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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2024

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission File Number 001-38626

MESA AIR GROUP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

As of August 1, 2024, the registrant had 41,313,221 shares of common stock, no par value per share, issued and outstanding.

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Cautionary Note Regarding Forward-Looking Statements

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

Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements can also be identified by words such as "*future,*" "*anticipates,*" "*believes,*" "*estimates,*" "*expects,*" "*intends,*" "*plans,*" "*predicts,*" "*will,*" "*would,*" "*should,*" "*could,*" "*can,*" "*may,*" and similar terms. Forward-looking statements are not guarantees of future performance and our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Item 1A. Risk Factors of our Annual Report on Form 10-K for the fiscal year ended September 30, 2023 filed with the Securities and Exchange Commission on January 26, 2024. Unless otherwise stated, references to particular years, quarters, months, or periods refer to our fiscal years ended September 30 and the associated quarters, months, and periods of those fiscal years. Each of the terms "*the Company,*" "*Mesa Airlines,*" "*Mesa,*" "*we,*" "*us*" and "*our*" as used herein refers collectively to Mesa Air Group, Inc. and its wholly owned subsidiaries, unless otherwise stated. We do not assume any obligation to revise or update any forward-looking statements.

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

- public health epidemics or pandemics;
- the supply and retention of qualified airline pilots and mechanics and associated costs;
- the volatility of pilot and mechanic attrition;
- dependence on, and changes to, or non-renewal of, our capacity purchase and flight services agreements;
- failure to meet certain operational performance targets in our capacity purchase and flight services agreements, which could result in termination of those agreements;
- increases in our labor costs;
- reduced utilization - the percentage derived from dividing (i) the number of block hours actually flown during a given month by (ii) the maximum number of block hours that could be flown during such month under our capacity purchase agreement;
- the direct operation of regional jets United Airlines, Inc. ("United");
- the financial strength of United and its ability to successfully manage its businesses through a public health epidemic;
- restrictions under our Amended and Restated United CPA to enter into new regional air carrier service agreements, which will remain in place until the earlier to occur of (i) January 1, 2026 and (ii) the Company's satisfaction of certain Performance Milestones (as defined in the Amended and Restated United CPA);
- our significant amount of debt and other contractual obligations;
- our compliance with ongoing financial covenants under our credit facilities
- our ability to keep costs low and execute our growth strategies; and
- the effects of extreme or severe weather conditions that impacts our ability to complete scheduled flights.

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

Part I – Financial Information

Item 1. Financial Statements

MESA AIR GROUP, INC.
Condensed Consolidated Balance Sheets
(In thousands, except share amounts) (June 30, 2024 is unaudited)

	June 30, 2024	September 30, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 16,302	$ 32,940
Restricted cash	2,983	3,132
Marketable securities	5,442	—
Receivables, net ($1,710 and $4,016 from related party)	5,953	8,253
Expendable parts and supplies, net	30,652	29,245
Assets held for sale	20,151	57,722
Prepaid expenses and other current assets	3,425	7,294
Total current assets	84,908	138,586
Property and equipment, net	497,914	698,022
Lease and equipment deposits	1,289	1,630
Operating lease right-of-use assets	7,247	9,709
Deferred heavy maintenance, net	7,209	7,974
Assets held for sale	57,229	12,000
Other assets	8,569	30,546
Total assets	$ 664,365	$ 898,467
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt and finance leases ($4,604 and $20,500 from related party)	$ 72,769	$ 163,550
Current portion of deferred revenue	4,443	4,880
Current maturities of operating leases	2,212	3,510
Accounts payable	64,409	58,957
Accrued compensation	11,180	10,008
Other accrued expenses	32,481	27,001
Total current liabilities	187,494	267,906
Noncurrent liabilities:		
Long-term debt and finance leases, excluding current portion ($33,414 and $30,630 from related party)	287,749	364,728
Noncurrent operating lease liabilities	6,412	8,077
Deferred credits from related party	3,275	4,617
Deferred income taxes	8,059	8,414
Deferred revenue, net of current portion	7,963	16,167
Other noncurrent liabilities	28,526	28,522
Total noncurrent liabilities	341,984	430,525
Total liabilities	529,478	698,431
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Common stock of no par value and additional paid-in capital, 125,000,000 shares authorized; 41,312,204 (2024) and 40,940,326 (2023) shares issued and outstanding, 4,899,497 (2024) and 4,899,497 (2023) warrants issued and outstanding	272,104	271,155
Accumulated deficit	(137,217)	(71,119)
Total stockholders' equity	134,887	200,036
Total liabilities and stockholders' equity	$ 664,365	$ 898,467

See accompanying notes to these condensed consolidated financial statements.

MESA AIR GROUP, INC.
Condensed Consolidated Statements of Operations and Comprehensive Loss
(In thousands, except per share amounts) (Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2024	2023	2024	2023
Operating revenues:				
Contract revenue (2024—$93,867 and $301,796 and 2023—$88,415 and $200,184 from related party)	$ 95,596	$ 94,356	$ 310,516	$ 326,588
Pass-through and other revenue	15,197	20,335	50,636	57,111
Total operating revenues	110,793	114,691	361,152	383,699
Operating expenses:				
Flight operations	45,455	51,557	146,602	164,707
Maintenance	44,266	51,072	137,165	145,344
Aircraft rent	1,684	864	4,296	5,782
General and administrative	9,715	11,346	32,857	38,872
Depreciation and amortization	9,730	15,316	32,846	47,060
Asset impairment	7,880	30,489	50,923	50,951
Loss/(Gain) on sale of assets	—	(6,722)	150	(7,271)
Other operating expenses	1,090	999	5,098	2,358
Total operating expenses	119,820	154,921	409,937	447,803
Operating loss	(9,027)	(40,230)	(48,785)	(64,104)
Other income (expense), net:				
Interest expense	(9,032)	(12,015)	(30,832)	(36,321)
Interest income	17	8	45	128
(Loss)/Gain on investments	(776)	—	6,454	—
Unrealized (loss)/gain on investments, net	(2,025)	2,859	(6,073)	3,275
Gain on extinguishment of debt	—	—	2,954	—
Gain on debt forgiveness	—	—	10,500	—
Other income (expense), net	125	(946)	(234)	(540)
Total other expense, net	(11,691)	(10,094)	(17,186)	(33,458)
Loss before taxes	(20,718)	(50,324)	(65,971)	(97,562)
Income tax (benefit)/expense	(810)	(2,764)	126	(5,791)
Net loss and comprehensive loss	$ (19,908)	$ (47,560)	$ (66,097)	$ (91,771)
Net loss per share attributable to common shareholders				
Basic	$ (0.48)	$ (1.17)	$ (1.61)	$ (2.35)
Diluted	$ (0.48)	$ (1.17)	$ (1.61)	$ (2.35)
Weighted-average common shares outstanding				
Basic	41,217	40,688	41,075	38,986
Diluted	41,217	40,688	41,075	38,986

See accompanying notes to these condensed consolidated financial statements.

MESA AIR GROUP, INC.
Condensed Consolidated Statements of Stockholders' Equity
(In thousands, except share amounts) (Unaudited)

	Nine Months Ended June 30, 2023				
	Number of Shares	Number of Warrants	Common Stock and Additional Paid-In Capital	Retained Earnings/ (Accumulated Deficit)	Total
Balance at September 30, 2022	36,376,897	4,899,497	$ 259,177	$ 48,997	$ 308,174
Stock compensation expense	—	—	688	—	688
Payment of tax withholding for RSUs	(847)	—	(1)	—	(1)
Restricted shares issued	2,500	—	—	—	—
Net loss	—	—	—	(9,090)	(9,090)
Balance at December 31, 2022	36,378,550	4,899,497	$ 259,864	$ 39,907	$ 299,771
Stock compensation expense	—	—	668	-	668
Payment of tax withholding for RSUs	(29,276)	—	(30)	-	(30)
Restricted shares issued	175,661	—	—	-	-
United stock issuance	4,042,061		9,782		9,782
Employee share purchases	52,278	—	148	-	148
Net loss	—	—	—	(35,122)	(35,122)
Balance at March 31, 2023	40,619,274	4,899,497	270,432	4,785	275,217
Stock compensation expense	—	—	556	-	556
Payment of tax withholding for RSUs	(163,920)	—	(315)	-	(315)
Restricted shares issued	375,240	—	—	-	-
Net loss	—	—	—	(47,560)	(47,560)
Balance at June 30, 2023	40,830,594	4,899,497	270,673	(42,775)	227,898

	Nine Months Ended June 30, 2024				
	Number of Shares	Number of Warrants	Common Stock and Additional Paid-In Capital	Accumulated Deficit	Total
Balance at September 30, 2023	40,940,326	4,899,497	$ 271,155	$ (71,119)	$ 200,036
Stock compensation expense	—	—	427	—	427
Net loss	—	—	—	(57,850)	(57,850)
Balance at December 31, 2023	40,940,326	4,899,497	$ 271,582	$ (128,969)	$ 142,612
Stock compensation expense	—	—	372	—	372
Payment of tax withholding for RSUs	(1,490)	—	(1)	—	(1)
Restricted shares issued	178,010	—	—	—	—
Employee share purchases	55,372	—	30	—	30
Net income	—	—	—	11,660	11,660
Balance at March 31, 2024	41,172,218	4,899,497	271,982	(117,309)	154,672
Stock compensation expense	—	—	248	—	248
Payment of tax withholding for RSUs	(102,436)	—	(126)	—	(126)
Restricted shares issued	242,422	—	—	—	—
Net loss	—	—	—	(19,908)	(19,908)
Balance at June 30, 2024	41,312,204	4,899,497	272,104	(137,217)	134,887

See accompanying notes to these condensed consolidated financial statements.

MESA AIR GROUP, INC.
Condensed Consolidated Statements of Cash Flows
(In thousands) (Unaudited)

	Nine Months Ended June 30, 2024	Nine Months Ended June 30, 2023
Cash flows from operating activities:		
Net loss	$ (66,097)	$ (91,771)
Adjustments to reconcile net loss to net cash flows provided by (used in) operating activities:		
Depreciation and amortization	32,846	47,060
Stock compensation expense	1,047	1,912
Unrealized loss/(gain) on investments, net	6,073	(3,275)
Realized gain on investments	(6,454)	—
Deferred income taxes	(355)	(6,157)
Amortization of deferred credits	(798)	1,407
Amortization of debt discount and issuance costs and accretion of interest into long-term debt	6,243	4,922
Asset impairment	50,923	50,951
Loss/(Gain) on sale of assets	150	(7,271)
(Gain) on extinguishment of debt	(2,954)	—
(Gain) on debt forgiveness	(10,500)	—
Other	3,187	1,973
Changes in assets and liabilities:		
Receivables	2,300	396
Expendable parts and supplies	(1,407)	(2,016)
Prepaid expenses and other operating assets and liabilities	4,006	125
Accounts payable	6,055	(6,349)
Deferred revenue	(8,302)	(1,342)
Deferred heavy maintenance, net	(1,637)	(1,382)
Accrued expenses and other liabilities	5,771	(5,689)
Operating lease right-of-use assets and liabilities	(501)	2,669
Net cash provided by (used in) operating activities	19,596	(13,837)
Cash flows from investing activities:		
Capital expenditures	(16,908)	(31,619)
Proceeds from sale of aircraft and engines	127,136	139,878
Proceeds from sale of investments in equity securities	2,729	—
Investment transaction costs	(380)	—
Refund of equipment and other deposits	341	740
Net cash provided by investing activities	112,918	108,999
Cash flows from financing activities:		
Proceeds from long-term debt	86,855	39,000
Principal payments on long-term debt and finance leases	(235,156)	(142,577)
Debt prepayment costs	(922)	—
Payments of debt and warrant issuance costs	—	(917)
Proceeds from issuance of ESPP	48	148
Payment of tax withholding for RSUs	(126)	(346)
Net cash used in financing activities	(149,301)	(104,692)
Net change in cash, cash equivalents and restricted cash	(16,787)	(9,530)
Cash, cash equivalents and restricted cash at beginning of period	36,072	61,025
Cash, cash equivalents and restricted cash at end of period	$ 19,285	$ 51,495
Supplemental cash flow information		
Cash paid for interest	$ 23,344	$ 28,801
Cash paid for income taxes, net	$ —	$ 27
Operating lease payments in operating cash flows	$ 3,738	$ 8,203
Supplemental non-cash operating activities		
Right-of-use assets obtained in exchange for lease liabilities	$ 419	$ 755
Supplemental non-cash financing activities		
Finance lease obtained in exchange for lease liability	$ —	$ 65,094
Principal payments in exchange for transfer of equity investment	$ 12,610	$ —
Principal forgiven	$ 10,500	$ —

See accompanying notes to these condensed consolidated financial statements.

