in the aggregate can be carried over from one year to the next. Any vacation days which remain unused at the end of a calendar year that are in excess of such four weeks' annual vacation shall expire and shall thereafter no longer be useable by Executive, but the Company shall compensate Executive for any such unused vacation days in accordance with the formula set forth in Section 4.1(b), by payment in January of the next year. Similarly, any unused paid holidays may be carried over from one year to the next but not in excess of an aggregate of five days of paid holidays may be carried over from one year to the next; to the extent any paid holidays remain unused at the end of a calendar year that are in excess of such five paid holidays, such paid holidays shall expire and shall thereafter no longer be useable by Executive, but the Company shall compensate Executive for any such unused paid holidays in accordance with the formula set forth in Section 4.1(b), by payment in January of the next year. Accrued but unpaid vacation and holidays as of December 31, 2008, will be paid in January 2009.

(g) DIRECTOR FEES. During the term of this Agreement, Executive shall not be entitled to be paid any fees for attendance at meetings of the Board of Directors or any committee of the Board of Directors (or the board or committee of the board of any subsidiary).

(h) AIRLINE PASSES. During the term of this Agreement and for any period during which the Consulting Agreement is in effect, the Company shall use its reasonable efforts to obtain for the benefit of Executive and Executive's immediate family (Executive's spouse, Executive's children, and the spouse and children of any of Executive's children), the right to fly on a complimentary basis on the aircraft of other airlines, on a positive space basis. Such efforts shall include negotiating in good faith with other carriers for such rights and offering reciprocal rights to the executives (and their immediate family members) of such other carriers. The Company shall provide to Executive and Executive's immediate family, during the life of each such individual, the right to fly on a complimentary basis on any aircraft operated by the Company or any affiliate at any time (subject only to reasonable and customary rules regarding availability), on a positive space basis. The Company shall use its best efforts to cause any successor or subsequent successor to the business or assets of the Company to grant such rights as to all routes operated by such successor (or subsequent successor) and any of its affiliates.

(i) USE OF COMPANY AIRCRAFT. During the term of this Agreement, the Company shall provide to Executive, for Executive's personal use or business use (or a combination of such uses), at no cost to Executive, the use of any Company owned or operated aircraft selected by Executive (together with pilots, fuel, landing fees, and other related costs and personnel associated with such use), for up to 50 flight hours per calendar year. The selection of aircraft and the scheduling of the use of such aircraft shall be subject to reasonable requirements of the Company concerning availability of such aircraft and personnel to operate such aircraft.

(j) PROFESSIONAL SERVICES. During the term of this Agreement, the Company shall reimburse Executive for his out-of-pocket costs incurred in connection with the retention of professionals by Executive to provide Executive with income tax, estate planning, and investment advisory services. The maximum amount of reimbursable expenses for such purposes shall be $5,000 for each calendar year during the term of this Agreement. The amount that is not used each calendar year shall be forfeited and shall not carry over to be used in any subsequent year. The Company shall reimburse Executive for such costs promptly after Executive submits an invoice to Company. In order to preserve Executive's rights to confidentiality, Executive may satisfy the requirement of submitting an invoice by providing the Company with a copy of the facing page of the invoice showing the fees and expenses for the services rendered and the general nature of the services rendered but without any detail concerning the substance of the services rendered.

(k) EXECUTIVE SECURITY. During the term of this Agreement, the Company shall provide to Executive such security services as is reasonably necessary for the protection of the life and property of Executive and Executive's immediate family members.

2.6 PAYMENT OF EXCISE TAXES. If any payment received by Executive under this Agreement or under the Consulting Agreement provided for in Section 4.3(i), as a result of or following any termination of employment under this Agreement is subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986 (as amended from time to time, the "Code"), or any successor or similar provision of the Code (the "Excise Tax"), the Company shall pay Executive an additional cash amount (the "Gross Up") such that the net after-tax amount received by Executive under this Agreement is the same as if the Excise Tax had not applied to any payments made under this Agreement. The Company shall pay such amounts promptly after the calculation referred to in Section 2.7 has been made, subject, however, to the six month delay of payment described in Section 6.10, but no later than December 31 of the year following the year in which the Executive remits the related taxes.

2.7 CERTAIN ADJUSTMENT PAYMENTS. For purposes of determining the Gross Up, Executive shall be deemed to pay the federal income tax at the highest marginal rate of taxation (currently 39.6%) in the calendar year in which the payment to which the Gross Up applies is to be made. The determination of whether such Excise Tax is payable and the amount of the Excise Tax shall be made upon the opinion of a national accounting firm selected by Executive and reasonably acceptable to the Company. If such opinion is not finally accepted by the Internal Revenue Service upon audit or otherwise, then appropriate adjustments shall be computed (with interest at the rate required to be paid by Executive under the Code and with Gross Up, if applicable) by such tax counsel based upon the final amount of the Excise Tax so determined, and (a) any additional amount due Executive as a result of such adjustment shall be paid to Executive by the Company in cash in a lump sum within 30 days after such computation, or (b) any amount due the Company as a result of such adjustment shall be paid to the Company by Executive in cash in a lump sum within 30 days after such computation. The Gross Up payment shall be subject to the six month delay of payment described in Section 6.10, but shall be made by December 31 of the year following the year in which the Executive remits the related taxes.

2.8 DEFERRED COMPENSATION AGREEMENT. On March 31 of each year during the term of this Agreement, the Company shall contribute an amount equal to the Base Salary then in effect to an account for the benefit of Executive under the Deferred Compensation Plan in the form of the attached Exhibit C.

ARTICLE III

TERMINATION OF EMPLOYMENT

3.1 DEATH OR RETIREMENT OF EXECUTIVE. Executive's employment under this Agreement shall automatically terminate upon the death or Retirement of Executive.

3.2 BY EXECUTIVE. Executive shall be entitled to terminate his employment under this Agreement by giving Notice of Termination to the Company:

(a) for Good Reason;

(b) at any time without Good Reason.

3.3 BY COMPANY. The Company shall be entitled to terminate Executive's employment under this Agreement by giving Notice of Termination to Executive:

(a) in the event of Executive's Total Disability;

(b) for Cause; and

(c) at any time without Cause.

ARTICLE IV

COMPENSATION UPON TERMINATION OF EMPLOYMENT

If Executive's employment under this Agreement is terminated prior to March 30, 2012, then except for any other rights or benefits specifically provided for in this Agreement following his period of employment, the Company shall be obligated to provide compensation and benefits to Executive only as follows:

4.1 UPON TERMINATION FOR DEATH OR TOTAL DISABILITY. If Executive's employment under this Agreement is terminated by reason of his death or Total Disability, the Company shall:

(a) pay Executive (or his estate) any Base Salary which has accrued but not been paid as of the termination date (the "Accrued Base Salary");

(b) pay Executive (or his estate) for unused vacation days and paid holidays accrued as of the termination date in an amount equal to his Base Salary multiplied by a fraction the numerator of which is the number of accrued unused vacation days and paid holidays, and the denominator of which is 260 (the "Accrued Vacation Payment");

(c) reimburse Executive (or his estate) for expenses incurred by him prior to the date of termination which are subject to reimbursement pursuant to this Agreement (the "Accrued Reimbursable Expenses");

(d) provide to Executive (or his estate) any accrued and vested benefits required to be provided by the terms of any Company- sponsored benefit plans or programs (the "Accrued Benefits"), together with any benefits required to be paid or provided in the event of Executive's death or disability under applicable law;

(e) pay Executive (or his estate) any Incentive Bonus or other bonus with respect to a prior fiscal quarter which has accrued but has not been paid;

(f) contribute to the Deferred Compensation Plan any amount that has been accrued but not yet paid to the account provided for in such plan;

(g) permit Executive (or his estate) to convert all vested Restricted Stock Units outstanding at the termination date in accordance with the terms of the Restricted Stock Agreement described in Section 2.4 hereof; and

(h) permit Executive (or his estate) to exercise all vested unexercised stock options (including stock options which by their terms become exercisable upon death or disability) and warrants outstanding at the termination date in accordance with the terms of the plans and agreements pursuant to which such options or warrants were issued.

4.2 UPON TERMINATION BY COMPANY FOR CAUSE OR BY EXECUTIVE WITHOUT GOOD REASON. If Executive's employment is terminated by the Company for Cause, or if Executive terminates his employment with the Company prior to March 31, 2012, other than (x) upon Executive's death or Total Disability or (y) for Good Reason, the Company shall:

(a) pay Executive the Accrued Base Salary;

(b) pay Executive the Accrued Vacation Payment;

(c) reimburse Executive for the Accrued Reimbursable Expenses;

(d) provide Executive the Accrued Benefits, together with any benefits required to be paid or provided under applicable law;

(e) pay Executive any accrued Incentive Bonus or other bonus with respect to a prior fiscal quarter which has accrued but has not been paid;

(f) contribute to the Deferred Compensation Plan any amount that has been accrued but not yet paid to the account provided for in such plan;

(g) permit Executive to convert all vested Restricted Stock Units outstanding at the termination date in accordance with the terms of the Restricted Stock Agreement described in Section 2.4 hereof; additionally, any unvested Restricted Stock Units shall continue to vest in accordance with such Agreement; and

(h) permit Executive to exercise all vested unexercised stock options and warrants outstanding at the termination date in accordance the terms of the plans and agreements pursuant to which such options and warrants were issued.

4.3 UPON EXPIRATION OF THIS AGREEMENT. In order to induce the Executive to continue his employment with the Company throughout the term of this Agreement and until the Expiration Date of this Agreement, upon termination of the Executive's employment on the Expiration Date, the Company shall:

(a) pay Executive the Accrued Base Salary;

(b) pay Executive the Accrued Vacation Payment;

(c) reimburse Executive the Accrued Reimbursable Expenses;

(d) provide Executive the Accrued Benefits, together with any benefits required to be paid or provided under applicable law;

(e) pay Executive any Incentive Bonus or other bonus with respect to a prior fiscal quarter which has accrued but has not been paid;

(f) contribute to the Deferred Compensation Plan any amount that has been accrued but not yet paid to the account provided for in such plan;

(g) maintain in full force and effect, for Executive's and his eligible beneficiaries' continued benefit, continued health insurance coverage, for a period of 36 months following the Expiration Date of this Agreement, except to the extent that, as to any such coverage, Executive receives the substantial equivalent of such coverage under the Consulting Agreement or as a result of his employment with another employer after the Expiration Date. If Executive's continued participation in the health insurance plan is not permitted under the terms of the plan, program or arrangement under which the benefit was provided to Executive by the Company, the Company shall arrange to provide Executive with health insurance coverage substantially similar to the coverage which Executive would have been entitled to receive under such plan, program or arrangement;

(h) permit Executive to convert all vested Restricted Stock Units outstanding at the Expiration Date in accordance with the terms of the Restricted Stock Agreement described in Section 2.4 hereof; and

(i) Executive shall have the right to exercise all vested unexercised stock options and warrants outstanding at the Expiration Date in accordance with the terms of the plans and agreements pursuant to which such options and warrants were issued.