MESA AIR GROUP, INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Organization and Operations

About Mesa Air Group, Inc.

Headquartered in Phoenix, Arizona, Mesa Air Group, Inc. ("Mesa", the "Company", "we", "our", or "us") is the holding company of Mesa Airlines, a regional air carrier providing scheduled passenger service to 73 cities in 32 states, Cuba, and Mexico. Mesa operated a fleet of 73 regional aircraft with approximately 279 daily departures and 1,992 employees as of June 30, 2024. The aircraft in Mesa's fleet were operated under the Company's Capacity Purchase Agreement ("CPA"), leased to a third party, held for sale, or maintained as operational spares. Mesa operates all of its flights as United Express pursuant to the terms of the CPA entered into with United (our "major partner"). Prior to March 1, 2024, Mesa's fleet were also operated under a Flight Services Agreement ("FSA") with DHL Network Operations (USA), Inc. ("DHL") pursuant to the terms of the FSA entered into with DHL. Except as set forth in the following sentence, all of the Company's consolidated contract revenues for the three and nine months ended June 30, 2024 and June 30, 2023 were derived from operations associated with the CPA, FSA, leases of aircraft to a third party, and Mesa Pilot Development. Revenues during the three and nine months ended June 30, 2023 also included revenues derived from our CPA with American Airlines, Inc. ("American"), which terminated in April 2023.

The United CPA involves a revenue-guarantee arrangement whereby United pays fixed-fees for each aircraft under contract, departure, flight hour (measured from takeoff to landing, excluding taxi time) or block hour (measured from takeoff to landing, including taxi time), and reimbursement of certain direct operating expenses in exchange for providing flight services. United also pays certain expenses directly to suppliers, such as fuel, ground operations and landing fees. Under the terms of the CPA, United controls route selection, pricing, and seat inventories, reducing our exposure to fluctuations in passenger traffic, fare levels, and fuel prices.

Liquidity and Going Concern

During our three and nine months ended June 30, 2024 and fiscal year ended September 30, 2023, the decrease in scheduled flying activity associated with the transition of our operations with American to United, increased costs associated with pilot wages, and increasing interest rates adversely impacted our financial results, cash flows, financial position, and other key financial ratios. Additionally, United has asked us to accelerate the removal of CRJ-900 aircraft and transition the pilots to our E-175 fleet. This will lead to increased costs and impact our block hour capabilities while these pilots are in training.

As of July 16, 2024, the Company was not in compliance with a financial covenant related to a minimum liquidity requirement of $15.0 million of cash and cash equivalents associated with its Second Amended and Restated Credit and Guaranty Agreement with United. On September 25, 2024, the Company reached an agreement with United to obtain a waiver for the covenant breach through December 31, 2024. As of the issuance of this Form 10-Q, we are in compliance with all financial covenants.

As a result of the decrease in scheduled flying activity, we produced less block hours to generate revenues. During the nine months ended June 30, 2024, these challenges resulted in a negative impact on the Company's financial results highlighted by net loss of $66.1 million, including a non-cash impairment charge of $50.9 million primarily related to the Company designating eight CRJ-900 aircraft, 11 CRJ-900 airframes (without engines), and 61 spare engines as held for sale. These conditions and events raised financial concerns about our ability to continue to fund our operations and meet our debt obligations over the next twelve months from the filing of this Form 10-Q.

To address such concerns, management developed and implemented several material changes to our business designed to ensure the Company could continue to fund its operations and meet its debt obligations over the next twelve months. The Company implemented the following measures during or subsequent to the three months ended June 30, 2024.

- We had 15 aircraft under the RASPRO Trust ("RASPRO") finance lease with a buyout obligation of $50.3 million. On April 22, 2024, we entered into a binding Memorandum with RASPRO that provides for the payment of certain commitment fee amounts by the Company, along with certain RASPRO administration fee amounts, in consideration for the deferral of the $50.3 million buyout obligation over the period of June 2024 to September

2024. Certain of the commitment fee amounts and Trust fees otherwise payable will be waived if the Company completes its purchase obligations with respect to all 15 airframes and 30 engines as set forth in the agreement. During the first fiscal quarter of 2024, we entered into purchase agreements with two separate parties to purchase the RASPRO aircraft and related engines. One agreement is for 30 engines for a total of $19.5 million. The second agreement is for 15 airframes (without engines) for a total of $18.8 million. Both of these transactions are expected to be completed by the end of September 2024, with net cash outflows from these transactions expected to be approximately $12.1 million.

  - During the three months ended June 30, 2024, we purchased six airframes and 15 engines from RASPRO for $22.3 million and sold them to third parties for $17.3 million. Subsequent to June 30, 2024, we purchased the remaining nine airframes and 15 engines from RASPRO for $23.2 million, completely paying off our obligation under the RASPRO finance lease. Subsequent to June 30, 2024, we sold all of the associated airframes and 14 of the engines to third parties for $20.4 million. We expect to close the sale of the final engine by the end of October 2024, with gross proceeds expected to be $0.7 million on the sale.
  - We are leasing three of the airframes that were sold to the third party through the period in which the respective airframes are covered under the United CPA, between July 31, 2024 and January 31, 2025.

- On May 8, 2024, we entered into a Waiver Agreement to our Second Amended and Restated Credit and Guaranty Agreement providing for the waiver of a certain projected financial covenant default with respect to the fiscal quarter ending June 30, 2024.
- On May 29, 2024, and June 20, 2024, we entered into two separate purchase agreements with third parties providing for the sale of nine and fourteen engines, respectively. Gross proceeds from the sale of the engines are expected to be $8.8 million and $24.7 million, respectively, of which, $8.8 million and $20.2 million, respectively, will be used to pay down our loan with the United States Department of the Treasury (the "UST Loan"). Subsequent to June 30, 2024, we closed the sale of eight engines in connection with the June 20, 2024 purchase agreement for gross proceeds of approximately $12.9 million and net proceeds of approximately $4.4 million after the paydown of debt.
- On May 30, 2024, we amended two finance leases on CRJ-700 aircraft providing for the revision of the lease term from June 22, 2031 to May 29, 2027 for initial payments totaling approximately $1.8 million.
- During the three months ended June 30, 2024, we generated an additional approximately $9.6 million in incremental revenue from increased CPA rates agreed upon in the First Amendment to our Third Amended and Restated United CPA and the Second Amendment to our Third Amended and Restated United CPA (the "January 2024 United CPA Amendments"). We are projected to generate an additional $46.0 million in incremental revenue from September 1, 2024 through August 31, 2025.
- During the three months ended June 30, 2024, the Company sold approximately 760 thousand shares of Archer Aviation Inc. ("Archer") for approximately $2.7 million of proceeds. Subsequent to June 30, 2024, we sold substantially all of our remaining 1.5 million shares of Archer for approximately $6.9 million of proceeds and realized a gain of approximately $1.6 million on the sale.
- During the three months ended June 30, 2024, the Company furloughed 53 first officers and captains to match scheduled flying activity. This is expected to result in savings of approximately $3.9 million from July 1, 2024 through December 31, 2024.
- On September 23, 2024, we entered into an agreement with the UST (the "CCR Modification Agreement") to reduce our required minimum Collateral Coverage Ratio ("CCR") for our UST Loan from 1.55:1.0 to 1.44:1.0 through November 22, 2024, after which, the required CCR minimum will revert back to 1.55:1.0.
- On September 25, 2024, we reached an agreement with United to provide additional liquidity described below:
  - The extension of the CPA rate increases agreed upon in the January 2024 United CPA Amendments through August 31, 2025.
  - The commitment of a combined fleet of 60 CRJ-900 and E-175 aircraft through January 2025, and an entirely E-175 fleet by March 2025.
  - Reimbursement of up to $14.0 million of expenses related to the transition to an entirely E-175 fleet.
  - The commitment to buy our two CRJ-700 aircraft out of their lease with GoJet and to purchase the two CRJ-700 aircraft for total proceeds of $11.0 million, $4.5 million of which will pay down the outstanding obligations.

- The commitment to grant a waiver through December 31, 2024, for the financial covenant breach related to the $15.0 million minimum liquidity requirement on our United Revolving Credit Facility.

- Based on the most recent appraisal value of our spare parts, we have $12.4 million available under our United Revolving Credit Facility.
- In addition to already executed agreements to sell aircraft, the Company is actively seeking arrangements to sell other surplus assets primarily related to the CRJ fleet including aircraft, engines, and spare parts to reduce debt and optimize operations.
- We have delayed and/or deferred major spending on aircraft and engine maintenance to match the current and projected level of flight activity.

The Company believes the plans and initiatives outlined above have effectively alleviated the financial concerns and will allow the Company to meet its cash obligations for the next twelve months following the issuance of its financial statements. The forecast of undiscounted cash flows prepared to determine if the Company has the ability to meet its cash obligations over the next twelve months following the issuance of its financial statements was prepared with significant judgment and estimates of future cash flows based on projections of CPA block hours, maintenance events, labor costs, and other relevant factors. Assumptions used in the forecast may change or not occur as expected.

As of June 30, 2024, the Company has $72.8 million of principal maturity payments on long-term debt due within the next twelve months. We plan to meet these obligations with our cash on hand, ongoing cashflows from our operations, and the liquidity created from the additional measures identified above. If our plans are not realized, we intend to explore additional opportunities to create liquidity by refinancing and deferring repayment of our principal maturity payments that are due within the next twelve months. The Company continues to monitor covenant compliance with its lenders as any noncompliance could have a material impact on the Company’s financial position, cash flows and results of operations.