4.4 UPON TERMINATION BY THE EXECUTIVE FOR GOOD REASON. If Executive's employment is terminated by the Executive for Good Reason, the Company shall:

(a) pay Executive the Accrued Base Salary;

(b) pay Executive the Accrued Vacation Payment;

(c) reimburse Executive the Accrued Reimbursable Expenses;

(d) provide Executive the Accrued Benefits, together with any benefits required to be paid or provided under applicable law;

(e) pay Executive any Incentive Bonus or other bonus with respect to a prior fiscal quarter which has accrued but has not been paid;

(f) contribute to the Deferred Compensation Plan any amount that has been accrued but not yet paid to the account provided for in such plan;

(g) subject to the six month delay of payment described in Section 6.10, pay directly to Executive on March 30 of each year after such termination through March 30, 2012, twice the amount that would have been payable to the account established under the Deferred Compensation Plan if this Agreement had not been terminated;

(h) subject to the six month delay of payment described in Section 6.10, pay Executive an amount equal to three multiplied by the sum of (1) Executive's Base Salary in effect immediately prior to the time such termination occurs, plus (2) an amount equal to the greater of (x) the Threshold Bonus and (y) one half of the sum of (i) the bonuses (whether Incentive Bonuses or other bonuses) that have been paid to Executive with respect to the two fiscal years immediately preceding the fiscal year in which the termination occurs, and (ii) the bonuses (whether Incentive Bonuses or other bonuses) that have been accrued with respect to the two fiscal years immediately preceding the fiscal year in which the termination occurs but have not been paid (or if Executive has been employed by the Company for less than two full fiscal years at the time of such termination, then an amount equal to the sum of such paid and accrued bonuses with respect to the fiscal year immediately preceding the fiscal year in which the termination occurs), which payment shall be due in full regardless of any compensation paid to Executive as a result of his employment by any other person after the termination date; and

(i) maintain in full force and effect, for Executive's and his eligible beneficiaries' continued benefit, continued health insurance coverage, for a period of 36 months following the termination date of his employment under this Agreement, except to the extent that, as to any such coverage, Executive receives the substantial equivalent of such coverage under the Consulting Agreement or as a result of his employment with another employer after the termination date. If Executive's continued participation in the health insurance plan is not permitted under the terms of the plan, program or arrangement under which the benefit was provided to Executive by the Company, the Company shall arrange to provide Executive with health insurance coverage substantially similar to the coverage which Executive would have been entitled to receive under such plan, program or arrangement;

(j) permit Executive to convert all vested and unvested Restricted Stock Units outstanding at the termination date in accordance with the terms of the Restricted Stock Agreement described in Section 2.4 hereof; and

(k) Executive shall have the right to exercise all unexercised (vested and unvested) stock options and warrants outstanding at the termination date in accordance with the terms of the plans and agreements pursuant to which such options and warrants were issued.

4.5 UPON TERMINATION BY THE COMPANY WITHOUT CAUSE OR IF THERE IS A CHANGE OF CONTROL. If Executive's employment is terminated by the Company without Cause or if there is a Change of Control, the Company shall:

(a) pay Executive the Accrued Base Salary;

(b) pay Executive the Accrued Vacation Payment;

(c) reimburse Executive the Accrued Reimbursable Expenses;

(d) provide Executive the Accrued Benefits, together with any benefits required to be paid or provided under applicable law;

(e) pay Executive any Incentive Bonus or other bonus with respect to a prior fiscal quarter which has accrued but has not been paid;

(f) contribute to the Deferred Compensation Plan any amount that has been accrued but not yet paid to the account provided for in such plan;

(g) subject to the six month delay of payment described in Section 6.10, pay directly to Executive on March 30 of each year after such termination or Change of Control through March 30, 2012, twice the amount that would have been payable to the account established under the Deferred Compensation Plan if this Agreement had not been terminated or there had not been a Change of Control;

(h)subject to the six month delay of payment described in Section 6.10 for payment due to the Executive's termination of employment, or if payment is made due to a Change of Control, within thirty (30) days after the Change of Control, pay Executive an amount equal to six multiplied by the sum of (1) Executive's Base Salary in effect immediately prior to the time such termination or Change of control occurs, plus (2) an amount equal to the greater of (x) the Threshold Bonus and (y) one half of the sum of (i) the bonuses (whether Incentive Bonuses or other bonuses) that have been paid to Executive with respect to the two fiscal years immediately preceding the fiscal year in which the termination or Change of control occurs, and (ii) the bonuses (whether Incentive Bonuses or other bonuses) that have been accrued with respect to the two fiscal years immediately preceding the fiscal year in which the termination or Change of control occurs but have not been paid (or if Executive has been employed by the Company for less than two full fiscal years at the time of such termination or Change of control, then an amount equal to the sum of such paid and accrued bonuses with respect to the fiscal year immediately preceding the fiscal year in which the termination or Change of control occurs), which payment shall be due in full regardless of any compensation paid to Executive as a result of his employment by any other person after the termination date or Change of control; and

(i) maintain in full force and effect, for Executive's and his eligible beneficiaries' continued benefit, continued health insurance coverage, for a period of 36 months following the Change of control or termination date of his employment under this Agreement, except to the extent that, as to any such coverage, Executive receives the substantial equivalent of such coverage under the Consulting Agreement or as a result of his employment with another employer after the termination date or Change of control. If Executive's continued participation in the health insurance plan is not permitted under the terms of the plan, program or arrangement under which the benefit was provided to Executive by the Company, the Company shall arrange to provide Executive with health insurance coverage substantially similar to the coverage which Executive would have been entitled to receive under such plan, program or arrangement;

(j) permit Executive to convert all vested and unvested Restricted Stock Units outstanding at the termination date or Change in Control date in accordance with the terms of the Restricted Stock Agreement described in Section 2.4 hereof; and.

(k) Executive shall have the right to exercise all unexercised (vested or unvested) stock options and warrants outstanding at the termination or Change of Control date in accordance with the terms of the plans and agreements pursuant to which such options and warrants were issued.

4.6 CONSULTING AGREEMENT. If Executive's employment is terminated (whether by the Company or Executive) for any reason, the Company and Executive shall enter into a consulting agreement (the "Consulting Agreement") in the form of Exhibit D.

4.7 CALL.

(a) Upon any termination of employment under Section 4.1, Section 4.3, Section 4.4 or Section 4.5, the Company shall have the right to redeem any stock option, whether vested or unvested, that is held by Executive as of the date of such termination and that is designated by the Company in a notice to Executive (a "Call Election"), at a price equal to 100% of the Black-Scholes Value of such stock option.

(b) The Black-Scholes Value for any option shall be determined using the Black-Scholes formula but in any event shall be not less than the Market Price for the common stock on the date the Call Election is made (the "Calculation Date"), less the exercise price under the stock option. The Black-Scholes Value shall be calculated by an independent major investment banking firm selected by the Company, subject to the approval of Executive; if Executive does not approve the firm selected by the Company, then the Black- Scholes Value shall be the average of the amount calculated by the firm selected by Executive and a major investment banking firm selected by the Company. The Black-Scholes Value shall be calculated as of the Calculation Date, and any unvested options for this purpose shall be treated as if fully vested. The Company shall bear the cost of the firm or firms that conduct the Black-Scholes valuation. In determining the Black-Scholes Value of any option, the following rules will apply:

(i) The time to maturity of any option will be equal to the period beginning on the Calculation Date and ending on the final expiration date of the option (the "Option Life"), without regard to any analysis of the effect, or likelihood of occurrence, of any event that might cause the expiration date to occur sooner.

(ii) The "risk free rate" as to any option will be determined as of the Calculation Date, by the U.S. Treasury YTM, with a maturity approximately equal to the Option Life, as stated by the Federal Reserve.

(iii) The volatility factor will be based on an historical sampling of daily stock prices over a period of not less than 24 months from the valuation date, and not more than 120 months from the valuation date, whichever period yields the highest value.

(iv) No illiquidity or other discount will be applied to the value determined by application of the Black-Scholes formula, whether by reason of the fact that the options are not publicly traded or otherwise.

(c) Unless Executive consents, the Company shall not exercise a Call Election to the extent that the Company would be unable, without violating the provisions of the General Corporation Law of Nevada or the fraudulent conveyance laws of any state, to pay any amount due to Executive under Section 4.7(a); if Executive consents to the exercise of a Call Election by the Company under such circumstances, then, to the extent that the Company is unable, without violating the provisions of the General Corporation Law of Nevada, to pay any amount due Executive under Section 4.7(a), the Company's obligation to make such payment shall be deferred, but only until the legal restriction lapses, at which time the payment shall be due, and in any event, all amounts that otherwise would have been payable but for such restriction shall bear interest at the rate provided for in Section 6.11, from the date such payments would have been payable (but for such legal restriction) until the date they actually are made.

(d) All payments due by the Company in connection with any Call Election are payable within 10 business days after the Call Election is made.

(e) Any stock option redeemed by the Company under Section 4.7(a) shall be cancelled.

ARTICLE V

RESTRICTIVE COVENANTS

5.1 CONFIDENTIAL INFORMATION AND MATERIALS. Executive agrees that during the course of his employment with the Company, he has obtained and shall likely obtain in the future "Confidential Information." "Confidential Information" is information concerning the Company which the Company attempts to keep confidential, has not been publicly disclosed by the Company, is not a matter of common knowledge in the airline industry, and was not known by Executive prior to his employment by the Company, including, but not limited to, certain information relating to the business plans, trade practices, finances, accounting methods, methods of operations, trade secrets, marketing plans or programs, forecasts, statistics relating to routes and markets, contracts, customers, compensation arrangements, and business opportunities. Executive agrees that the Confidential Information is proprietary to the Company.

5.2 GENERAL KNOWLEDGE. The general skills and experience gained by Executive during Executive's employment or engagement by the Company, and information publicly available without breach of any duty owed by any person to the Company or generally known within the airline industry, is not considered Confidential Information. Executive is not restricted from working with a person or entity which has independently developed information or materials similar to the Confidential Information, but in such a circumstance, Executive agrees not to disclose the fact that any similarity exists between the Confidential Information and the independently developed information and materials, and Executive understands that such similarity does not excuse Executive from the non-disclosure and other obligations in this Agreement.

5.3 EXECUTIVE OBLIGATIONS AS TO CONFIDENTIAL INFORMATION AND MATERIALS. During Executive's employment or engagement by the Company, Executive shall have access to the Confidential Information and shall occupy a position of trust and confidence with respect to the Confidential Information and the Company's affairs and business. Executive agrees to take the following steps to preserve the confidential and proprietary nature of the Confidential Information:

(a) NON-DISCLOSURE. During Executive's Employment or engagement by the Company and for a period of two years after the termination of Executive's Employment or engagement by the Company for any reason, Executive shall not use, disclose or otherwise permit any person or entity access to any of the Confidential Information other than as required in the performance of Executive's duties with the Company and other than is required to be disclosed by law or by any court, administrative agency, or arbitration panel.

(b) PREVENT DISCLOSURE. During and for a period of two years after Executive's Employment or engagement by the Company, except as provided in Section 5.3(a), Executive shall take all reasonable precautions to prevent disclosure of the Confidential Information to unauthorized persons or entities, other than is required to be disclosed by law or by any court, administrative agency, or arbitration panel.

(c) RETURN ALL MATERIALS. Upon termination of Executive's employment or engagement by the Company for any reason whatsoever, or earlier if requested by the Company, Executive shall deliver to the Company all tangible materials relating to, but not limited to, the Confidential Information and any other information regarding the Company, including any documentation, records, listings, notes, data, sketches, drawings, memoranda, models, accounts, reference materials, samples, machine-readable media and equipment which in any way relate to the Confidential Information and shall not retain any copies of any of the above materials.