United Capacity Purchase Agreement

Under the United CPA, we currently have the ability to fly up to 73 aircraft for United. As of June 30, 2024, we operated 55 E-175 and 18 CRJ-900 aircraft under our Third Amended and Restated Capacity Purchase Agreement with United dated December 27, 2022, which amended and restated the Second Amended and Restated Capacity Purchase Agreement dated November 4, 2020 (as amended, the “United CPA” or the "Amended and Restated United CPA"). Under the United CPA, United owns 42 of our 60 E-175 aircraft. The E-175 aircraft owned by United and leased to us have terms expiring between 2024 and 2028, and the 18 E-175 aircraft owned by us have terms expiring in 2028. During the three months ended June 30, 2024, United advised the Company that due to 70 and 76 seat scope limitations and commitments for 70 and 76 seat aircraft for other United Express carriers, the combined Mesa fleet of CRJ-900 and E-175 aircraft would be capped at 60 aircraft by October 2024. Additionally, the fleet would be an entirely E-175 fleet by March 2025.

In exchange for providing flight services under our United CPA, we receive a fixed monthly minimum amount per aircraft under contract plus certain additional amounts based on exceeding established goals for certain operational metrics. United also reimburses us for certain costs on an actual basis, including property tax per aircraft and passenger liability insurance. Other expenses, including fuel and landing fees, are directly paid to suppliers by United.

United reimburses us on a pass-through basis for certain costs related to heavy airframe and engine maintenance, landing gear, auxiliary power units ("APUs") and component maintenance for the aircraft owned by United. Our United CPA permits United, subject to certain conditions, including the payment of certain costs tied to aircraft type, to terminate the agreement in its discretion, or remove aircraft from service, by giving us notice of 90 days or more. If United elects to terminate our United CPA in its entirety or permanently remove select aircraft from service, we are permitted to return any of the affected aircraft leased from United at no cost to us. In addition, if United removes any of our 18 owned E-175 aircraft from service at its direction, United would remain obligated, at our option, to assume the aircraft ownership and associated debt with respect to such aircraft through the end of the term of the United CPA.

On September 25, 2024, we reached an agreement with United which provides for the following:

- The extension of the CPA rate increases agreed upon in the January 2024 United CPA Amendments through August 31, 2025.
- The commitment of a combined fleet of 60 CRJ-900 and E-175 aircraft through January 2025, and an entirely E-175 fleet by March 2025.
- Reimbursement of $14.0 million of expenses related to the transition to an entirely E-175 fleet.

- The commitment to buy our two CRJ-700 aircraft out of their lease with GoJet and to purchase the two CRJ-700 aircraft for $11.0 million.
- The commitment to grant a waiver through December 31, 2024, for the financial covenant breach related to the $15.0 million minimum liquidity requirement on our United Revolving Credit Facility.

In January 2024, the Amended and Restated United CPA was amended with the January 2024 United CPA Amendments which provide for the following:

- Increased CPA rates for E-175 aircraft, retroactive to October 1, 2023 through December 31, 2024;
- Amended certain notice requirements for removal by United of up to eight CRJ-900 Covered Aircraft (as defined in the United CPA) from the United CPA;
- Extended United's existing utilization waiver for the Company's operation of E-175 and CRJ-900 Covered Aircraft (as defined in the United CPA) to June 30, 2024.

Additionally, in January 2023, in consideration for entering in the Amended and Restated United CPA and providing the revolving line of credit, discussed in Note 8, the Company (i) granted United the right to designate one individual to the Company's board of directors (the "United Designee"), which occurred effective May 2, 2023 with the appointment of Jonathan Ireland and (ii) issued to United 4,042,061 shares of the Company’s common stock equal to approximately 10% of the Company’s issued and outstanding capital stock on such date (the "United Shares"). United's board designee rights will terminate at such time as United's equity ownership in the Company falls below five percent (5%) of the Company's issued and outstanding stock.

United was also granted pre-emptive rights relating to the issuance of any equity securities by the Company and certain registration rights, set forth in a definitive registration rights agreement with United, granting United customary demand registration rights in respect of publicly registered offerings of the Company, subject to usual and customary exceptions and limitations.

Pursuant to the United CPA, we agreed to lease our CRJ-700 aircraft to another United Express service provider for a term of nine years. We ceased operating our CRJ-700 fleet in February 2021 in connection with the transfer of those aircraft into a lease agreement.

Our United CPA is subject to termination prior to its expiration, including under the following circumstances:

- If certain operational performance factors fall below a specified percentage for a specified time, subject to notice under certain circumstances;
- If we fail to perform the material covenants, agreements, terms or conditions of our United CPA or similar agreements with United, subject to 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;
- If we merge with, or if control of us is acquired by another air carrier or a corporation directly or indirectly owning or controlling another air carrier;
- United, subject to certain conditions, including the payment of certain costs tied to aircraft type, may terminate the agreement in its discretion, or remove E-175 aircraft from service, by giving us notice of 90 days or more; and
- If United elects to terminate our United CPA in its entirety or permanently remove aircraft from service, we are permitted to return any of the affected E-175 aircraft leased from United at no cost to us.

On April 1, 2024, April 19, 2024, April 30, 2024, and June 24, 2024, we received individual notices from United exercising its right under Section 2.4(a) of the United CPA to remove a total of 18 CRJ-900 Covered Aircraft (as defined in the United CPA), effective as follows: one aircraft - May 21, 2024; one aircraft - May 31, 2024; two aircraft - June 30, 2024; two aircraft - July 31, 2024; two aircraft - October 31, 2024; five aircraft - January 6, 2025; and 5 aircraft - January 31, 2025.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto as of and for the year ended September 30, 2023 included in the Company's Annual Report on Form 10-K for the year ended September 30, 2023 on file with the U.S. Securities and Exchange Commission (the "SEC"). Information and footnote disclosures normally included in financial statements have been condensed or omitted in these condensed consolidated financial statements pursuant to the rules and regulations of the SEC and GAAP. These condensed consolidated financial statements reflect all adjustments that, in the opinion of management, are necessary to present fairly the results of operations for the interim periods presented.

Segment Reporting

As of June 30, 2024, our chief operating decision maker was the Chief Executive Officer. While we operate under a capacity purchase agreement, we do not manage our business based on any performance measure at the individual contract level. Our chief operating decision maker uses consolidated financial information to evaluate our performance and allocate resources, which is the same basis on which he communicates our results and performance to our Board of Directors. Accordingly, we have a single operating and reportable segment.

Use of Estimates

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

Contract Revenue and Pass-through and Other Revenue

We recognize contract revenue when the service is provided under our CPA. Under the CPA, United generally pays for each departure, flight hour or block hour incurred, and an amount per aircraft in service each month with additional incentives or penalties based on flight completion, on-time performance, and other operating metrics. Our performance obligation is met as each flight is completed, and revenue is recognized and reflected in contract revenue.

We recognize pass-through revenue when the service is provided under our CPA. Pass-through revenue represents reimbursements for certain direct expenses incurred including passenger liability insurance, property taxes, other direct costs defined within the agreements, and major maintenance on aircraft leased from our major partners at nominal rates. Our performance obligation is met when each flight is completed or as the maintenance services are performed, and revenue is recognized and reflected in pass-through and other revenue.

We record deferred revenue when cash payments are received or are due from our major partners in advance of our performance. During the three and nine months ended June 30, 2024, we deferred approximately $2.3 million in revenue and recognized approximately $8.6 million of previously deferred revenue, respectively. Deferred revenue is recognized as flights are completed over the remaining terms of the respective contracts.

The deferred revenue balance as of June 30, 2024 represents our aggregate remaining performance obligations that will be recognized as revenue over the period in which the performance obligations are satisfied, and is expected to be recognized as revenue as follows (in thousands):

Periods Ending September 30,	Total Deferred Revenue
2024 (remainder of)	$ 894
2025	4,172
2026	3,270
2027	3,034
2028	1,137
Thereafter	(101)
Total	$ 12,406

A portion of our compensation under our CPA with United is designed to reimburse the Company for certain aircraft ownership costs. Such costs include aircraft principal and interest debt service costs, aircraft depreciation, and interest expense or aircraft lease expense costs while the aircraft is under contract. We have concluded this component of the compensation under these agreements is lease revenue, as such agreements identify the "right of use" of a specific type and number of aircraft over a stated period of time. We account for the non-lease component under ASC 606 and account for the lease component under ASC 842. We allocate the consideration in the contract between the lease and non-lease components based on their stated contract prices, which is based on a cost basis approach representing our estimate of the stand-alone selling prices.

The lease revenue associated with our CPA is accounted for as an operating lease and is reflected as contract revenue in the condensed consolidated statements of operations and comprehensive loss. We recognized $29.5 million and $32.3 million of lease revenue for the three months ended June 30, 2024 and June 30, 2023, respectively, and $98.1 million and $111.4 million during the nine months ended June 30, 2024 and June 30, 2023, respectively. We have not separately stated aircraft rental income in the condensed consolidated statements of operations and comprehensive loss because the use of the aircraft is not a separate activity from the total service provided under our CPA.

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

The following table summarizes future minimum rental payments under operating leases related to leased aircraft that had remaining non-cancelable lease terms as of June 30, 2024 (in thousands):

Periods Ending September 30,	Total Payments
2024 (remainder of)	$ 546
2025	2,184
2026	2,184
2027	2,184
2028	2,184
Thereafter	5,824
Total	$ 15,106

Leases

We determine if an arrangement is a lease at inception. As a lessee, we have lease agreements with lease and non-lease components and have elected to account for such components as a single lease component. Our operating lease activities are recorded in operating lease right-of-use assets, current maturities of operating leases, and noncurrent operating lease liabilities in the condensed consolidated balance sheets. Finance leases are reflected in property and equipment, net, current portion of long-term debt and finance leases, and long-term debt and finance leases, excluding current portion in the condensed consolidated balance sheets.

Right-of-use ("ROU") assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Certain variable lease payments are not included in the calculation of the right-of-use assets and lease liability due to uncertainty of the payment amount and are recorded as lease expense in the period incurred. In determining the present value of lease payments, we use either the implicit rate in the lease when it is readily determinable or our estimated incremental borrowing rate, based on information available at the lease commencement. Our lease terms include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Operating lease costs are recognized on a straight-line basis over the lease term, while finance leases result in a front-loaded expense pattern.

As a lessee, we have elected a short-term lease practical expedient on all classes of underlying assets, permitting us to not apply the recognition requirements of ASC 842 to leases with terms of 12 months or less.

We lease, at nominal rates, certain aircraft from United under our CPA, which are excluded from operating lease assets and liabilities as they do not represent embedded leases under ASC 842. Other than such leases at nominal amounts, 18 of our aircraft are leased from third parties. In the event that we or one of our major partners decide to exit an activity involving leased aircraft, losses may be incurred. In the event that we exit an activity that results in exit losses, these losses are accrued as each aircraft is removed from operations for early termination penalties, lease settle up and other charges. Additionally, any remaining ROU assets and lease liabilities are written off.

Contract Liabilities

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

Current and non-current deferred credits are recorded in other accrued expenses and non-current deferred credits in the condensed consolidated balance sheets. Our total current and non-current deferred credit balances at June 30, 2024 and September 30, 2023 were $4.4 million and $5.1 million, respectively. We recognized $0.3 million and $0.1 million of the deferred credits within contract revenue during the three months ended June 30, 2024 and June 30, 2023, respectively, and $1.5 million and $1.6 million during the nine months ended June 30, 2024 and June 30, 2023, respectively.