ARTICLE VI

MISCELLANEOUS

6.1 DEFINITIONS. For purposes of this Agreement, the following terms shall have the following meanings:

(a) "Across the Board Reduction" - as defined in Section 2.1;

(b) "Accrued Base Salary" - as defined in Section 4.1(a);

(c) "Accrued Benefits" - as defined in Section 4.1(d);

(d) "Accrued Reimbursable Expenses" - as defined in u;

(e) "Accrued Vacation Payment" - as defined in Section 4.1(b);

(f) "Base Salary" - as defined in Section 2.1;

(g) "Board" - shall mean the Board of Directors of the Company;

(h) "Cause" shall mean the occurrence of any of the following:

(i) Executive's willful misconduct with respect to the Company's business which results in a material detriment to the Company;

(ii) Executive is convicted of, or enters a plea of nolo contendere with respect to, a felony offense; or

(iii) the continued failure or refusal by Executive, other than by reason of Executive's disability, to perform the duties required of him by this Agreement, which failure or refusal is material and is not cured within 45 days following receipt by Executive of written notice from the Board specifying the factors or events constituting such failure or refusal, except that, as to any failure or refusal that is curable but cannot reasonably be cured within such 45-day period, no Cause shall be deemed to have occurred unless Executive fails to take reasonable steps to cure such failure or refusal within such 45-day period, and furthermore, no failure of Executive to satisfy any goals, forecasts, or other financial or business criteria established by the Company, standing alone, shall constitute Cause.

(i) "Change of Control" shall mean and shall be deemed to have occurred if one of the following occurs and the event is also a "change in control event" as defined in Section 409A (defined below):

(i) After the date of this Agreement, any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any successor provision), or any other persons who the Board of Directors determines in good faith is acting as a group, becomes the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act or any successor provision) directly or indirectly of securities of the Company representing more than 50% of the combined voting power of the Company's then outstanding securities ordinarily having the right to vote at an election of directors;

(ii)A majority of the members of the Company's Board of Directors is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the Company's Board of Directors before the date of appointment or election;

(iii) A tender offer or exchange offer is made where the intent of such offer is to take over control of the Company, and such offer is consummated for the equity securities of the Company representing thirty percent (30%) or more of the combined voting power of the Company's then outstanding voting securities over a twelve month period; or

(iv) Consummation of

(A) a reorganization, merger, consolidation, or sale or other disposition of all or substantially all of the assets of the Company, in each case, with or to a corporation or other person or entity

(1) of which persons who were the holders of each class of the Company's capital stock immediately prior to such transaction do not receive voting securities, as a result of their ownership of such capital stock immediately prior to such transaction, that constitute both

(x) more than 51% of each class of capital stock and

(y) more than 51% of the combined voting power of the outstanding voting securities entitled to vote generally in the election of directors of the reorganized, merged, consolidated or purchasing corporation (or in the case of a non-corporate person or entity, functionally equivalent voting power), or

(2) 80% of the members of the Board of which corporation (or functional equivalent in the case of a non-corporate person or entity) were not members of the Incumbent Board at the time of the execution of the initial agreement providing for such reorganization, merger, consolidation or sale; or

(B) the sale or other disposition of any material route system operated by the Company or any subsidiary (regardless of how such sale or disposition is effected); for this purpose a route system is "material" if the gross revenues attributable to such route system exceed or would exceed 50% of the Company's gross revenues on a consolidated basis or if the gross profits reasonably attributable to such route system exceed or would exceed 50% of the gross profits of the Company on a consolidated basis, either

(x) for the fiscal year of the Company immediately prior to the sale or disposition or

(y) based on reasonable projections, for the fiscal year in which the sale or disposition occurs.

(j) "Confidential Information" - as defined in Section 5.1;

(k) "Continued Benefits" - as defined in Section 4.3(g);

(l) "Expiration Date" - as defined in Section 1.3;

(m) "Good Reason" shall mean the occurrence of any of the following:

(i) Any change by the Company in Executive's title, or any significant diminishment in Executive's function, duties or responsibilities from those associated with his functions, duties or responsibilities as of March 31, 2004;

(ii) Any material breach of this Agreement or any other agreement between the Company and Executive (and for purposes of this Agreement, any default by the Company to make any payment or to provide any fringe benefit shall be considered material) which remains uncured for a period of 10 days after Executive gives the Company notice of such breach specifying in reasonable detail the event(s) constituting such breach;

(iii) Except with Executive's prior written consent, relocation of Executive's principal place of employment to a location greater than 50 miles from

Phoenix, Arizona, or requiring Executive to travel on the Company's business more than is required by Section 1.4; or

(iv) Other than an Across the Board Reduction, any reduction by the Company in Executive's Base Salary, bonus opportunity or benefits to which Executive is entitled under this Agreement.

(n) "Incentive Bonus" - as defined in Section 2.2;

(o) "Market Price" means the officially quoted closing price of the common stock of the Company, as reported by the principal exchange on which the common stock of the Company is traded for the date in question. If there are no transactions on such date, the Market Price shall be determined as of the immediately preceding date on which there were transactions. If no such prices are reported on such exchange, then Market Price shall mean the average of the high and low sale prices for the common stock of the Company (or if no sales prices are reported, the average of the high and low bid prices) as reported by a quotation system of general circulation to brokers and dealers. If the common stock of the Company is not traded on any exchange or in the over-the-counter market, the Market Price of the common stock of the Company on any date shall be determined in good faith by the parties.

(p) "Notice of Termination" shall mean a notice which shall indicate the specific termination provision of this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated. Each Notice of Termination shall be delivered at least 30 days prior to the effective date of termination;

(q) "Prime Rate" means the prime rate announced by The Wall Street Journal from time to time.

(r) "Retirement" shall mean normal retirement at age 65;

(s) "Threshold Bonus" shall mean a cash bonus equal to $105,000 (which is based on the "Threshold" level of bonus under "Bonus Level Fiscal 2004" as set forth in Exhibit A).

(t) "Total Disability" or "Totally Disabled" shall mean that (i) Executive is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) if applicable, that for at least three months the Executive is receiving income replacement benefits under a Company sponsored plan by reason of any medically determinable physical or mental impairment expected to last at least twelve consecutive months or result in death, or (iii) the Executive is determined to be disabled under a Company disability plan with the same or substantially similar definition of disability, as described in Section 409A (defined below). If there is a dispute as to whether Executive is Totally Disabled, such dispute shall be submitted for resolution to a licensed physician selected by Executive but subject to the reasonable approval of the Company. If such a dispute arises, Executive shall submit to such examinations and shall provide such information as such physician may request, and the determination of the physician as to whether Executive is Totally Disabled under this definition shall be binding and conclusive.

6.2 KEY MAN INSURANCE. In addition to the insurance policy described in Section 2.5(c), the Company shall have the right, in its sole discretion, to purchase "key man" insurance on the life of Executive. The Company shall be the owner and beneficiary of any such policy. If the Company elects to purchase such a policy, Executive shall take such physical examinations and supply such information as may be reasonably requested by the insurer.

6.3 SUCCESSORS, BINDING AGREEMENT. This Agreement shall be binding upon and run to the benefit of the Company, its successors and assigns, and shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, beneficiaries, designees, executors, administrators, heirs, distributees, devisees and legatees.

6.4 MODIFICATION; NO WAIVER. This Agreement may not be modified or amended except by an instrument in writing signed by the parties to this Agreement. No term or condition of this Agreement shall be deemed to have been waived, nor shall there be any estoppel against the enforcement of any provision of this Agreement, except by written instrument by the party charged with such waiver or estoppel. No such written waiver shall be deemed a continuing waiver unless specifically stated in such waiver, and each such waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any other term or condition. No amendment agreed by the parties in writing shall be deemed to give rise to "Good Reason."

6.5 SEVERABILITY. The covenants and agreements contained in this Agreement are separate and severable and the invalidity or unenforceability of any one or more of such covenants or agreements, if not material to the employment arrangement that is the basis for this Agreement, shall not affect the validity or enforceability of any other covenant or agreement contained in this Agreement. If, in any judicial proceeding, a court shall refuse to enforce one or more of the covenants or agreements contained in this Agreement because the duration thereof is too long, or the scope thereof is too broad, it is expressly agreed between the parties to this Agreement that such duration or scope shall be deemed reduced to the extent necessary to permit the enforcement of such covenants or agreements.

6.6 NOTICES. All the notices and other communications required or permitted under this Agreement shall be in writing and shall be delivered personally or sent by registered or certified mail, return receipt requested, to the parties to this Agreement at the following addresses:

If to the Company, to it at:

Mesa Air Group, Inc.
410 North 44th Street, Suite 700
Phoenix, AZ 85008
Attn: Chair of Board of Directors

If Executive, to him at:

410 North 44th Street, Suite 700
Phoenix, AZ 85008

With a copy to:

James F. Wood, Esq.
Sherman & Howard L.L.C.
3000 First Interstate Tower North
633 17th Street, Suite 3000
Denver, CO 80202

Notices shall be deemed to have been given and received upon personal delivery or three business days after having been deposited, if sent by registered or certified mail.

6.7 ASSIGNMENT. This Agreement and any rights under this Agreement shall not be assignable by either party without the prior written consent of the other party except as otherwise specifically provided for in this Agreement.

6.8 ENTIRE UNDERSTANDING. This Agreement (together with the Exhibits incorporated as a part of this Agreement) constitutes the entire understanding between the parties to this Agreement and no agreement, representation, warranty or covenant has been made by either party except as expressly set forth in this Agreement.

6.9 EXECUTIVE'S REPRESENTATIONS. Executive represents and warrants that neither the execution and delivery of this Agreement nor the performance of his duties under this Agreement violates the provisions of any other agreement to which he is a party or by which he is bound.

6.10 SECTION 409A. This Agreement is intended to comply with, or otherwise be exempt from, Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and any regulations and Treasury guidance promulgated thereunder ("Section 409A"). If the Company determines in good faith that any provision of this Agreement would cause the Executive to incur an additional tax, penalty, or interest under Section 409A, the Compensation Committee and the Executive shall use reasonable efforts to reform such provision, if possible, in a mutually agreeable fashion to maintain to the maximum extent practicable the original intent of the applicable provision without violating the provisions of Section 409A or causing the imposition of such additional tax, penalty, or interest under Section 409A. The preceding provisions, however, shall not be construed as a guarantee by the Company of any particular tax effect to Executive under this Agreement.

For purposes of Section 409A, the right to a series of installment payments under this Agreement shall be treated as a right to a series of separate payments.

With respect to any reimbursement of expenses of, or any provision of in-kind benefits to, the Executive, as specified under this Agreement, such reimbursement of expenses or provision of in-kind benefits shall be subject to the following conditions: (1) the expenses eligible for reimbursement or the amount of in-kind benefits provided in one taxable year shall not affect the expenses eligible for reimbursement or the amount of in-kind benefits provided in any other taxable year, except for any medical reimbursement arrangement providing for the reimbursement of expenses referred to in Section 105(b) of the Code; (2) the reimbursement of an eligible expense shall be made no later than the end of the year after the year in which such expense was incurred; and (3) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit.

"Termination of employment," or words of similar import, as used in this Agreement means, for purposes of any payments under this Agreement that are payments of deferred compensation subject to Section 409A, the Executive's "separation from service" as defined in Section 409A.

If a payment obligation under this Agreement arises on account of the Executive's separation from service while the Executive is a "specified employee" (as defined under Section 409A and determined in good faith by the Compensation Committee), any payment of "deferred compensation" (as defined under Treasury Regulation Section 1.409A- 1(b)(1), after giving effect to the exemptions in Treasury Regulation Sections 1.409A-1(b)(3) through (b)(12)) that is scheduled to be paid within six (6) months after such separation from service shall accrue with interest as described in Section 6.11 and shall be paid within 15 days after the end of the six-month period beginning on the date of such separation from service or, if earlier, within 15 days after the appointment of the personal representative or executor of the Executive's estate following his death.