Maintenance Expense

We operate under an FAA approved continuous inspection and maintenance program. The cost of non-major scheduled inspections and repairs and routine maintenance costs for all aircraft and engines are charged to maintenance expense as incurred.

We account for heavy maintenance and major overhaul costs on our owned E-175 fleet under the deferral method whereby the cost of heavy maintenance and major overhaul is deferred and amortized until the earlier of the end of the useful life of the related asset or the next scheduled heavy maintenance event. Amortization of heavy maintenance and major overhaul costs charged to depreciation and amortization expense was $0.9 million and $0.8 million for the three months ended June 30, 2024 and June 30, 2023, respectively. As of June 30, 2024 and September 30, 2023, our deferred heavy maintenance balance, net of accumulated amortization, was $7.2 million and $8.0 million, respectively.

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

Engine overhaul expense totaled $6.8 million and $11.5 million for the three months ended June 30, 2024 and June 30, 2023, respectively, of which $6.8 million and $11.3 million, respectively, was pass-through expense. Engine overhaul expense totaled $18.1 million and $28.3 million for the nine months ended June 30, 2024 and June 30, 2023, respectively, of which $18.1 million and $27.9 million, respectively was pass-through expense. Airframe C-check expense totaled $3.6 million and $3.8 million for the three months ended June 30, 2024 and June 30, 2023, respectively, of which $2.1 million and $2.4 million, respectively, was pass-through expense. Airframe C-check expense totaled $14.7 million and $12.6 million for the nine months ended June 30, 2024 and June 30, 2023, respectively, of which $9.1 million and $8.6 million was pass-through expense.

Assets Held for Sale

We classify assets as held for sale when our management approves and commits to a formal plan of sale that is probable of being completed within one year. Assets designated as held for sale are recorded at the lower of their current carrying value or their fair market value, less costs to sell, beginning in the period in which the assets meet the criteria to be classified as held for sale. See Note 5 for further discussion of our assets classified as held for sale as of June 30, 2024.

3. Recent Accounting Pronouncements

We continue to evaluate recent accounting pronouncements and the effect that new standards and guidance has on our consolidated financial statements. There are no recent accounting pronouncements that apply to the Company.

4. Concentrations of Credit Risk

Financial instruments that potentially expose the Company to a concentration of credit risk consist principally of cash and cash equivalents that are primarily held by financial institutions in the United States and accounts receivable. Amounts on deposit with a financial institution may at times exceed federally insured limits. We maintain our cash accounts with high credit quality financial institutions and, accordingly, minimal credit risk exists with respect to the financial institutions.

As of June 30, 2024, we had $3.0 million in restricted cash. We have an agreement with a financial institution for a letter of credit facility and to issue letters of credit for particular airport authorities, worker's compensation insurance, property and casualty insurance and other business needs as required in certain lease agreements. Pursuant to the terms of this agreement, $3.0 million of outstanding letters of credit are required to be collateralized by amounts on deposit.

Significant customers are those which represent more than 10% of our total revenue or net accounts receivable balance at each respective balance sheet date. All of our revenue for the three and nine months ended June 30, 2024 and June 30, 2023 was derived from the American and United CPAs, DHL FSA, and from leases of our CRJ-700 aircraft to GoJet. Substantially all of our accounts receivable at June 30, 2024 and September 30, 2023 was derived from these agreements.

American accounted for 0% and approximately 1% of our total revenue for the three months ended June 30, 2024 and June 30, 2023, respectively, and 0% and 31% of our total revenue for the nine months ended June 30, 2024 and June 30, 2023, respectively. United accounted for approximately 98% and 96% of our total revenue for the three months ended June 30, 2024 and June 30, 2023, respectively, and 97% and 65% of our total revenue for the nine months ended June 30, 2024 and June 30, 2023, respectively. The wind-down period of the American CPA ended on April 3, 2023, at which time the American CPA was officially terminated. A termination of the United CPA would have a material adverse effect on our business prospects, financial condition, results of operations, and cash flows.

Amounts billed under our agreements are subject to our interpretation of the applicable agreement and are subject to audit by our major partners. Periodically, our major partners dispute amounts billed and pay amounts less than the amount billed. Ultimate collection of the remaining amounts not only depends upon the Company prevailing under the applicable audit, but also upon the financial well-being of the major partner. As such, we review amounts due based on historical collection trends, the financial condition of the major partners, and current external market factors and record a reserve for amounts estimated to be uncollectible in accordance with the applicable guidance for expected credit losses. Our allowance for doubtful accounts was not material as of June 30, 2024 or September 30, 2023. If our ability to collect these receivables and the financial viability of our major partners is materially different than estimated, our estimate of the allowance for credit losses could be materially impacted.

5. Assets Held for Sale

During 2022, our management committed to a formal plan to sell certain of our CRJ-900, CRJ-200, and CRJ-700 aircraft. Accordingly, we determined the aircraft met the criteria to be classified as assets held for sale and have separately presented them in our condensed consolidated balance sheet at the lower of their current carrying value or their fair market value less costs to sell. The fair values are based upon observable and unobservable inputs, including recent purchase offers and market trends and conditions. The assumptions used to determine the fair value of our assets held for sale are subject to inherent uncertainty and could produce a wide range of outcomes which we will continue to monitor in future periods as new information becomes available. Prior to the ultimate sale of the assets, subsequent changes in our estimate of the fair value of our assets held for sale will be recorded as a gain or loss with a corresponding adjustment to the assets' carrying value. A gain will be recognized for any subsequent increase in fair value less costs to sell, but not in excess of the cumulative loss previously recognized.

As of March 31, 2024, the Company had 26 CRJ-900 airframes (without engines), and 66 engines classified as held for sale. During the three months ended June 30, 2024, the Company closed the sale of six airframes and 15 engines to third parties and reclassified 13 additional engines to held for sale.

As of June 30, 2024, the Company has 20 CRJ-900 airframes (without engines), and 64 engines that are classified as assets held for sale with a net book value of $77.4 million, $20.2 million of which is classified as current assets on our condensed consolidated balance sheet and $57.2 million of which is classified as noncurrent assets on our condensed consolidated balance sheet.

6. Balance Sheet Information

Certain significant amounts included in the condensed consolidated balance sheets consisted of the following (in thousands):

	June 30, 2024	September 30, 2023
Expendable parts and supplies, net:		
Expendable parts and supplies	$ 42,325	$ 39,630
Less: expendable parts warranty	(6,995)	(6,295)
Less: obsolescence	(4,678)	(4,090)
	$ 30,652	$ 29,245
Property and equipment, net:		
Aircraft and other flight equipment	$ 750,926	$ 1,039,782
Other equipment	9,411	9,421
Total property and equipment	760,337	1,049,203
Less: accumulated depreciation	(255,214)	(351,181)
	$ 505,123	$ 698,022
Other assets:		
Investments in equity securities	$ 300	$ 20,320
Lease incentives	847	954
Contract asset	6,937	8,756
Other	485	516
	$ 8,569	$ 30,546
Other accrued expenses:		
Accrued property taxes	$ 3,896	$ 5,281
Accrued interest	4,416	3,447
Accrued vacation	7,357	6,763
Accrued lodging	3,111	3,984
Accrued maintenance	1,808	2,117
Accrued simulator costs	1,512	1,006
Accrued employee benefits	1,845	1,450
Accrued fleet operating expense	2,217	650
Other	6,319	2,303
	$ 32,481	$ 27,001
Other noncurrent liabilities:		
Warrant liabilities	$ 25,225	$ 25,225
Lease incentive obligations	1,050	1,050
Long-term employee benefits	432	429
Other	1,819	1,818
	$ 28,526	$ 28,522

Impairment of Long-lived Assets

The Company monitors for any indicators of impairment of the long-lived fixed assets. When certain conditions or changes in the economic situation exist, the assets may be impaired and the carrying amount of the assets exceed their fair value. The assets are then tested for recoverability of carrying amount. The Company records impairment charges on long-lived assets used in operations when events and circumstances indicate that the assets may be impaired, the undiscounted net cash flows estimated to be generated by those assets are less than the carrying amount of those assets, and the net book value of the assets exceeds their estimated fair value.

We group assets at the capacity purchase agreement, flight services agreement, and fleet-type level (i.e., the lowest level for which there are identifiable cash flows). If impairment indicators exist with respect to any of the asset groups, we estimate future cash flows based on projections of capacity purchase or flight services agreement, block hours, maintenance events, labor costs and other relevant factors.

During the nine months ended June 30, 2024, the Company assessed whether any indicators of impairment existed in any of our long-lived asset groups and noted that impairment indicators existed due to the removal of CRJ-900 aircraft from the United CPA. The Company concluded that the net book value of our United asset group was fully recoverable and did not record any impairment.

During the three months ended June 30, 2024, the Company reevaluated the fair value of our held for sale assets and recorded an net impairment true-up adjustment of $4.3 million. The Company additionally reclassified 13 engines to held for sale during the period and recorded an impairment loss of $5.7 million. Further, the Company reevaluated our 737 rotable parts during the period and recorded an impairment true-up gain of $2.2 million. No other indicators of impairment were present during the quarter and no further steps were determined to be necessary.

The Company's assumptions about future conditions relevant to the assessment of potential impairment of its long-lived assets are subject to uncertainty, and the Company will continue to monitor these conditions in future periods as new information becomes available, and will update its analyses accordingly.

Depreciation Expense on Property and Equipment:

Depreciation of property and equipment totaled $9.7 million and $15.3 million for the three months ended June 30, 2024 and June 30, 2023, respectively, and $32.8 million and $46.9 million for the nine months ended June 30, 2024 and June 30, 2023, respectively.

Other Assets

In connection with a negotiated forward purchase contract for electrically-powered vertical takeoff and landing aircraft ("eVTOL aircraft") executed in February 2021, we obtained equity warrant assets giving us the right to acquire a number shares of common stock in Archer Aviation, Inc. ("Archer"), which at the time of our initial investment was a private, venture-backed company. As the initial investment in Archer did not have a readily determinable fair value, we accounted for this investment using the measurement alternative under ASC 321, Investments – Equity Securities, and measured the investments at cost less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments from the same issuer. We estimated the initial equity warrant asset value to be $16.4 million based on publicly available information as of the grant date. In September 2021, the merger between Archer and a special purpose acquisition company ("SPAC") was completed, resulting in a readily determinable fair value of our investments in Archer. Accordingly, gains and losses associated with changes in the fair value of our investments in Archer are reported in earnings, in accordance with ASC 321.

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

In connection with closing of the merger between Archer and the SPAC described above, in September 2021, we purchased 500,000 Class A common shares in Archer for $5.0 million and obtained an additional warrant to purchase shares of Archer with a total grant date value of $5.6 million. The initial value of the warrants was recognized as a vendor credit liability within other noncurrent liabilities, and will be settled in the future, as a reduction of the acquisition date value of the eVTOL aircraft contemplated in the related aircraft purchase agreement. Because these investments have readily determinable fair values, gains and losses resulting from changes in fair value of the investments are reflected in earnings, in accordance with ASC 321. All of our vested warrants have been exercised into shares of Archer common stock.