6.11 INTEREST ON PAST DUE AMOUNTS; ATTORNEYS FEES. All amounts under this Agreement that are not paid when due shall bear interest at the rate of 4% per annum above the Prime Rate, from the date such payments were due until paid. In addition, any party who breaches this Agreement shall be obligated to pay the reasonable attorneys fees and costs incurred by the other party in seeking to enforce the terms of this Agreement.

6.12 GOVERNING LAW. This Agreement shall be construed in accordance with and governed for all purposes by the laws of the State of Arizona applicable to contracts executed and wholly performed within such state.

[SIGNATURE PAGES FOLLOW]

Mesa Air Group, Inc. (Company)
By: _____________________________________
Title: Chairman, Compensation Committee

____
Michael J. Lotz (Executive)

[Signature Page Employment Agreement]

EXHIBIT A

MINIMUM INCENTIVE BONUS

INCENTIVE BONUS

BONUS LEVEL FISCAL 2004 (1)	% CHANGE IN EPS (2)	QUARTERLY AMOUNT (3)	FISCAL 2004 AMOUNT (4)
MINIMUM	POSITIVE	$ 10,000	$ 40,000
THRESHOLD	5%	$ 20,000	$ 80,000
TARGET	10%	$ 40,000	$ 160,000
MAXIMUM	15%	$ 80,000	$ 320,000

NOTE 1 - FOR EACH FISCAL YEAR ONLY THE % CHANGE IN EPS WILL BE REVIEWED. THE % CHANGE IN EPS WILL NOT BE GREATER THAN THE INITIAL YEAR.

NOTE 2 - EPS IS DEFINED AS GROSS PROFIT/LOSS BEFORE TAXES AND ONE-TIME NON-RECURRING ITEMS DIVIDED BY BASIC OUTSTANDING SHARES. THESE PERCENTAGES WILL CHANGE ANNUALLY BUT NOT BE GREATER THEN THE INITIAL YEAR.

NOTE 3 - THE QUARTERLY AMOUNT WILL BE PAID FOR EACH OF THE FIRST THREE FISCAL QUARTERS BASED ON THE 10Q FINANCIAL REPORTS FILED WITH THE SEC. THE ANNUAL AMOUNT WILL BE PAID FOR THE FOURTH QUARTER LESS ANY AMOUNTS PAID FOR THE FIRST THREE QUARTERS BASED ON THE 10K FINANCIAL REPORTS FILED WITH THE SEC. THESE AMOUNTS WILL NOT BE DECREASED OVER THE TERM OF THE AGREEMENT.

NOTE 4 - THESE AMOUNTS WILL NOT BE DECREASED OVER THE TERM OF THE AGREEMENT.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") originally made and entered into as of April 30, 2005 by and between MESA AIR GROUP, INC., a Nevada corporation (the "Company"), and Brian S. Gillman (the "Executive"), as amended, is hereby amended and restated effective January 1, 2009.

WITNESSETH:

1. EMPLOYMENT

The Company hereby employs the Executive, and the Executive hereby accepts such employment, upon the terms and subject to the conditions set forth in this Agreement.

2. TERM

Subject to the provisions for termination as hereinafter provided, the term of employment under this Agreement shall begin on the date hereof and shall continue for a term of six years, provided, however, that if the Company fails to give one hundred eighty days written notice prior to the date of termination, the term of this Agreement shall automatically be extended for additional one hundred eighty day periods.

3. COMPENSATION

3.1 Base Salary. The Company shall pay to the Executive as basic compensation for all services rendered by the Executive during the term of this Agreement as basic annualized salary of $125,000 through September 30, 2005, and $130,000 through September 30, 2006, and $135,000 through November 14, 2007, and $190,000 effective November 15, 2007, or such other sum in excess of that amount as the parties may agree on from time to time or as provided in the last sentence of this Section 3.1 (as in effect from time to time, the "Base Salary"), payable bi-weekly or in other more frequent installments, as determined by the Company. The Company shall have no authority to reduce the Executive's Base Salary in effect from time to time. In addition, the Company, in its discretion, may award a bonus or bonuses to the Executive in addition to the bonuses provided for in Section 3.2, provided, however, such discretionary bonus shall not be included in the definition of "Base Salary." Annually, the Company shall review the Base Salary and increase it as it deems appropriate.

3.2 Bonuses. In addition to the Base Salary to be paid pursuant to Section 3.1, the Company shall pay the Executive as incentive compensation a bonus. The bonus will be a minimum of thirty (30%) of Base Salary, which will be paid quarterly if Company is profitable. In addition, Executive shall be eligible to receive and the Company shall pay to the Executive an additional bonus (including the minimum bonus) in the aggregate of 31% to 100% of the Executive's Base Salary at such time that the Board grants similar bonuses to other executives of the Company.

3.3 Stock Option/Restricted Stock Award. Each year during the term of this Agreement on the anniversary date of this Agreement, the Company shall issue options of not fewer than 20,000 shares of common stock of the Company (adjusted appropriately for any stock dividend, stock split, spin-off, reorganization, or similar transaction) or restricted stock or other equity equivalent with a similar vesting schedule in an amount designed to achieve the same underlying value to the Executive. With respect to Stock Options, the underlying shares of Common Stock of which will be registered on Form S-8 or any successor form, at an exercise price per share, which is no greater than the market price on the grant date The term will be for a term of ten years from the date of grant and, except as otherwise provided (but in no event shall the vesting schedule be more restrictive than as set forth in this Agreement), shall vest one-third annually.

3.4 Other Benefits. The Executive shall be entitled to such fringe benefits including, but not limited to, medical and other insurance benefits (for the Executive and his family), positive space airline travel benefits on the Company's airline, as may be provided from time to time by the Company to other senior management of the Company. The Company will use its commercially reasonable efforts to obtain from other airlines the same benefits for the Executive as the Company provides to executive officers of other airlines.

3.5 Expenses. The Company shall reimburse the Executive, in accordance with the Company's policies and practices for senior management, for all reasonable expenses incurred by the Executive in the performance of the Executive's duties under this Agreement.

3.6 Reimbursement. The Company shall reimburse Executive for his out-of-pocket costs incurred in connection with the retention of professionals by Executive to provide Executive with income tax, estate planning, and investment advisory services. The maximum amount of reimbursable expenses for such purposes shall be $1,000 for each calendar year during the term of this Agreement. The amount that is not used each calendar year shall be forfeited and shall not carry over to be used in any subsequent year. The Company shall reimburse Executive for such costs promptly after Executive submits an invoice to Company. In order to preserve Executive's rights to confidentiality, Executive may satisfy the requirement of submitting an invoice by providing the Company with a copy of the facing page of the invoice showing the fees and expenses for the services rendered and the general nature of the services rendered but without any detail concerning the substance of the services rendered.

3.7 Other Incentive and Benefit Plans. The Executive shall be eligible to participate, in accordance with the terms of such plans as they may be adopted, amended and administered from time to time, in incentive, bonus, benefit or similar plans, including without limitation, any stock option, bonus or other equity ownership plan, any short, mid or long term incentive plan and any other bonus, pension or profit sharing plans established by the company from time to time.

3.8 Deferred Compensation. On November 15, 2007 and on March 31 of each year thereafter during the term of the Agreement, the Company shall contribute $50,000 for the benefit of Executive under a Deferred Compensation Plan mutually acceptable to Executive and the Company.

4. DUTIES

The Executive is engaged as the Executive Vice President, General Counsel and Secretary of the Company. The Executive's duties and responsibilities shall be commensurate with those customarily associated with the Executive Vice President and General Counsel of a publicly traded Company, including such other duties as from time to time may be assigned by the Chairman of the Board, Chief Executive Officer or by the directors.

5. VACATIONS AND DAYS OFF

The Executive shall be entitled to vacations with pay and to such personal and sick leave with pay in accordance with the policy of the Company as may be established from time to time by the Company and applied to other senior officers of the Company. In no event shall the Executive be entitled to less than three week's annual vacation. Vacation days that accrue during the calendar year but are unused during that year will be cashed out in January of the next year. Accrued but unpaid vacation and holidays as of December 31, 2008, will be paid in January 2009.

6. ILLNESS OR INCAPACITY, TERMINATION ON DEATH, ETC.

6.1 Death. If the Executive dies during the term of Executive's employment, the Company shall pay to the estate of the Executive within 30 days after the date of death such Base Salary and any cash bonus compensation earned pursuant to the provisions of this Agreement or any incentive compensation plan then in effect but not yet paid, as would otherwise have been payable to the Executive up to the end of the month in which the Executive's death occurs. After receiving the payment provided in this Section 6.1, the Executive and the Executive's estate shall have no further rights under this Agreement (other than those rights already accrued).

6.2 Disability. During any period of disability, illness or incapacity during the term of this Agreement which renders the Executive at least temporarily unable to perform the services required under this Agreement, the Executive shall receive the Base Salary payable under Section 3.1 of this Agreement plus any cash bonus compensation earned pursuant to the provisions of this Agreement or any incentive compensation plan then in effect but not yet paid, less any cash benefits received by him under any disability insurance carried by or provided by the Company. Upon the Executive's "Permanent Disability" (as defined below), which Permanent Disability continues during the payment periods specified herein, the Company shall pay to the Executive for the period of time specified below an amount (the "Disability Payment") equal to the (i) sum of (A) the Base Salary paid in the same bi-weekly or other period installments as in effect at the time of the Executive's Permanent Disability plus (B) an amount equal to the Minimum Bonus payable to the Executive under Section 3.2 of this Agreement or the minimum amount of any similar bonus or incentive plans or programs then in effect if greater than the Minimum Bonus in respect of the fiscal year during which the Executive's Permanent Disability occurred, which amount, in any event, shall be paid in pro rata equal bi-weekly installments over the period of time specified below (ii) reduced by the amount of any monthly payments under any policy of disability income insurance paid for by the Company which payments are received during the time when any Disability Payment is being made to the Executive following the Executive's Permanent Disability. For so long as the Executive's

Permanent Disability continues, the Disability Payment shall be paid by the Company to the Executive in equivalent installments at the same time or times as would have been the case for payment of Base Salary over the unexpired term of this Agreement if the Executive had not become permanently disabled and had remained employed by the Company hereunder, but in no case shall such period be less than 24 months. The Executive may be entitled to receive payments under any disability income insurance which may be carried by or provided by the Company from time to time. Upon "Permanent Disability" (as that term is defined in Section 6.2(ii) below) of the Executive, except as provided in this Section 6.2, all rights of the Executive under this Agreement (other than rights already accrued or the Executive's rights under Section 3.7) shall terminate.

(ii) The term "Permanent Disability" as used in this Agreement shall mean (a) that the Executive is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (b) if applicable, that for at least three months the Executive is receiving income replacement benefits under a Company sponsored plan by reason of any medically determinable physical or mental impairment expected to last at least twelve consecutive months or result in death, or (c) the Executive is determined to be disabled under a Company disability plan with the same or substantially similar definition of disability, as described in Section 409A (defined below). After a determination of Permanent Disability, the Board of Directors may terminate the Executive's employment under this Agreement upon ten (10) days' prior written notice. If any determination of the Board of Directors with respect to permanent disability is disputed by the Executive, the parties hereto agree to abide by the decision of a panel of three physicians. The Executive and Company shall each appoint one member, and the third member of the panel shall be appointed by the other two members. The Executive agrees to make himself available for an submit to examinations by such physicians as may be directed by the Company. Failure to submit to any such examination shall constitute a breach of a material part of this Agreement.

7. OTHER TERMINATIONS

7.1 By the Executive. (i) The Executive may terminate the Executive's employment hereunder upon giving at least ninety (90) days' prior written notice. In addition, the Executive shall have the right to terminate the Executive's employment hereunder on the conditions and at the times provided for in Section 7.4 of this Agreement.

(ii) If the Executive gives notice pursuant to the first sentence of Section 7.1(i) above, the Company shall have the right (but not the obligation) to relieve the Executive, in whole or in part, of the Executive's duties under this Agreement, or direct the Executive to no longer perform such duties, or direct that the Executive should no longer report to work, or any combination of the foregoing. In any such event, the Executive shall be entitled to receive only the Base Salary not yet paid, as would otherwise have been payable to the Executive up to the end of the month specified as the month of termination in the termination notice. If the Executive gives notice pursuant to the first sentence of Section 7.1(i) above but specifies a termination date in excess of ninety (90) days from the date of such notice, the Company shall have the right (but not the obligation) to accelerate the termination date to any date prior to the date specified in the notice that is in excess of ninety (90) days from the date of the notice, and the Company shall have the right (but not the obligation) to relieve the Executive, in whole or in part, of the Executive's duties under this Agreement, or direct the Executive to no longer perform such duties, or direct that the Executive should no longer report to work, or any combination of the foregoing; provided, however, that in any such event the Executive shall be entitled to receive the Base Salary, as would otherwise have been payable to the Executive up to the end of the month of the termination date properly selected by the Company. If the Executive gives notice pursuant to the first sentence of Section 7.1(i), upon receiving the payments provided for under this Section 7.1, all rights of the Executive under this Agreement (other than rights already accrued or the Executive's rights under Section 3.7) shall terminate.

7.2 Termination for "Good Cause." (i) Except as otherwise provided in this Agreement, the Company may terminate the employment of the Executive hereunder only for "good cause," which shall mean the termination of employment of Employee because of Employee's personal dishonesty, willful misconduct, breach of fiduciary duty involving personal profit, intentional failure to perform stated duties (including failure to travel to the Company's headquarters to the extent necessary to complete his duties), willful violation of any material law, rule or regulation resulting in the Company's detriment or reflecting upon the Company's integrity (other than traffic infractions or similar minor offenses) or a material breach by the Employee of the terms of this Agreement and failure to cure such breach within thirty (30) days after receipt of written notice from the Company specifying the nature of such breach or to pay compensation to the Company deemed reasonable by the Company if the breach cannot be cured.

(ii) If the employment of the Executive is terminated for good cause under Section 7.2(i) of this Agreement, the Company shall pay to the Executive any Base Salary earned prior to the effective date of termination but not yet paid and any such cash bonus compensation earned pursuant to the provisions of this Agreement or any incentive compensation plan then in effect but not paid to the Executive prior to the effective date of such termination. Under such circumstances, such payments shall be in full and complete discharge of any and all liabilities or obligations of the Company to the Executive hereunder, and the Executive shall be entitled to no further benefits under this Agreement (other than rights already accrued or the Executive's rights under Section 3.7).

(iii) Termination of the employment of the Executive, other than as expressly specified above in Section 7.2(i) for good cause or as a result of his Permanent Disability, shall be deemed to be termination of employment "Without Good Cause."

7.3 Termination Without Good Cause. (i) Notwithstanding any other provision of this Agreement, the Company shall have the right to terminate the Executive's employment Without Good Cause pursuant to the provisions of this Section 7.3. If the Company shall terminate the employment of the Executive Without Good Cause effective on a date earlier than the termination date provided for in Section 2 (with the effective date of termination as so identified by the Company being referred to herein as the "Accelerated Termination Date"), the Executive, shall receive a lump sum cash payment, subject to the six (6) month delay described in Section 12.11, equal to a sum of (1) the number of years (or fractions thereof) remaining in the then unexpired term of this Agreement or three, whichever is greater, multiplied by the sum of (A) the Base Salary and (B) the highest annual bonus amount received by Executive during the preceding three years or the minimum amount of any similar bonus or incentive plans or programs then in effect if greater than foregoing in respect to the fiscal year during which the Executive's termination Without Good Cause occurs plus (C) any other cash or other bonus compensation earned prior to the date of such termination pursuant to the terms of all incentive compensation plans then in effect other than any such plan relating to annual incentive cash bonuses or any similar bonus or incentive plans or programs then in effect; and (2) the additional payments necessary to discharge certain tax liabilities (the "Gross Ups"), as the term is defined in Section 11 of this Agreement, provided that, notwithstanding such termination of employment, the Executive's covenants set forth in Section 9 are intended to and shall remain in full force and effect and provided further that in the event of such termination, the Company shall have the right (but not the obligation) to relieve the Executive, in whole or in part, of the Executive's duties under this Agreement, or direct the Executive to no longer perform such duties, or direct that the Executive no longer be required to report to work, or any combination of the foregoing.

(ii) The parties agree that, because there can be no exact measure of the damage that would occur to the Executive as a result of a termination by the Company of the Executive's employment Without Good Cause, the payments and benefits paid and provided pursuant to this Section 7.3 shall be deemed to constitute liquidated damages and not a penalty for the Company's termination of the Executive's employment Without Good Cause.

7.4 Termination by Executive For Good Reason. (i) The Executive shall be entitled to terminate his employment hereunder for Good Reason within one-year of the occurrence of an event constituting Good Reason. For purposes of this Agreement, "Good Reason" shall mean the occurrence of any of the following circumstances without the Executive's consent: (1) assignment of the Executive to any duties substantially inconsistent with his position or duties contemplated by this Agreement or a substantial reduction of his duties contemplated by this Agreement; (2) the removal of any titles of the Executive specified in Section 4 of this Agreement; (3) any breach of the Company's obligation under this Agreement or any failure by the company to carry out any of its material obligations hereunder, and the failure to cure such breach or failure within seven days after written notice of such breach or failure has been delivered to the Company by the Executive; (4) a Change in Control (as hereinafter defined); or (5) the relocation of the Executive or his office, facilities, personnel, or equipment; provided, however, it shall not constitute "Good Reason" if the Executive or his office, facilities, personnel, or equipment are relocated to any future location of the Company's corporate headquarters and the relocated corporate headquarters is in a metropolitan area with a population of at least 1,000,000 people.

(ii) For purposes of this Agreement, a "Change in Control" shall mean the first to occur of the following events if that event is also a "change in control event" as defined in Section 409A (defined below):

(1) the acquisition of "beneficial ownership" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934 (the "1934 Act")) (in each case under this Agreement, references to provisions of the 1934 Act and the rules and regulations promulgated thereunder being understood to refer to such law, rules and regulations as the same are in effect on April 1, 1998) of the Company's securities comprising more than 50% of the combined

voting power of the Company's outstanding securities by any "person" (as that term is used in Section 13(d) and 14(d)(2) of the 1934 Act and the rules and regulations promulgated thereunder, but not including any trustee or fiduciary acting in that capacity for an employee benefit plan sponsored by the Company) and such person's "affiliates" and "associates" (as those terms are defined under the 1934 Act), but excluding any ownership by the Executive and his affiliates and associates;

(2) the closing of a sale of all or substantially all of the assets of the Company;

(3) a tender offer or exchange offer is made where the intent of such offer is to take over control of the Company, and such offer is consummated for the equity securities of the Company representing thirty percent (30%) or more of the combined voting power of the Company's then outstanding voting securities over a twelve month period; or

(4) the closing of a merger or consolidation involving the Company in which the Company is not the surviving corporation or if, immediately following such merger or consolidation, less than seventy-five percent (75%) of the surviving corporation's outstanding voting stock is held or is anticipated to be held by persons who are stockholders of the Company immediately prior to such merger or consolidation.

(iii) If an event constituting Good Reason occurs, the Executive shall have the right, exercisable for a period of one year thereafter by delivering a written statement to that effect to the Company, to immediately terminate this Agreement and upon such a determination the Executive shall have the right to receive and the Company shall be obligated to pay to Executive in cash a lump sum payment, subject to the six (6) month delay described in Section 12.11, in an amount equal to the sum of (1) three times (a) the Base Salary then in effect, plus (B) the highest annual bonus amount received by Executive during the preceding three years or the minimum amount of any similar bonus or incentive plans or programs then in effect if greater than the foregoing in respect to the fiscal year during which the Executive's termination Without Good Cause occurs plus (C) the deferred compensation payments that would have otherwise been payable pursuant to Section 3.8 under the Agreement for the term of the Agreement had the Agreement not been terminated, plus (D) any other cash or other bonus compensation earned prior to the date of such termination pursuant to the terms of all incentive compensation plans then in effect other than any such plan relating to annual incentive cash bonuses or any similar bonus or incentive plans or programs then in effect; and (2) the Gross Up (the sum of the foregoing amounts other than the Gross Up being referred to as the "Good Reason Termination Payment"). If the Executive fails to exercise his rights under this Section 7.4(iii) within one year following an event constituting Good Reason, such rights shall expire and be of no further force or effect.

7.5 Intentions Regarding Certain Stock and Benefit Plans. Except as otherwise provided herein, upon any termination of the Executive's employment Without Good Cause or upon the exercise by the Executive of his rights to terminate his employment for Good Reason, it is the intention of the parties that any and all vesting or performance requirements or conditions affecting any outstanding restricted stock, performance stock, stock option, stock appreciation right, bonus, award, right, grant or any other incentive compensation under the Mesa Air Group Employee Stock Option Plan or any other similar incentive plan, under this Agreement, or otherwise received, shall be deemed to be fully satisfied and any risk of forfeiture with respect thereto shall be deemed to have lapsed.

7.6 Certain Rights Mutually Exclusive. The provisions of Section 7.3 and Section 7.4 are mutually exclusive, provided, however, that if within one year following commencement of an 7.3 payout there shall be a Change in Control as defined in Section 7.4(ii), then the Executive shall be entitled to the amount payable to the Executive under Section 7.4(iii) reduced by the amount that the Executive has received under Section 7.3 up to the date of the Change in Control. The triggering of the lump sum payment requirement of Section 7.4 shall cause the provisions of Section 7.3 to become inoperative.

8. DISCLOSURE

The Executive agrees that during and after the term of the Executive's employment by the Company, the Executive will disclose and disclose only to the Company all ideas, methods, plans, developments or improvements known by him which relate directly or indirectly to the business of the Company, whether acquired by the Executive before or during the Executive's employment by the Company. Nothing in this Section 8 shall be construed as requiring any such communication where the idea, plan, method or development is lawfully protected from disclosure as a trade secret of a third party or by any other lawful prohibition against such communication.

9. CONFIDENTIALITY

The Executive agrees to keep in strict secrecy and confidence any and all information the Executive assimilates or to which the Executive has access during the Executive's employment by the Company and which has not been publicly disclosed and is not a matter of common knowledge in the fields of work of the Company, including but not limited to information regarding the Company's trade secrets, business plans, marketing plans or programs, any non-public financial information, including forecasts, statistics relating to routes and markets, contracts, customers, compensation arrangements and business opportunities (collectively, the "Confidential Information"). The Executive agrees that both during and after the term of the Executive's employment by the Company, the Executive will not, without the prior written consent of the Company, disclose any Confidential Information to any third person, partnership, joint venture, company, corporation or other organization. The foregoing covenants shall not be breached to the extent that any such Confidential Information becomes a matter of general knowledge other than through a breach by a person with an obligation to the Company to maintain such confidentiality (and the Executive knows that such person had an obligation to keep such information confidential), including but not limited to the Executive's obligation to the Company under this Section 9.