The fair values of the Company's investments in Archer are Level 1 within the fair value hierarchy as the values are determined using quoted prices for the equity securities. The Company recorded a $1.7 million and $2.7 million unrealized loss on the investment in Archer during the three and nine months ended June 30, 2024, respectively. During the three months ended June 30, 2024, the Company sold approximately 0.8 million shares of Archer for $2.7 million in proceeds and recorded a $0.8 million loss on the sale. The total value of the Company's remaining investment in Archer is $5.3 million as of June 30, 2024. Subsequent to June 30, 2024, the Company sold substantially all of our remaining 1.5 million shares of Archer for gross proceeds of approximately $6.9 million and realized a gain of approximately $1.6 million on the sale.

In connection with a negotiated forward purchase contract for fully electric aircraft executed in July 2021, we obtained $5.0 million of preferred stock in Heart Aerospace Incorporated ("Heart"), a privately held company. Our investment in Heart does not have a readily determinable fair value, so we account for the investment using the measurement alternative under ASC 321 and measure the investment at initial cost less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments from the same issuer. We consider a range of factors when adjusting the fair value of these investments, including, but not limited to, the term and nature of the investment, local market conditions, values for comparable securities, current and projected operating performance, financing transactions subsequent to the acquisition of the investment, or other features that indicate a change to fair value is warranted. Any changes in fair value from the initial cost of the investment in preferred stock are recognized as increases or decreases on our balance sheet and as net gains or losses on investments in equity securities. The initial investment in preferred stock was measured at cost of $5.0 million. On January 31, 2024, the Company transferred its vested investment in Heart to United in exchange for $12.6 million in debt reduction, and realized a gain on the investment of $7.2 million, net of transaction costs.

In connection with a negotiated forward purchase contract for hybrid-electric vertical takeoff and landing ("VTOL") aircraft executed in February 2022, we obtained a warrant giving us the right to acquire a number of shares of common stock in the privately-held manufacturer of the VTOL aircraft. These investments do not have a readily determinable fair value, so we account for them using the measurement alternative under ASC 321 and measure the investments at cost less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments from the same issuer. We consider a range of factors when adjusting the fair value of these investments, including, but not limited to, the term and nature of the investment, local market conditions, values for comparable securities, current and projected operating performance, financing transactions subsequent to the acquisition of the investment or other features that indicate a discount to fair value is warranted. Any changes in fair value from the grant date value of the warrant assets will be recognized as increases or decreases to the investment on our balance sheet and as net gains or losses on investments in equity securities. We estimated the initial warrant asset value to be $3.2 million based on prices of similar investments in the same issuer. The grant date value of the warrants, $3.2 million, was recognized as a vendor credit liability within other noncurrent liabilities. The liability related to the warrant assets will be settled in the future, as a reduction of the acquisition date value of the VTOL aircraft contemplated in the related forward purchase agreement.

On March 12, 2024, the privately-held manufacturer of the VTOL aircraft, XTI Aerospace, Inc ("XTIA")., and its merger subsidiary completed their merger agreement, and began trading as XTIA on the Nasdaq Composite on March 13, 2024, resulting in a readily determinable fair value on our investment in XTIA. The fair values of the Company's investments in XTIA are now Level 1 within the fair value hierarchy as the values are determined using quoted prices for the equity securities. The Company recorded a $3.4 million unrealized loss on the investment in XTIA during the nine months ended June 30, 2024. The total value of the investment in XTIA is $0.1 million as of June 30, 2024.

Total net unrealized gain/(loss) on our investments in equity securities totaled $(2.0) million and $2.9 million for the three months ended June 30, 2024 and June 30, 2023, respectively, and $(6.1) million and $3.3 million for the nine months ended June 30, 2024 and June 30, 2023, respectively, and are reflected in unrealized gain/(loss) on investments, net in our condensed consolidated statements of operations and comprehensive loss. Total realized gain on our investments in equity securities totaled $6.5 million, net of transaction costs, for the three and nine months ended June 30, 2024, and are reflected in gain on investments in our condensed consolidated statements of operation and comprehensive income (loss). There was no realized gain or loss on investments in equity securities during the three and nine months ended June 30, 2023. As of June 30, 2024 and September 30, 2023, the aggregate carrying amount of our investments in equity securities was $5.7 million and $20.3 million, respectively, and the carrying amount of our investments without readily determinable fair values was $0.3 million and $8.8 million, respectively.

7. Fair Value Measurements

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

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

Other than our assets held for sale and investments in equity securities described in Notes 5 and 6, respectively, we did not measure any of our assets or liabilities at fair value on a recurring or nonrecurring basis as of June 30, 2024 and September 30, 2023.

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

Our debt agreements are not traded on an active market. We have determined the estimated fair value of our debt to be Level 3, as certain inputs used to determine the fair value of these agreements are unobservable and, therefore, could be sensitive to changes in inputs. We utilize the discounted cash flow method to estimate the fair value of Level 3 debt.

The carrying value and estimated fair value of our total long-term debt and finance leases, including current maturities, were as follows (in millions):

	June 30, 2024		September 30, 2023	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt and finance leases, including current maturities[1]	$ 366.4	$ 346.4	$ 538.3	$ 493.6

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

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

Long-term debt as of June 30, 2024 and September 30, 2023, consisted of the following (in thousands):

	June 30, 2024	September 30, 2023
Senior and subordinated notes payable to secured parties, due in monthly installments, interest based on SOFR plus interest spread at 2.71% through 2027, collateralized by the underlying aircraft	$ —	$ 39,018
Notes payable to secured parties, due in semi-annual installments, interest based on SOFR plus interest spread at 4.75% to 6.25% through 2028, collateralized by the underlying aircraft	97,287	108,815
Notes payable to secured parties, due in quarterly installments, interest based on SOFR plus interest at spread 2.20% to 2.32% for senior note & 4.50% for subordinated note through 2028, collateralized by the underlying aircraft	78,201	90,401
Revolving credit facility, quarterly interest based on SOFR plus interest spread at 4.50% through 2028, with incentives for up to $15 million based on achieving certain performance metrics, of which $10.5 million has been achieved	38,020	40,630
United Bridge Loan - due in quarterly installments based on SOFR plus interest spread at 4.50% through 2024	—	10,500
Other obligations due to financial institution, monthly and/or quarterly interest due from 2022 through 2031, collateralized by the underlying equipment	30,691	67,637
Notes payable to financial institution, due in monthly installments, interest based on SOFR plus interest spread at 3.10% through 2024, collateralized by the underlying equipment	—	1,075
Notes payable to financial institution, due in monthly installments, interest based on fixed interest of 7.50%, through 2024, collateralized by the underlying equipment	—	41,098
Notes payable to financial institution, quarterly interest based on SOFR plus interest spread at 3.50% through 2027	122,155	139,100
Gross long-term debt, including current maturities	366,354	538,274
Less unamortized debt issuance costs	(2,693)	(5,083)
Less notes payable warrants	(3,143)	(4,913)
Net long-term debt, including current maturities	360,518	528,278
Less current portion, net of unamortized debt issuance costs	(72,769)	(163,550)
Net long-term debt	$ 287,749	$ 364,728

Principal maturities of long-term debt as of June 30, 2024, and for each of the next five years are as follows (in thousands):

Periods Ending September 30,	Total Principal
2024 (remainder of)	$ 42,834
2025	50,481
2026	175,046
2027	52,625
2028	30,926
Thereafter	14,442
	$ 366,354

The carrying value of collateralized aircraft and equipment as of June 30, 2024 was approximately $507.0 million.

Enhanced Equipment Trust Certificate ("EETC")

In December 2015, an Enhanced Equipment Trust Certificate ("EETC") pass-through trust was created to issue pass-through certificates to obtain financing for new E-175 aircraft. As of June 30, 2024, we had $97.3 million of equipment notes outstanding issued under the EETC financing included in long-term debt in the condensed consolidated balance sheets. The structure of the EETC financing consists of a pass-through trust created by Mesa to issue pass-through certificates, which represent fractional undivided interests in the pass-through trust and are not obligations of Mesa.

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

We evaluated whether the pass-through trust formed for the EETC financing is a Variable Interest Entity ("VIE") and required to be consolidated. We have determined we do not have a variable interest in the pass-through trust, and therefore, we have not consolidated the pass-through trust with our financial statements.

United Revolving Credit Facility

On December 27, 2022, in connection with entering into the Amended and Restated United CPA, (i) United agreed to purchase and assume all of First Citizens' rights and obligations as a lender under the Existing Facility pursuant to an Assignment and Assumption Agreement, (ii) United and CIT Bank agreed to amend the Existing Facility pursuant to an Amendment No. 1, dated December 27, 2022 ("Amendment No. 1"), and an Amendment No. 2, dated January 27, 2023 ("Amendment No. 2"; the Existing Facility as amended by Amendment No. 1 and Amendment No. 2, the "Amended Facility"), and (iii) Wilmington Trust, National Association agreed to assume all of CIT Bank's rights and obligations as Administrative Agent pursuant to an Agency Resignation, Appointment and Assumption Agreement, dated as of January 27, 2023. Amendment No. 1, among other things, extends the Maturity Date from the earlier to occur of November 30, 2028, or the date of the termination of the Amended and Restated United CPA; provides for a revolving loan of $10.5 million plus fees and expenses, which is due January 31, 2024, subject to certain mandatory prepayment requirements; provides for Revolving Commitments equal to $30.7 million plus the original principal amount of the $10.5 million revolving loan; amortization of the obligations outstanding under the existing CIT Agreement commencing quarterly until March 31, 2025; and a covenant capping Restricted Payments (as defined in the Amended Facility) at $5.0 million per fiscal year, a consolidated interest and rental coverage ratio of 1.00 to 1.00 covenant, and a Liquidity (as defined in the Amended Facility) requirement of not less than $15.0 million at the close of any business day. Subsequent to June 30, 2024, United agreed to grant the Company a waiver on the $15.0 million minimum liquidity requirement through December 31, 2024. Interest assessed under the Amended Facility is 3.50% for Base Rate Loans and 4.50% for Term SOFR Loans (as such terms are defined in the Amended Facility). Amendment No. 2, among other things, amends the definition of Controlled Account (as defined in the Amended Facility). Amounts borrowed under this Amended Facility are secured by a collateral pool consisting of a combination of expendable parts, rotable parts and engines and a pledge of the Company's stock in certain aviation companies. United funded $25.5 million as of the closing date of Amendment No. 1, to be used for general corporate purposes.

The United line of credit contains an additional deemed prepayment of $15 million with potential forgiveness upon the achievement of a certain number of block hours as well as maintaining a CCF of at least 99.3% over any rolling four-month period from April 2023 through December 2025. In order to earn forgiveness on the deemed prepayment, we must also have repaid the bridge loan in full. During the three months ended June 30, 2024, the bridge loan was repaid in full, and $10.5 million of the potential $15 million achieved was recognized as a deemed prepayment. $4.5 million of the deemed prepayment remains outstanding.