10. SPECIFIC PERFORMANCE

The Executive agrees that damages at law will be an insufficient remedy to the Company if the Executive violates the terms of Section 8 or Section 9 of this Agreement and that the Company would suffer irreparable damage as a result of such violation. Accordingly, it is agreed that the Company shall be entitled, upon application to a court of competent jurisdiction, to obtain injunctive relief to enforce the provisions of such Sections, which injunctive relief shall be in addition to any other rights or remedies available to the Company.

11. PAYMENT OF EXCISE TAXES

11.1 Payment of Excise Taxes. If the Executive is to receive any (1) Good Reason Termination Payment under Section 7.4 of this Agreement, (2) any benefit or payment under Section 6 as a result of or following the death or Permanent Disability of the Executive, (3) any benefit or payment under Section 7.3 as a result of or following any termination of employment hereunder Without Good Cause, (4) any benefit or payment under the Plans as a result of a Change in Control, following the death or Permanent Disability of the Executive or following the termination of employment hereunder Without Good Cause (such sections being referred to as the "Covered Sections" and the benefits and payments to be received thereunder being referred to as the "Covered Payments"), the Executive shall be entitled to receive the amount described below to the extent applicable: If any Covered Payment(s) under any of the Covered Sections or by the Company under another plan or agreement (collectively, the "Payments") are subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986 (as amended from time to time, the "Code"), or any successor or similar provision of the Code (the "Excise Tax"), the Company shall pay the Executive an additional cash amount (the "Gross Up") such that the net amount retained by the Executive after deduction of any Excise Tax on the Payments and the federal income tax and Excise Tax on any amounts paid under this Section 11 shall be equal to the Payments. The Gross-Up shall not include the amount of state or federal income tax owed by the Executive on the amount of the Payments excluding any state or federal income tax on the Gross-Up.

11.2 Certain Adjustment Payments. For purposes of determining the Gross Up, the Executive shall be deemed to pay the federal income tax at the highest marginal rate of taxation (currently 39.6%) in the calendar year in which the payment to which the Gross Up applies is to be made. The determination of whether such Excise Tax is payable and the amount thereof shall be made upon the opinion of tax counsel selected by the Company and reasonably acceptable to the Executive. The Gross Up, if any, that is due as a result of such determination shall be paid to the Executive in cash in a lump sum within thirty (30) days of such computation, but no later than December 31 of the year following the year in which the Executive remits the related taxes. If such opinion is not finally accepted by the Internal Revenue Service upon audit or otherwise, then appropriate adjustments shall be computed (without interest but with Gross Up, if applicable) by such tax counsel based upon the final amount of the Excise Tax so determined; any additional amount due the Executive as a result of such adjustment shall be paid to the Executive by his or her Company in cash in a lump sum within thirty (30) days of such computation, but no later than December 31 of the year following the year in which the Executive remits the related taxes, or any amount due the Executive's Company as a result of such adjustment shall be paid to the Company by the Executive in cash in a lump sum within thirty (30) days of such computation. The Gross Up payment shall be subject to the six (6) month delay of payment provision described in Section 12.11.

12. MISCELLANEOUS

12.1 Waiver of Breach. The waiver by either party to this Agreement of a breach of any of the provisions of this Agreement by the other party shall not be construed as a waiver of any subsequent breach by such other party.

12.2 Compliance With Other Agreements. The Executive represents and warrants that the execution of this Agreement by him and the Executive's performance of the Executive's obligations hereunder will not conflict with, result in the breach of any provision of or the termination of or constitute a default under any Agreement to which the Executive is a party or by which the Executive is or may be bound.

12.3 Binding Effect Assignment. The rights and obligations of the Company under this Agreement shall insure to the benefit of and shall be binding upon the successors and assigns of the Company. This Agreement is a personal employment contract and the rights, obligations and interests of the Executive hereunder may not be sold, assigned, transferred, pledged or hypothecated.

12.4 Entire Agreement. This Agreement contains the entire agreement and supersedes all prior agreements and understandings, oral or written, with respect to the subject matter hereof. This Agreement may be changed only by an agreement in writing signed by the party against whom any waiver, change, amendment, modification or discharge is sought.

12.5 Headings. The headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

12.6 No Duty to Mitigate. The Executive shall be under no duty to mitigate any loss of income as result of the termination of his employment hereunder and any payments due the Executive upon termination of employment shall not be reduced in respect to any other employment compensation received by the Executive following such termination.

12.7 Arizona Law. This Agreement shall be construed pursuant to and governed by the substantive laws of the State of Arizona (except that any provision of Nevada law shall not apply if the law of a state or jurisdiction other than Arizona would otherwise apply).

12.8 Severability. Any provision of this Agreement which is determined by a court of competent jurisdiction to be prohibited, unenforceable or not authorized in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition, unenforceability or non-authorization without invalidating the remaining provisions hereof or affecting the validity, enforceability or legality of such provision in any other jurisdiction. In any such case, such determination shall not affect any other provision of this Agreement, and the remaining provisions of this Agreement shall remain in full force and effect. In any provision or term of this Agreement is susceptible to two or more constructions or interpretations, one or more of which would render the provision or term void or unenforceable, the parties agree that a construction or interpretation which renders the term or provision valid shall be favored.

12.9 Deduction for Tax Purposes. The Company's obligations to make payments under this Agreement are independent of whether any or all of such payments are deductible expenses of the company for federal income tax purposes.

12.10 Enforcement. If, within ten (10) days after demand to comply with the obligations of one of the parties to this Agreement served in writing on the other, compliance or reasonable assurance of compliance is not forthcoming, and the party demanding compliance engages the services of an attorney to enforce rights under this Agreement, the prevailing party in any action shall be entitled to recover all reasonable costs and expenses of enforcement (including reasonable attorneys' fees and reasonable expenses during investigation, before and at trial and in appellate proceedings if litigation ensues), directly or indirectly resulting from or arising out of a breach by the other party of their respective obligations hereunder. The parties' costs of enforcing this Agreement shall include prejudgment interest. Additionally, if any party incurs any out-of-pocket expenses in connection with the enforcement of this Agreement, all such amounts shall accrue interest at ten percent (10%) per annum (or such lower rate as may be required to avoid any limit imposed by applicable law) commencing thirty (30) days after any such expenses are incurred.

12.11 Section 409A. This Agreement is intended to comply with, or otherwise be exempt from, Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and any regulations and Treasury guidance promulgated thereunder ("Section 409A"). If the Company determines in good faith that any provision of this Agreement would cause the Executive to incur an additional tax, penalty, or interest under Section 409A, the Compensation Committee and the Executive shall use reasonable efforts to reform such provision, if possible, in a mutually agreeable fashion to maintain to the maximum extent practicable the original intent of the applicable provision without violating the provisions of Section 409A or causing the imposition of such additional tax, penalty, or interest under Section 409A. The preceding provisions, however, shall not be construed as a guarantee by the Company of any particular tax effect to Executive under this Agreement.

For purposes of Section 409A, the right to a series of installment payments under this Agreement shall be treated as a right to a series of separate payments.

With respect to any reimbursement of expenses of, or any provision of in-kind benefits to, the Executive, as specified under this Agreement, such reimbursement of expenses or provision of in-kind benefits shall be subject to the following conditions: (1) the expenses eligible for reimbursement or the amount of in-kind benefits provided in one taxable year shall not affect the expenses eligible for reimbursement or the amount of in-kind benefits provided in any other taxable year, except for any medical reimbursement arrangement providing for the reimbursement of expenses referred to in Section 105(b) of the Code; (2) the reimbursement of an eligible expense shall be made no later than the end of the year after the year in which such expense was incurred; and (3) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit.

"Termination of employment," or words of similar import, as used in this Agreement means, for purposes of any payments under this Agreement that are payments of deferred compensation subject to Section 409A, the Executive's "separation from service" as defined in Section 409A.

If a payment obligation under this Agreement arises on account of the Executive's separation from service while the Executive is a "specified employee" (as defined under Section 409A and determined in good faith by the Compensation Committee), any payment of "deferred compensation" (as defined under Treasury Regulation Section 1.409A-1(b)(1), after giving effect to the exemptions in Treasury Regulation Sections 1.409A-1(b)(3) through (b)(12)) that is scheduled to be paid within six (6) months after such separation from service shall accrue without interest and shall be paid within 15 days after the end of the six-month period beginning on the date of such separation from service or, if earlier, within 15 days after the appointment of the personal representative or executor of the Executive's estate following his death.

12.12 Notices. All notices which are required or may be given under this Agreement shall be in writing and shall be deemed to have been duly given when received if personally delivered; when transmitted if transmitted by telecopy or similar electronic transmission method; one working day after it is sent, if sent by recognized expedited delivery service; and three days after it is sent, if mailed, first class mail, certified mail, return receipt requested, with postage prepaid. In each case notice shall be sent to:

To the Company	c/o Mesa Airlines, Inc. 410 North 44th Street, Ste 700 Phoenix, AZ 85008 Attn: Chief Executive Officer Telephone: (602) 685-4000

To the Executive at the Executive's last known address, or to such other address as either party may specify by written notice to the other.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and year first above written.

MESA AIR GROUP, INC.

By: ______________________________
Jonathan Ornstein, CEO 12/31/08

By: ______________________________
Brian S. Gillman 12/31/08

Exhibit 10.41

SETTLEMENT AND RELEASE AGREEMENT

THIS SETTLEMENT AND RELEASE AGREEMENT (the "Agreement") is made and entered into by and between YUCAIPA CORPORATE INITIATIVES FUND I, L.P. and YUCAIPA CORPORATE INITIATIVES FUND I, LLC (collectively "Yucaipa"), on the one hand, and MESA AIR GROUP, INC. ("Mesa"). The Agreement concerns the settlement and compromise of certain claims and disputes that relate to the action entitled *Aloha Airlines, Inc., et al. v. Mesa Air Group, Inc.*, which is pending in the United States District Court for the District of Hawaii (the "Court") as Case No. CV 07-00007 DAE/BMK (the "Action").

In consideration of the mutual promises contained herein, the sufficiency of which is hereby acknowledged, each of the Parties[1] to this Agreement agrees, promises, covenants, represents, warrants and stipulates as follows:

1. **Effective Date.** This Agreement, including any and all Exhibits hereto, is made and effective as of November 28, 2008 (the "Effective Date").

2. **Parties and Disputes Resolved**

(a) The "Aloha Parties" refers to Aloha Airlines, Inc., Aloha Air Group Inc. (collectively "Aloha"), their parent, subsidiary and affiliated entities, and all of their respective past, present and future divisions, departments, units, affiliates, members, investors, partners, joint ventures, joint venturers, affiliated partnerships, stockholders, shareholders, predecessors,

[1] In this Agreement, Yucaipa and Mesa are referred to individually as a "Party" and referred to collectively as the "Parties."

successors, assigns, officers, directors, employees, agents, representatives, attorneys and independent contractors.

(b) The "Yucaipa Parties" refers to Yucaipa, its parent, subsidiary and affiliated entities, and all of their respective past, present and future divisions, departments, units, affiliates, members, investors, partners, joint ventures, joint venturers, affiliated partnerships, stockholders, shareholders, predecessors, successors, assigns, officers, directors, employees, agents, representatives, attorneys and independent contractors.

(c) The "Mesa Parties" refers to Mesa, its parent, subsidiary and affiliated entities, and all of their respective past, present and future divisions, departments, units, affiliates, members, investors, partners, joint ventures, joint venturers, affiliated partnerships, stockholders, shareholders, predecessors, successors, assigns, officers, directors, employees, agents, representatives, attorneys and independent contractors.

(d) This Agreement fully and finally settles all issues and disputes that were raised or could have been raised by Aloha, Yucaipa, or Mesa in the Action and releases the Mesa Parties and the Yucaipa Parties from any and all disputes, claims, counterclaims and causes of action that arise out of or are in any way connected with or related to the matters set forth or alleged in the pleadings or other papers on file in the Action, whether or not alleged in the Action, including but not limited to all claims arising from the Non-Disclosure Agreements dated January 6, 2005 and January 25, 2006 and Mesa's introduction of flight service into the Hawaiian inter-island market and fare pricing and other business activities therein.

3. **Obligations of Yucaipa**

(a) **Licensing Agreement.** Upon the consummation of Yucaipa's acquisition of Aloha's Assets (as defined in the Asset Purchase Agreement, by and among Yucaipa and Dane S. Field, as Chapter 7 Trustee (the "Trustee") for Aloha and AirGroup Acquisition, Inc., filed with the Bankruptcy Court on October 7, 2008 (the "Asset Purchase Agreement")), which is subject to certain conditions, including but not limited to, the Bankruptcy Court's approval of the purchase of the Assets by Yucaipa, Yucaipa will acquire from Aloha all rights, title and interest it has in the "Aloha" name and/or the "Aloha Airlines" name. As soon as practicable after Yucaipa acquires the "Aloha" name and the "Aloha Airlines" name, Yucaipa will enter in an agreement with Mesa (the "Licensing Agreement") whereby Yucaipa will, on a non-exclusive basis subject to Section 8(f) of this Agreement, license the "Aloha" name and the "Aloha Airlines" name (collectively, the "Licenses") to Mesa for 10 years, including all rights, title and interest acquired by Yucaipa in those names pursuant to Article 3 of the Asset Purchase Agreement. Neither the Licensing Agreement nor any of the Licenses may be assigned by Mesa (including by merger, change of control or otherwise) to any party, other than, any direct or indirect wholly-owned subsidiary of Mesa (and only for so long as it remains a direct or indirect wholly-owned subsidiary of Mesa), provided that Mesa remains liable for all payments under the License Agreement. Should Mesa cease inter-island flight operations, it shall have the right, upon written notice to Yucaipa, to terminate the Licensing Agreement and the Annual, Revenue and Profit Sharing Payments provided for in Paragraphs 5(a)(i) and 5(a)(ii) below.

Agreement, Yucaipa shall provide Mesa an executed Stipulation of Dismissal of Entire Action seeking the dismissal of the entire Action with prejudice (the "Stipulation"). The Stipulation shall be effective at 5:00 p.m. Hawaii time 91 days after the Effective Date (the "Dismissal Effective Date"); provided, however, that if a petition for relief under 11 U.S.C. has been filed by or against Mesa on or prior to 5:00 p.m. Hawaii time 91 days after the Effective Date, the Dismissal Effective Date shall not occur until the expiration of any statute of limitations for the avoidance and/or recovery of the transfers and payments by Mesa pursuant to the terms of Sections 4(a) and (b) of this Agreement (collectively, the "Transfers"). In the event Mesa or any entity acting through, on behalf of or in the name of Mesa or its estate seeks during any applicable statute of limitations to avoid and/or recover, and avoids and/or recovers, any of the Transfers, the Dismissal Effective Date shall be deemed to have never occurred. The Stipulation shall be substantially in the form of Exhibit A to this Agreement. Within 1 business day following Mesa's receipt of the Stipulation executed by Yucaipa, Mesa shall execute the Stipulation and lodge it with the Court. Without limiting the terms of Section 8(e), during the period expiring on the earlier of (a) the Dismissal Effective Date and (b) the avoidance and/or recovery of any of the Transfers by Mesa or any entity acting through, on behalf of or in the name of Mesa or its estate, neither Party shall pursue the Action or commence or pursue any proceeding asserting claims provided to be released under this Agreement, in any capacity, against the other Party whether as a named plaintiff or otherwise.

4. **Obligations of Mesa for Dismissal of Action.** Mesa agrees to do the following:

(a) **Mesa Air Group Ownership.** Upon Yucaipa's delivery of the executed Stipulation as provided in Paragraph 3(b), Mesa will issue to Yucaipa 2,692,800 unregistered shares of Mesa Air Group common stock (the "Stock Consideration") in a private placement transaction within three business days. By January 15, 2008, Mesa agrees to file a shelf registration statement on Form S-1 in order to register the resale of such shares by Yucaipa in public transactions. Mesa agrees to keep such registration continuously effective for a period of one year. Yucaipa will provide Mesa with such customary investment representations as Mesa may reasonably request in connection with the issuance of such shares.

(b) **Cash Payment.** Mesa shall make a cash payment of $2,000,000 to Yucaipa on the Effective Date.

5. **Obligations of Mesa for Licensing Agreement.** After the execution of the Licensing Agreement by all the Parties as provided in Paragraph 3(a) and upon the dates specified below, Mesa agrees to do the following:

(a) **Annual, Revenue and Profit Sharing Payments.** For a period of ten years commencing on the date Mesa's obligations are triggered under this Section 5 (the "Term"), subject to Mesa's right to terminate under Paragraph 3(a) above:

(i) For each year of the Term, Mesa will pay Yucaipa 1% of the passenger ticket revenue generated from all Hawaiian inter-island flight operations conducted by Mesa or any of its affiliates(the "Revenue Payments"), subject to a minimum annual Revenue Payment of $600,000 (the "Annual Minimum Payment"). The Annual Minimum Payment for the first year of the Term shall be due no later than 5 business days after execution of the Licensing Agreement by all the parties thereto (the "Payment Date"). The Annual Minimum Payment for each subsequent year shall be due on the anniversary of the Payment Date. Any Revenue Payment in excess of the Annual Minimum Payment shall be due and payable on the 60th day following the end of each such annual period.

(ii) For each year of the Term, Mesa will pay Yucaipa an amount (the "Profit Sharing Payments") equal to 30% of the pre-tax operating profits from Mesa's operations in the Hawaiian inter-island market (which amount shall be computed by including only costs directly associated with the go! operations in Hawaii and shall include an overhead allocation based on $27,000 per month for 50-seat aircraft that are in service (including no more than one operational spare aircraft for up to ten aircraft in service and excluding any aircraft in long-term storage), less the Revenue Payments described in Paragraph 5(a)(i) above. Payments made under this paragraph will be calculated and paid quarterly and trued up annually. Mesa shall provide certified monthly revenue and quarterly financial statements to Yucaipa to verify the calculation of Profit Sharing Payments.

(b) **Promissory Note.** Mesa will deliver to Yucaipa within five business days after the Effective Date a $5 million promissory note, payable quarterly over five years, at LIBOR + 350 basis points interest, reset quarterly (the "Note"). The Note will be effective and enforceable as of the Effective Date, but will provide that all payments thereunder will be deferred until the earlier of (i) the date on which Mesa ceases flight operations in the Hawaiian inter-island market, (ii) the date on which Mesa fails to make any payment required by the terms of this Agreement, and (iii) the date on which Mesa materially breaches any obligation or covenant set forth in this Agreement. The period from the Effective Date until the earlier of (i), (ii) or (iii) in the preceding sentence shall be deemed the "Payment Deferral Period". In the event of (ii) or (iii), Yucaipa shall give Mesa written notice of Mesa's alleged nonpayment or breach, as well as 15 days to cure such alleged nonpayment or breach; provided, however, that in the event Yucaipa is precluded from providing such written notice for any reason under applicable law, this sentence shall become inapplicable.

If the Payment Deferral Period has not been terminated by the end of the first five years of the Term, the principal owing on the Note shall decrease automatically on a straight-line basis over the remaining five years of the Term until such time, if ever, that the Payment Deferral Period is terminated, at which time Mesa would have to pay the Note in the amount of the remaining principal over the remaining portion of the five-year term according to the terms set forth above in this paragraph.

(c) **Aloha Employee Passes.** For the duration of the Licensing Agreement, Mesa will issue 6 space available free round trip passes per year to each Aloha employee as of the date of Aloha's bankruptcy filing this year; provided, however, that Yucaipa shall not have any obligations or liability under this Section 5(c). Industry standard service fees will apply to the passes issued under this paragraph, but will not exceed $20 per segment.

(d) **Security Agreement.** The Note will be secured by a first priority lien on certain Mesa assets with a fair market value equal to 125% of the principal amount of the Note, such security to be augmented from time to time, if necessary, to ensure that the security continues to have a fair market value equal to 125% of the principal amount of the Note, pursuant to a security agreement to be entered into within five business days after the Effective Date.

6. **Mutual Release**

(a) Effective the Dismissal Effective Date, Yucaipa, for itself and on behalf of any person or entity to the extent it could claim by, through or under Yucaipa, will fully and finally release and discharge the Mesa Parties, and Mesa, for itself and on behalf of any person or entity to the extent it could claim by, through or under Mesa, will fully and finally release and discharge the Yucaipa Parties, from any and all past, present or future claims, rights, demands, debts, obligations, losses, causes of action, actions, suits, controversies, setoffs, affirmative defenses, counterclaims, third party actions, damages, penalties, costs, expenses, attorneys' fees, liabilities and indemnities of any kind or nature whatsoever, whether known or unknown, suspected or unsuspected, accrued or unaccrued, whether actually pled or raised in the Action, whether at law, equity, administrative, statutory or otherwise, and whether for legal or equitable relief, including commercial damages, lost profits, lost future opportunities, lost business, injunctive relief, or compensatory, punitive or any other kind of damages, including all claims for attorneys' fees and costs, which Yucaipa or Mesa, as applicable, ever had in the past, presently may have or which may hereafter accrue against the Mesa Parties or the Yucaipa Parties, as applicable, arising from or pertaining to the issues, disputes and matters that were raised or could have been raised by Yucaipa or Mesa, as applicable, in connection with the Action. All of the foregoing under this paragraph shall be referred to as the "Released Claims."

(b) This Agreement is intended to include in its effect, without limitation, all claims arising out of or pertaining to the issues, disputes and matters identified in Paragraph 2(d) which the Parties do not know or suspect to exist at the time of execution of this Agreement. Effective the Dismissal Effective Date, the Parties will waive and relinquish every right or benefit which they have or may have to claims which they did not know or suspect to exist at the time of execution of this Agreement under any law of the United States, Arizona, Hawaii or the laws of other states or jurisdictions to the full extent that they may lawfully waive such right or benefit pertaining to the subject matter of the Action. In connection with such waiver and relinquishment, the Parties acknowledge that they are aware that they may hereafter discover facts in addition to or different from those which they now know or believe to be true with respect to the subject matter of the Action, but that they intend to fully, finally, and forever settle and release all matters, disputes and differences, known or unknown, suspected or unsuspected, which have ever existed, now exist or may exist at some time in the future that arise out of or relate to the issues, disputes and matters set forth in Paragraph 2(d) on the Dismissal Effective Date. The release set forth in this paragraph shall be, and remain in effect as, a full and complete release of the Released Claims, notwithstanding the discovery or existence of any such additional or different facts that arise out of or relate to the issues, disputes and matters set forth in Paragraph 2(d).

7. **Materiality of Representations, Warranties, and Covenants.** The Parties acknowledge and agree that each of the representations, warranties, and covenants in this Agreement are material to and were relied upon by the Parties in entering into this Agreement. The Parties further acknowledge and agree that any breach of these representations, warranties or covenants constitutes a material breach of this Agreement.

8. **Representations, Warranties and Covenants.** The Parties hereby represent, warrant and covenant that:

(a) **Power and Authority.** Each Party has the full and unrestricted power, legal right, capacity and authority to enter into this Agreement, to carry out the releases contemplated hereby, and to perform the obligations set forth herein.