On September 6, 2023, the Company amended the existing United Credit Facility to (i) permit the Company to re-draw approximately $7.9 million of the Effective Date Bridge Loan (as defined in the United Credit Facility) previously repaid; (ii) increased the amount of Revolving Commitments (as defined in the United Credit Facility) from $30.7 million to $50.7 million, in each case, plus the original principal amount of the Effective Date Bridge Loan and subject to the Borrowing Base (as defined in the United Credit Facility); and (iii) amended the calculation of the Borrowing Base. Amounts borrowed under this facility bear interest at 3.50% for Base Rate Loans and 4.50% per annum for Term SOFR Loans. Amounts borrowed under the Amended Credit Facility are secured by a collateral pool consisting of a combination of expendable parts, rotable parts and engines, a pledge of certain of the Company's bank accounts and a pledge of the Company's stock in certain aviation companies. As of September 30, 2024, the Company has $13.2 million available to draw on the line of credit, $12.4 million of which is collateralized by our spare parts.

On January 11, 2024 and January 19, 2024, we entered into Amendment No. 4 to our Second Amended and Restated Credit and Guaranty Agreement, Amendment No. 1 to Stock Pledge Agreement and Limited Waiver of Conditions to Credit Extension ("Amendment No. 4") and Waiver and Amendment No. 5 to our Second Amended and Restated Credit and Guaranty Agreement (collectively, the "January 2024 Credit Agreement Amendments"), respectively. The January 2024 Credit Agreement Amendments provide for the following:

- The repayment in full of the Company's $10.5 million Effective Date Bridge Loan obligations, and the prepayment (and corresponding reduction) of approximately $2.1 million in Revolving Loans (as defined therein), with the proceeds from the sale, assignment, or transfer of the Company's vested investment in Heart Aerospace Incorporated. On January 31, 2024, the Company transferred its vested investment in Heart Aerospace Incorporated to United and realized a gain on the investment of $7.2 million, net of transaction costs.
- As a result of the repayment of the Effective Date Bridge Loan and pay down of the Revolving Loans, the shares of capital stock of Archer Aviation, Inc. held by the Company were released as collateral for the United credit facility, subject to certain conditions.
- The waiver of certain financial covenant defaults with respect to the fiscal quarters ended June 30, 2023, September 30, 2023, and December 31, 2023 and the waiver of projected financial covenant defaults with respect to the fiscal quarter ending March 31, 2024.
- An increase in the Applicable Margin (as defined in the United credit facility) during a specified period of time for borrowings under the Credit Agreement.
- Loan prepayment requirements in connection with the sale of four specified aircraft engines and the addition of such engines as collateral for the United credit facility for a specified period of time.

On May 8, 2024, we entered into a Waiver Agreement to our Second Amended and Restated Credit and Guaranty Agreement providing for the waiver of a certain projected financial covenant default with respect to the fiscal quarter ending June 30, 2024.

As of July 16, 2024, the Company was not in compliance with a financial covenant related to a minimum liquidity requirement of $15.0 million of cash and cash equivalents associated with its Second Amended and Restated Credit and Guaranty Agreement with United. On September 25, 2024, the Company reached an agreement with United to obtain a waiver for the covenant breach through December 31, 2024. As of the issuance of this Form 10-Q, we are in compliance with all financial covenants.

Loan Agreement with the United States Department of the Treasury

On October 30, 2020, we entered into a loan and guarantee agreement with the U.S. Department of the Treasury (the "U.S. Treasury") for a secured loan facility of up to $200.0 million that matures in October 2025 ("the Treasury Loan"). During the first quarter of fiscal 2021, we borrowed an aggregate of $195.0 million. No further borrowings are available under the Treasury Loan.

The Treasury Loan bears interest at a variable rate equal to (a)(i) the SOFR rate divided by (ii) one minus the Eurodollar Reserve Percentage plus (b) 3.50%. Accrued interest on the loans is payable in arrears, or paid-in-kind by increasing the principal balance of the loan by such interest payment, on the first business day following the 14th day of each March, June, September, and December.

All principal amounts outstanding under the Treasury Loan are due and payable in a single installment on October 30, 2025. Commencing in June 2022, we initiated the payment of interest in lieu of increasing the principal amount of the loan. Our obligations under the Treasury Loan are secured by certain aircraft, aircraft engines, accounts receivable, ground service equipment, flight simulators, and tooling (collectively, the "Collateral"). The obligations under the Treasury Loan are guaranteed by the Company and Mesa Air Group Inventory Management. The proceeds were used for general corporate purposes and operating expenses, to the extent permitted by the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). Voluntary prepayments of the Treasury Loan may be made, in whole or in part, without premium or penalty, at any time and from time to time. Amounts prepaid may not be reborrowed. Mandatory prepayments of the Treasury Loan are required, without premium or penalty, to the extent necessary to comply with the covenants discussed below, certain dispositions of the Collateral, certain debt issuances secured by liens on the Collateral, and certain insurance payments related to the Collateral. In addition, if a "change of control" (as defined in the Treasury Loan) occurs with respect to Mesa Airlines, we will be required to repay the loans outstanding under the Treasury Loan.

The Treasury Loan requires us, under certain circumstances, including within 10 business days prior to the last business day of March and September of each year beginning March 2021, to appraise the value of the Collateral and recalculate the collateral coverage ratio. If the calculated collateral coverage ratio is less than 1.55 to 1.0, we are required either to provide additional Collateral (which may include cash collateral) to secure the obligations under the Treasury Loan or repay the term loans under the Treasury Loan, in such amounts that the recalculated collateral coverage ratio, after giving effect to any such additional Collateral or repayment, is at least 1.55 to 1.0. Subsequent to June 30, 2024, we entered into the CCR Modification Agreement to reduce our required minimum CCR to 1.44 to 1.0 through November 22, 2024, after which, the required minimum CCR will revert back to 1.55 to 1.0.

The Treasury Loan contains two (2) financial covenants, a minimum collateral coverage ratio and a minimum liquidity level. The Treasury Loan also contains customary negative and affirmative covenants for credit facilities of this type, including, among others: (a) limitations on dividends and distributions; (b) limitations on the creation of certain liens; (c) restrictions on certain dispositions, investments, and acquisitions; (d) limitations on transactions with affiliates; (e) restrictions on fundamental changes to the business, and (f) restrictions on lobbying activities. Additionally, we are required to comply with the relevant provisions of the CARES Act, including limits on employment level reductions after September 30, 2020, restrictions on dividends and stock buybacks, limitations on executive compensation, and requirements to maintain certain levels of scheduled service.

In connection with the Treasury Loan and as partial compensation to the U.S. Treasury for the provision of financial assistance under the Treasury Loan, we issued to the U.S. Treasury warrants to purchase an aggregate of 4,899,497 shares of our common stock at an exercise price of $3.98 per share, which was the closing price of the common stock on April 9, 2020. The exercise price and number of shares of common stock issuable under the warrants are subject to adjustment as a result of anti-dilution provisions contained in the warrants for certain stock issuances, dividends, and other corporate actions. The warrants expire on the fifth anniversary of the date of issuance and are exercisable either through net share settlement or net cash settlement, at our option. The fair value of the warrants was estimated using a Black-Scholes option pricing model and recorded in stockholders' equity with an offsetting debt discount to the Treasury Loan in the condensed consolidated balance sheets.

9. Earnings Per Share

Calculations of net income/(loss) per common share were as follows (in thousands, except per share amounts):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2024	2023	2024	2023
Net loss	$ (19,908)	$ (47,560)	$ (66,097)	$ (91,771)
Basic weighted average common shares outstanding	41,217	40,688	41,075	38,986
Diluted weighted average common shares outstanding	41,217	40,688	41,075	38,986
Net loss per common share attributable to Mesa Air Group:				
Basic	$ (0.48)	$ (1.17)	$ (1.61)	$ (2.35)
Diluted	$ (0.48)	$ (1.17)	$ (1.61)	$ (2.35)

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

The number of incremental shares from the assumed issuance of shares relating to restricted stock and exercise of warrants is calculated by applying the treasury stock method. Share-based awards and warrants whose impact is anti-dilutive under the treasury stock method are excluded from the diluted net income or loss per share calculation. In loss periods, these incremental shares are excluded from the calculation of diluted loss per share, as the inclusion of approximately 600 thousand unvested restricted shares and 4.9 million warrants would have an anti-dilutive effect.

10. Common Stock

As discussed in Note 8, we issued warrants to the U.S. Treasury to purchase shares of our common stock, no par value, at an exercise price of $3.98 per share. The exercise price and number of shares issuable under the warrants are subject to adjustment as a result of anti-dilution provisions contained in the warrants for certain stock issuances, dividends, and other corporate actions. The warrants expire on the fifth anniversary of the date of issuance and are exercisable either through net share settlement or net cash settlement, at our option. The warrants were accounted for within equity at a grant date fair value determined under the Black-Scholes option pricing model. As of June 30, 2024, 4,899,497 warrants were issued and outstanding.

We have not historically paid dividends on shares of our common stock. Additionally, the Treasury Loan and our aircraft lease facility with RASPRO Trust 2005, a pass-through trust, contain restrictions that limit our ability to or prohibit us from paying dividends to holders of our common stock.

11. Income Taxes

Our effective tax rate ("ETR") from continuing operations was 3.9% and -0.2% for the three and nine months ended June 30, 2024, respectively, and 5.5% and 5.9% for the three and nine months ended June 30, 2023, respectively. The Company’s ETR during the three and nine months ended June 30, 2024 decreased from the prior year tax rate, primarily as a result of certain tax depreciation differences, state taxes, and changes in valuation allowance against federal and state net operating losses.

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

As of June 30, 2024, the Company had aggregate federal and state net operating loss carryforwards of approximately $475.6 million and $214.7 million, respectively, which expire in 2030-2038 and 2024-2043, respectively. Approximately $4.1 million of state net operating loss carryforwards are expected to expire in the current fiscal year.

12. Share-Based Compensation

Restricted Stock

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

The restricted share activity for the nine months ended June 30, 2024 is summarized as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Restricted shares unvested at September 30, 2023	736,891	$ 3.35
Granted	438,227	$ 1.53
Vested	(420,438)	$ 3.82
Forfeited	(51,747)	$ 1.25
Restricted shares unvested at June 30, 2024	702,933	$ 2.02

As of June 30, 2024, there was $1.3 million of total unrecognized compensation cost related to unvested share-based compensation arrangements, which is expected to be recognized over a weighted-average period of 1.2 years.

Compensation cost for share-based awards is recognized on a straight-line basis over the vesting period. Share-based compensation expense for the three months ended June 30, 2024 and June 30, 2023 was $0.2 million and $0.6 million, respectively, and $1.0 million and $1.9 million for the nine months ended June 30, 2024 and June 30, 2023, respectively.

Shares for Restricted Stock Units Tax Withholding

The amounts remitted for employee withholding taxes during the nine months ended June 30, 2024 and June 30, 2023 were $0.1 thousand and $0.3 thousand, respectively, for which the Company withheld 102,436 and 163,920 shares of our common stock, respectively, that were underlying the RSUs that vested.

13. Employee Stock Purchase Plan

2019 ESPP

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

A maximum of 500,000 Mesa Air Group, Inc. ordinary shares may be issued under the 2019 ESPP. As of June 30, 2024, eligible employees purchased and we issued an aggregate of 499,962 Mesa Air Group, Inc. ordinary shares under the 2019 ESPP, 55,372 of which were purchased and issued during the nine months ended June 30, 2024. During the nine months ended June 30, 2024, the maximum amount of shares was reached and the 2019 ESPP was discontinued.

14. Leases

As of June 30, 2024, we leased 30 aircraft, airport facilities, office space, and other property and equipment under non-cancelable operating and finance leases. The leases generally require us to pay all taxes, maintenance, insurance, and other operating expenses. Operating leased expense is recognized as a rental expense on a straight-line basis over the lease term, net of lessor rebates and other incentives. Finance lease is capitalized and depreciated over the useful life of the asset.

Aggregate rental expense under all aircraft, equipment and facility leases totaled approximately $4.5 million and $3.6 million for the three months ended June 30, 2024 and June 30, 2023, respectively, and $17.1 million and $14.3 million for the nine months ended June 30, 2024 and June 30, 2023, respectively.

The components of our lease costs were as follows (in thousands):

	Three Months Ended June 30,				Nine Months Ended June 30,			
	2024		2023		2024		2023	
Operating lease costs	$	810	$	1,283	$	3,233	$	7,259
Variable and short-term lease costs		2,581		998	$	5,543	$	3,121
Interest expense on finance lease liabilities		746		230	$	3,291		734
Amortization expense of finance lease assets		365		1,046		5,001		3,138
Total lease costs	$	4,502	$	3,557	$	17,068	$	14,252

As of June 30, 2024, our operating leases have a remaining weighted average lease term of 6.5 years and our operating lease liabilities were measured using a weighted average discount rate of 6.0%.

RASPRO Lease Facility

Historically, Mesa Airlines, as lessee, entered into the RASPRO Lease Facility, with RASPRO as lessor, for 15 of our CRJ-900 aircraft classified as operating leases. The obligations under the RASPRO Lease Facility are guaranteed by us, and basic rent is paid quarterly on each aircraft. During December 2022, the Company entered into an agreement with RASPRO Trust, reducing the buyout pricing on all 15 aircraft at lease termination by a total of $25 million. Under the terms of the new agreement, the Company reclassified these leases as finance leases.

15. Commitments and Contingencies

Litigation

We are subject to certain legal actions which we consider routine to our business activities. As of June 30, 2024, our management believed the ultimate outcomes of other routine legal matters are not likely to have a material adverse effect on our financial position, liquidity or results of operations.

Electric Aircraft Forward Purchase Commitments

As described in Note 6, in February 2021, we entered into a forward purchase contract with Archer for a number of eVTOL aircraft. The aggregate base commitment for the eVTOL aircraft is $200.0 million, with an option to purchase additional aircraft. Our obligation to purchase the eVTOL aircraft is subject to the Company and Archer first agreeing in the future to a number of terms and conditions, which may or may not be met.

As described in Note 6, in July 2021, we entered into a forward purchase contract with Heart for a number of fully electric aircraft. The maximum aggregate base commitment for the aircraft is $1,200.0 million, with an option to purchase additional aircraft. Our obligation to purchase the aircraft is subject to the Company and Heart first agreeing in the future to a number of terms and conditions, which may or may not be met.

Other Commitments

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

16. Subsequent Events

RASPRO Asset Purchase and Sale

Subsequent to June 30, 2024, we purchased the remaining nine airframes and 15 engines from RASPRO for $23.2 million, completely paying off our obligation under the RASPRO finance lease. Subsequent to June 30, 2024, we sold all of the associated airframes and 14 of the engines to third parties for $20.4 million. We expect to close the sale of the final engine by the end of October 2024, with gross proceeds expected to be $0.7 million on the sale.

Sale of Archer

Subsequent to June 30, 2024, we sold substantially all of our 1.5 million remaining shares of Archer for approximately $6.9 million of proceeds and realized a gain of approximately $1.6 million on the sale.

Sale of Assets Held for Sale

- Subsequent to June 30, 2024, we closed the sale of eight engines in connection with the June 20, 2024 purchase agreement for gross proceeds of approximately $12.9 million and net proceeds of approximately $4.4 million after the paydown of debt.
- Subsequent to June 30, 2024, we closed the sale of three engines in connection with the December 13, 2023 purchase agreement for gross proceeds of $1.5 million.

Financial Covenant Noncompliance and Waiver

As of July 16, 2024, the Company was not in compliance with a financial covenant related to a minimum liquidity requirement of $15.0 million of cash and cash equivalents associated with its Second Amended and Restated Credit and Guaranty Agreement with United. On September 25, 2024, the Company reached an agreement with United to obtain a waiver for the covenant breach through December 31, 2024. As of the issuance of this Form 10-Q, we are in compliance with all financial covenants.

UST Loan Financial Covenant Modification

On September 23, 2024, we entered into the CCR Modification Agreement to reduce our required minimum CCR for our UST Loan from 1.55:1.0 to 1.44:1.0 through November 22, 2024, after which, the required CCR minimum will revert back to 1.55:1.0.

Agreement with United

On September 25, 2024, we reached an agreement with United which provides for the following:

- The extension of the CPA rate increases agreed upon in the January 2024 United CPA Amendments through August 31, 2025.
- The commitment of a combined fleet of 60 CRJ-900 and E-175 aircraft through January 2025, and an entirely E-175 fleet by March 2025.
- Reimbursement of $14.0 million of expenses related to the transition to an entirely E-175 fleet.
- The commitment to buy our two CRJ-700 aircraft out of their lease with GoJet and to purchase the two CRJ-700 aircraft for $11.0 million.
- The commitment to grant a waiver through December 31, 2024, for the financial covenant breach related to the $15.0 million minimum liquidity requirement on our United Revolving Credit Facility.

Assets Designated as Held for Sale and Impairment

Subsequent to June 30, 2024, the Company reclassified 15 CRJ-900 airframes (without engines), 16 GE Model CF34-8C engines, two CRJ-700 aircraft, and certain CRJ and 737 spare parts as held for sale. The total value of the assets reclassified to held for sale was $48.5 million and the Company recorded $23.0 million of impairment on the assets.

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

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

Overview

Headquartered in Phoenix, Arizona, Mesa Air Group, Inc. ("Mesa", the "Company", "we", "our", or "us") is the holding company of Mesa Airlines, a regional air carrier providing scheduled passenger service to 73 cities in 32 states, Cuba, and Mexico. Mesa operated a fleet of 73 aircraft with approximately 279 daily departures and 1,992 employees as of June 30, 2024. As of June 30, 2024, we operated 55 E-175 and 18 CRJ-900 aircraft under our United CPA and leased two aircraft under our lease with a third party. All of the Company's consolidated contract revenues for the three and nine months ended June 30, 2024 and June 30, 2023 were derived from operations associated with the CPA, FSA, leases of aircraft to a third party, and Mesa Pilot Development. Revenues during the three and nine months ended June 30, 2023 also included revenues derived from our CPA with American, which terminated in April 2023.

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

Components of Results of Operations

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

Operating Revenues

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

Contract Revenue. Contract revenue consists of the fixed monthly amounts per aircraft received pursuant to our CPA with United, along with the additional amounts received based on the number of flights and block hours flown, rental revenue for aircraft leased to GoJet Airlines L.L.C, and revenue from participants in Mesa Pilot Development. Contract revenues we receive from our major partners are paid and recognized over time consistent with the delivery of service under our CPA.

Pass-Through and Other Revenue. Pass-through and other revenue consists of passenger liability insurance, aircraft property taxes, landing fees, and other aircraft and traffic servicing costs received pursuant to our agreements with our major partners, as well as certain maintenance costs related to our E-175 aircraft.

Operating Expenses

Our operating expenses consist of the following items:

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

Maintenance. Maintenance expense includes costs related to engine overhauls, airframe, landing gear and normal recurring maintenance, which includes pass-through maintenance costs related to our E-175 aircraft. Heavy maintenance and major overhaul costs on our owned E-175 fleet are deferred and amortized until the earlier of the end of the useful life of the related asset or the next scheduled heavy maintenance event. All other maintenance costs are expensed as incurred, except for certain maintenance contracts where labor and materials price risks have been transferred to the service provider and require payment on a utilization basis, such as flight hours. Costs incurred for maintenance and repair for utilization maintenance contracts where labor and materials price risks have been transferred to the service provider are charged to maintenance expense based on contractual payment terms. As a result of using the direct expense method for heavy maintenance on the majority of our fleets, the timing of maintenance expense reflected in the financial statements may vary significantly from period to period.

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

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

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

Asset Impairment. Asset impairment includes charges for impairments of our customer relationship intangible assets and charges for impairments of aircraft designated as held for sale.

Other Operating Expenses. Other operating expenses primarily consists of fuel costs for flying we undertake outside of our CPA (including aircraft re-positioning and maintenance) as well as costs for aircraft and traffic servicing, such as aircraft cleaning, passenger disruption reimbursements, international navigation fees and wages of airport operations personnel, a portion of which are reimbursable by our major partners. All aircraft fuel and related fueling costs for flying under our CPA are directly paid and supplied by our major partners. Accordingly, we do not record an expense or pass-through revenue for fuel supplied by United for flying under our CPA.

Other Income (Expense), Net

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

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

Unrealized Gain/Loss on Investments, Net. Unrealized gain/loss on investments consists of net gains or losses on our investments in equity securities resulting from changes in the fair value of the equity securities.

Gain on Investments. Gain on investments consists of gains on our investments in equity securities resulting from the transfer of the investment to another party.

Gain on Debt Forgiveness. Gain on debt forgiveness consists of gains resulting from the forgiveness earned on our deemed prepayment associated with the United line of credit for the achievement of certain performance metrics.

Other Expense. Other expense includes expense derived from activities not classified in any other area of the condensed consolidated statements of operations and comprehensive loss.

Segment Reporting

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

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

Results of Operations

Three Months Ended June 30, 2024 Compared to Three Months Ended June 30, 2023

We had operating loss of $9.0 million in our three months ended June 30, 2024 compared to operating loss of $40.2 million in our three months ended June 30, 2023. In our three months ended June 30, 2024, we had net loss of $19.9 million compared to net loss of $47.6 million in our three months ended June 30, 2023.

Our operating results for the three months ended June 30, 2024 improved as a result decreases in operating expenses due to (i) decreased impairment charges; (ii) decreases in flight operations expense as a result of decreased pilot training and lower pilot wages; (iii) decreases in maintenance expense, primarily due to a decrease in pass-through engine overhaul on our E-175 fleet; and (iv) decreases in depreciation expense, primarily due to the retirement and sale of several aircraft. Our contract revenue slightly improved due to an increased United block hour compensation rate effective October 1, 2023. This was partially offset by fewer aircraft under contract, higher deferred revenue, and the wind-down of the DHL FSA.

Operating Revenues

	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Change	
Operating revenues ($ in thousands):				
Contract	$ 95,596	$ 94,356	$ 1,240	1.3 %
Pass-through and other	15,197	20,335	(5,138)	(25.3)%
Total operating revenues	$ 110,793	$ 114,691	$ (3,898)	(3.4)%
Operating data:				
Available seat miles—ASMs (thousands)	962,669	1,002,945	(40,276)	(4.0)%
Block hours	43,813	45,301	(1,488)	(3.3)%
Revenue passenger miles—RPMs (thousands)	817,434	844,291	(26,857)	(3.2)%
Average stage length (miles)	535	555	(20)	(3.6)%
Contract revenue per available seat mile—CRASM (in cents)	¢ 9.93	¢ 9.41	¢ 0.52	5.5 %
Passengers	1,513,581	1,500,634	12,947	0.9 %

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

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

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

"CRASM" means contract revenue divided by ASMs.