(b) **No Other Actions.** Except as set forth in this Agreement, no other or further action is necessary for the Parties to enter into this Agreement and all other documents contemplated hereby and thereby.

(c) **Ownership of Claims.** Yucaipa represents and warrants that it acquired all of Aloha's interest and rights in the Action pursuant to the terms of the Asset Purchase Agreement, dated as of June 13, 2008, by and among Yucaipa and the Trustee (the "Action Asset Purchase Agreement"), and subject to the terms of the Action Asset Purchase Agreement and the Sale Order (as defined in the Action Asset Purchase Agreement). Should any other person or entity allege an interest or right in the Released Claims, the Parties will cooperate with each other (at the expense of the Party requesting such cooperation) to seek the release of such Released Claims in the same form as Paragraph 6. If the person or entity alleging such an interest or right obtained such interest or right as a result of an assignment by one of the Parties to such person or entity, and such release is not obtained, the Party who assigned such interest or right shall indemnify and defend the other Party against any suit, claim or any alleged interest or right to any Released Claims.

(d) **Survival.** All representations, warranties, covenants and agreements of the Parties contained in this Agreement survive the delivery of this Agreement.

(e) **Covenant Not to Sue.** Neither Party has filed, initiated, or prosecuted (or caused to be filed, initiated, or prosecuted) against the other Party any lawsuit, complaint, charge, action, compliance review, investigation, or proceeding which is pending other than the Action. Neither Party shall commence any such action or proceeding asserting claims released under this Agreement in the future, in any capacity, against the other Party whether as a named plaintiff or otherwise after the dismissal of the Action with prejudice has become effective pursuant to Paragraph 3(b) above, including any claims or suits by Yucaipa against the Mesa Parties arising from the use, whether past, present or future, of materials obtained by Mesa pursuant to the Non-Disclosure Agreements.

(f) Covenant Not to License. Subject to Mesa's compliance with its obligations under this Agreement, Yucaipa will not license the Licenses during the Term to any third party that operates in the United States airline industry.

(g) **Scope of the Release.** The release contained in Paragraph 6 shall not extend to any claim that arises out of or relates to a breach or alleged breach of this Agreement.

(h) **Interpretation.** All Parties have participated in the preparation of this Agreement. Accordingly, no presumption for or against any Party arising out of drafting all or any part of this Agreement will be applied in any action relating to, connected to, or involving this Agreement.

(i) **Attorney's Fees or Costs.** In any proceeding regarding the breach or enforcement of this Agreement, the prevailing party in such proceeding shall receive its actual attorneys' fees and costs incurred in connection with such proceeding.

(j) **Advice of Independent Counsel.** The Parties hereby expressly acknowledge that the effect and import of this Agreement, including all rights and obligations, have been fully explained to them by their own counsel.

(k) **Books and Records; Audit Rights.** Mesa shall keep and preserve complete and accurate books, records and accounts sufficient to enable the amounts due Yucaipa hereunder to be verified. Subject to execution of a customary confidentiality agreement to protect Mesa's business and financial information, Yucaipa shall have the right, at Yucaipa's sole cost and expense, to have an independent certified public accountant inspect and audit the books, records and accounts kept and preserved by Mesa that relate to this Agreement, during normal business hours and upon reasonable prior notice, to verify the accuracy of the payments made to Yucaipa pursuant to this Agreement.

(l) **Arbitration.** Any controversy or dispute arising from or related to this Agreement or the breach, termination or validity thereof shall be settled by binding arbitration in accordance with JAMS in effect on the date of this Agreement by an independent and impartial arbitrator, mutually agreed upon by the Parties. The arbitration shall be governed by the Federal Arbitration Act, to the exclusion of state laws inconsistent therewith, and judgment upon the award rendered by the arbitrators may be entered by the United States District Court for the District of Hawaii.

(m) **Governing Law.** This Agreement shall be governed by, construed and enforced in accordance with Hawaii law, which law shall be applicable to the Agreement as if it were entered into or to be performed in the State of Hawaii without regard to any choice of law provisions.

(n) **Not an Admission.** The Parties are entering into this Agreement for the purpose of resolving disputed issues between them and to avoid the costs and risks of litigation. None of the Parties have made, nor shall they be deemed to have made, any admission of liability or wrongdoing of any kind by their negotiation of or entry into this Agreement. Neither this Agreement nor any provision contained herein shall be construed by any person as an admission by any of the Parties as to the validity or invalidity of any position taken by any Party in the Action. Notwithstanding the foregoing, Mesa represents and warrants that the consideration provided hereunder by Yucaipa represents reasonably equivalent value (as that term is used in 11 USC 548 and comparable state law) for the consideration provided hereunder by Mesa.

(o) **Public Statements.** Promptly upon execution of this Agreement, the Parties may issue press releases at a mutual time agreed to by the Parties announcing the execution of this Agreement and other terms that the Parties mutually determine are required under applicable securities laws. The parties agree to exchange any such press releases 24 hours prior to their release, to consult with each other before issuing any such press releases and to not issue any such press releases without the prior consent of the other party, which shall not be unreasonably withheld or delayed. The parties further agree that any such press releases shall be made in accordance with all applicable securities regulations.

(p) **No Third Party Beneficiaries.** Except for any third parties covered by the release of the Released Claims pursuant to Paragraph 6(a), this Agreement shall not confer any rights or remedies upon any Person other than the Parties and their respective successors and permitted assigns.

(q) **No Intent to Bid.** Mesa represents and warrants that it never had any intention of bidding on the Assets (as defined in the Asset Purchase Agreement) at the auction conducted in connection with the sale of such Assets.

(r) **Miscellaneous:**

(i) **Merger.** Each of the Parties hereto represents that the terms of this Agreement are contractual and that this Agreement, including any and all Exhibits hereto and other documents referred to herein, constitutes the entire agreement between the Parties, is the final written expression and the complete and exclusive statement of all of the agreements, conditions, promises, representations, and covenants between the Parties with respect to the subject matter hereof, and supersedes all prior or contemporaneous agreements, negotiations, representations, understandings, and discussions between and among the Parties, their respective representatives, and any other person or entity, with respect to the subject matter covered hereby.

(ii) **Modification or Amendment to the Agreement.** This Agreement may be modified only in writing, signed by each party hereto. The Parties shall execute and deliver such further instruments, documents, or papers and perform all such acts necessary or proper to carry out and effectuate the terms of this Agreement as may be reasonably requested by any Party hereto.

(iii) **No Waiver.** Any waiver by any Party of any provision of the Agreement in any instance shall not be deemed a waiver of such provision in the future.

(iv) **Headings.** The headings in this Agreement are included for convenience only and shall not constitute a part of this Agreement nor shall they affect its meaning, construction or effect.

(v) Notice. Any notices to be given under this Agreement to Yucaipa shall be sent to:

Yucaipa Corporate Initiatives Fund I, L.P.
9130 West Sunset Boulevard
Los Angeles, CA 90069
Attention: Robert P. Bermingham
Facsimile: 310-229-2870

with a copy to:

Latham & Watkins LLP
355 South Grand Avenue

Los Angeles, CA 90071-1560
Attention: Thomas C. Sadler
Facsimile: 213-891-8763

Any notices to be given under this Agreement to Mesa shall be sent to:

Mesa Air Group, Inc.
Attention: General Counsel
410 No. 44th Street, Suite 700
Phoenix, Arizona 85008
Facsimile: 602-685-4352

with a copy to:

O'Melveny & Myers LLP
400 S. Hope St.
Los Angeles, CA 90071-2899
Attention: Marc Feinstein
Facsimile: 213-430-6407

(vi) **Counterparts.** This Agreement will be executed in two identical counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument. The counterparts may be delivered by electronic mail, with the intention that they shall have the same effect as an original counterpart.

IN WITNESS WHEREOF, the Parties have duly executed and delivered this Agreement on the date first written above.

EXECUTED BY:

YUCAIPA CORPORATE INITIATIVES FUND I, L.P.
YUCAIPA CORPORATE INITIATIVES FUND I, LLC

By:______________________________
Robert P. Bermingham
V.P.

IN WITNESS WHEREOF, the Parties have duly executed and delivered this Agreement on the date first written above.

EXECUTED BY:

YUCAIPA CORPORATE INITIATIVES FUND I, L.P.
YUCAIPA CORPORATE INITIATIVES FUND I, LLC

By:____________________________________

MESA AIR GROUP, INC.

By: Jonathan Ornstein

Exhibit 21.1

Subsidiaries of the Registrant

1.	Mesa Airlines, Inc.	Nevada
2.	Air Midwest, Inc.	Kansas
3.	Freedom Airlines, Inc.	Nevada
4.	MPD, Inc. d.b.a Mesa Pilot Development and MPD	Nevada
5.	Regional Aircraft Services, Inc.	California
6.	MAGI Insurance, Ltd.	Barbados, West Indies
7.	Ritz Hotel Management Corp.	Nevada
8.	Mesa Air Group - Airline Inventory Management, LLC	Arizona
9.	Nilchii, Inc.	Nevada
10.	Air Midwest, LLC	Nevada
11.	Mesa In-Flight, Inc.	Colorado
12.	Ping Shan SRL	Barbados, West Indies
13.	Regional Aviation Advisors, Inc.	Nevada
14.	Patar, Inc.	Nevada

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-02791, 333-09395, 333-83799, 333-83801, 333-83803, 333-83805, 333-58646, 333-107404, and 333-125604 of Mesa Air Group, Inc. (the "Company") on Form S-8 and Registration Statement Nos. 333-108490, 333-115312, and 333-137382 on Form S-3 of our report dated January 12, 2009 relating to the financial statements (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the holders of the Company's Senior Convertible Notes having the option of requiring the Company to repurchase the Senior Convertible Notes on January 31, 2009 and February 10, 2009, respectively, for cash, stock, or a combination thereof, an explanatory paragraph relating to an action taken by Delta Airlines, Inc. to terminate the Company's code-share agreement covering the ERJ-145 aircraft, and an explanatory paragraph relating to the Company's significant code-sharing agreements, and of our report dated January 12, 2009 relating to the Company's internal control over financial reporting (which report expresses an adverse opinion because of a material weakness), appearing in the Annual Report on Form 10-K of Mesa Air Group, Inc. for the year ended September 30, 2008.

/s/ DELOITTE & TOUCHE LLP

Phoenix, Arizona
January 12, 2009

Exhibit 31.1

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

I, Jonathan G. Ornstein, certify that:

1. I have reviewed this annual report on Form 10-K of Mesa Air Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ JONATHAN G. ORNSTEIN
Jonathan G. Ornstein
Chairman of the Board and Chief Executive
Officer Mesa Air Group, Inc.

Date: January 12, 2009

Exhibit 31.2

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

I, Michael J. Lotz, certify that:

1. I have reviewed this annual report on Form 10-K of Mesa Air Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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

Date: January 12, 2009

Exhibit 32.1

MESA AIR GROUP, INC. AND ITS SUBSIDIARIES

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

In connection with the Annual Report of Mesa Air Group, Inc. (the "Company") on Form 10-K for the period ended September 30, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jonathan G. Ornstein, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §§ 1350, as adopted pursuant to §§ 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

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

Date: January 12, 2009

Exhibit 32.2

MESA AIR GROUP, INC. AND ITS SUBSIDIARIES

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

In connection with the Annual Report of Mesa Air Group, Inc. (the "Company") on Form 10-K for the period ended September 30, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael J. Lotz, , President & Chief Financial Officer (Principal Financial and Accounting Officer) of the Company, certify, pursuant to 18 U.S.C. §§ 1350, as adopted pursuant to §§ 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

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

Date: January 12, 2009