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

Total operating revenue decreased by $3.9 million, or 3.4%, to $110.8 million for our three months ended June 30, 2024 as compared to our three months ended June 30, 2023. Contract revenue increased by $1.2 million, or 1.3%, to $95.6 million, primarily driven by the increase in the United block hour compensation rate, partially offset by fewer aircraft under contract, higher deferred revenue, and the wind-down of the DHL FSA. Our block hours flown during our three months ended June 30, 2024, decreased 3.3% compared to the three months ended June 30, 2023 due to a decrease in scheduled flying on our CRJ fleet. Our pass-through and other revenue decreased by $5.1 million, or 25.3%, to $15.2 million compared to our three months ended June 30, 2023 due to a decrease in pass-through maintenance related to our E-175 fleet.

Operating Expenses

	Three Months Ended June 30,							
	2024		2023		Change			
Operating expenses ($ in thousands):								
Flight operations	$	45,455	$	51,557	$	(6,102)	(11.8)%
Maintenance		44,266		51,072		(6,806)	(13.3)%
Aircraft rent		1,684		864		820	94.9%
General and administrative		9,715		11,346		(1,631)	(14.4)%
Depreciation and amortization		9,730		15,316		(5,586)	(36.5)%
Asset impairment		7,880		30,489		(22,609)	(74.2)%
(Gain) on sale of assets		—		(6,722)		6,722	(100.0)%
Other operating expenses		1,090		999		91	9.1%
Total operating expenses	$	119,820	$	154,921	$	(35,101)	(22.7)%
Operating data:							
Available seat miles—ASMs (thousands)		962,669		1,002,945		(40,276)	(4.0)%
Block hours		43,813		45,301		(1,488)	(3.3)%
Average stage length (miles)		535		555		(20)	(3.6)%
Departures		24,144		24,555		(411)	(1.7)%

Flight Operations. Flight operations expense decreased $6.1 million, or 11.8%, to $45.5 million for our three months ended June 30, 2024 compared to our three months ended June 30, 2023. The decrease was primarily driven by decreased pilot training expense and lower pilot wages as a result of decreases in headcount.

Maintenance. Aircraft maintenance expense decreased $6.8 million, or 13.3%, to $44.3 million for our three months ended June 30, 2024 compared to our three months ended June 30, 2023. This decrease was primarily driven by a decrease in pass-through engine overhaul and a decrease in wages. Total pass-through maintenance expenses reimbursed by our major partners decreased by $3.2 million during our three months ended June 30, 2024 compared to our three months ended June 30, 2023.

The following table presents information regarding our maintenance costs during the three months ended June 30, 2024 and June 30, 2023 (in thousands):

	Three Months Ended June 30,						
	2024		2023		Change		
Engine overhaul	$	—	$	199	$	(199)	(100.0)%
Pass-through engine overhaul		6,826		11,263		(4,437)	(39.4)%
C-check		1,594		1,424		170	11.9%
Pass-through C-check		2,050		2,368		(318)	(13.4)%
Component contracts		4,226		4,756		(530)	(11.1)%
Rotable and expendable parts		4,382		4,850		(468)	(9.6)%
Other pass-through		5,956		4,366		1,590	36.4%
Labor and other		19,232		21,846		(2,614)	(12.0)%
Total	$	44,266	$	51,072	$	(6,806)	(13.3)%

Aircraft Rent. Aircraft rent expense increased $0.8 million, or 94.9%, to $1.7 million for our three months ended June 30, 2024 compared to our three months ended June 30, 2023. The increase is primarily due to greater engine lease costs during our three months ended June 30, 2024.

General and Administrative. General and administrative expense decreased $1.6 million, or 14.4%, to $9.7 million for our three months ended June 30, 2024 compared to our three months ended June 30, 2023. The decrease is primarily driven by decreases in wages and pass-through insurance costs, partially offset by increased consulting fees.

Depreciation and Amortization. Depreciation and amortization expense decreased by $5.6 million, or 36.5%, to $9.7 million for our three months ended June 30, 2024 compared to our three months ended June 30, 2023 due to aircraft in our fleet being sold or classified as non-depreciable assets held for sale.

Asset Impairment. Asset impairment of $7.9 million was recorded for our three months ended June 30, 2024 primarily related to designating 13 engines as held for sale. There was $30.5 million of asset impairment recorded for the three months ended June 30, 2023 related to seven CRJ-900 aircraft being designated as held for sale.

Other Operating Expenses. Other operating expenses increased $0.1 million, to $1.1 million for our three months ended June 30, 2024 compared to our three months ended June 30, 2023. The increase is primarily attributable to higher interrupted trip expense during the three months ended June 30, 2024.

Other Expense

Other expense increased $1.6 million, or 15.8%, to $11.7 million for our three months ended June 30, 2024, compared to our three months ended June 30, 2023. The increase is primarily attributable to unrealized losses on investments in equity securities of $2.0 million during our three months ended June 30, 2024, compared to $2.9 million in unrealized gains on investments in equity securities during our three months ended June 30, 2023. This was partially offset by a decrease in interest expense for our three months ended June 30, 2024 compared to our three months ended June 30, 2023.

Income Taxes

The income tax benefit totaled $0.8 million for the three months ended June 30, 2024 compared to a tax benefit of $2.8 million for the three months ended June 30, 2023. The effective tax rate ("ETR") from continuing operations was 3.9% for the three months ended June 30, 2024 compared to 5.5% for the three months ended June 30, 2023. Our ETR during the three months ended June 30, 2024 decreased from the three months ended June 30, 2023, primarily as a result of certain tax depreciation differences, state taxes, and changes in the valuation allowance against federal and state net operating losses.

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

As of June 30, 2024, the Company had aggregate federal and state net operating loss carryforwards of approximately $475.6 million and $214.7 million, respectively, which expire in 2030-2038 and 2024-2043, respectively. Approximately $4.1 million of state net operating loss carryforwards are expected to expire in the current fiscal year.

Nine Months Ended June 30, 2024 Compared to Nine Months Ended June 30, 2023

We had operating loss of $48.8 million in our nine months ended June 30, 2024 compared to operating loss of $64.1 million in our nine months ended June 30, 2023. In our nine months ended June 30, 2024, we had net loss of 66.1 million compared to net loss of $91.8 million in our nine months ended June 30, 2023.

Our operating results for the nine months ended June 30, 2024 improved as a result decreases in operating expenses as a result of (i) decreases in flight operations expense as a result of decreased pilot training and lower pilot wages; (ii) decreases in maintenance expense, primarily due to a decrease in pass-through engine overhaul on our E-175 fleet; (iii) decreases in general and administrative expenses, primarily due to a decrease in pass-through property tax; and (iv) decreases in depreciation expense, primarily due to the retirement and sale of several aircraft. This was partially offset by a decrease in contract revenue due to reduced block hours flown, fewer aircraft under contract, and the wind-down of the DHL FSA, partially offset by an increased United block hour compensation rate.

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

	Nine Months Ended June 30, 2024	Nine Months Ended June 30, 2023	Change	
Operating revenues ($ in thousands):				
Contract	$ 310,516	$ 326,588	$ (16,072)	(4.9)%
Pass-through and other	50,636	57,111	(6,475)	(11.3)%
Total operating revenues	$ 361,152	$ 383,699	$ (22,547)	(5.9)%
Operating data:				
Available seat miles—ASMs (thousands)	2,951,231	3,244,461	(293,230)	(9.0)%
Block hours	133,741	144,427	(10,686)	(7.4)%
Revenue passenger miles—RPMs (thousands)	2,474,097	2,705,920	(231,823)	(8.6)%
Average stage length (miles)	538	554	(16)	(2.9)%
Contract revenue per available seat mile—CRASM (in cents)	¢ 10.52	¢ 10.07	¢ 0.45	4.5 %
Passengers	4,544,453	4,792,859	(248,406)	(5.2)%

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

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

"CRASM" means contract revenue divided by ASMs.

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

Total operating revenue decreased by $22.5 million, or 5.9%, to $361.2 million for our nine months ended June 30, 2024 as compared to our nine months ended June 30, 2023. Contract revenue decreased by $16.1 million, or 4.9%, to $310.5 million primarily driven by reduced block hours flown, fewer aircraft under contract, and the wind-down of the DHL FSA compared to the nine months ended June 30, 2023, partially offset by an increased United block hour compensation rate. Our block hours flown during our nine months ended June 30, 2024 decreased 7.4% compared to the nine months ended June 30, 2024 due to a decrease in scheduled flying on our CRJ fleet. Our pass-through and other revenue decreased by $6.5 million, or 11.3%, to $50.6 million compared to our nine months ended June 30, 2023 due to a decrease in pass-through maintenance related to our E-175 fleet.

Operating Expenses

	Nine Months Ended June 30, 2024	Nine Months Ended June 30, 2023	Change	
Operating expenses ($ in thousands):				
Flight operations	$ 146,602	$ 164,707	$ (18,105)	(11.0)%
Maintenance	137,165	145,344	(8,179)	(5.6)%
Aircraft rent	4,296	5,782	(1,486)	(25.7)%
General and administrative	32,857	38,872	(6,015)	(15.5)%
Depreciation and amortization	32,846	47,060	(14,214)	(30.2)%
Asset impairment	50,923	50,951	(28)	(0.1)%
Loss/(Gain) on sale of assets	150	(7,271)	7,421	(102.1)%
Other operating expenses	5,098	2,358	2,740	116.2 %
Total operating expenses	$ 409,937	$ 447,803	$ (37,866)	(8.5)%
Operating data:				
Available seat miles—ASMs (thousands)	2,951,231	3,244,461	(293,230)	(9.0)%
Block hours	133,741	144,427	(10,686)	(7.4)%
Average stage length (miles)	538	554	(16)	(2.9)%
Departures	74,089	78,781	(4,692)	(6.0)%

Flight Operations. Flight operations expense decreased $18.1 million, or 11.0%, to $146.6 million for our nine months ended June 30, 2024 compared to our nine months ended June 30, 2023. The decrease was primarily driven by decreased pilot training expense and lower pilot wages as a result of fewer block hours flown and decreases in headcount.

Maintenance. Aircraft maintenance expense decreased $8.2 million, or 5.6%, to $137.2 million for our nine months ended June 30, 2024 compared to our nine months ended June 30, 2023. This decrease was primarily driven by a decrease in pass-through engine overhaul and rotable and expendable parts, partially offset by an increase in other pass-through costs and C-check maintenance expenses. Total pass-through maintenance expenses reimbursed by our major partners decreased by $4.2 million during our nine months ended June 30, 2024 compared to our nine months ended June 30, 2023.

The following table presents information regarding our maintenance costs during the nine months ended June 30, 2024 and June 30, 2023 (in thousands):

	Nine Months Ended June 30,			
	2024	2023		
Engine overhaul	$ 49	$ 359	$ (310)	(86.4)%
Pass-through engine overhaul	18,075	27,903	(9,828)	(35.2)%
C-check	5,573	3,962	1,611	40.7%
Pass-through C-check	9,098	8,644	454	5.3%
Component contracts	14,620	15,168	(548)	(3.6)%
Rotable and expendable parts	12,601	15,537	(2,936)	(18.9)%
Other pass-through	16,213	11,008	5,205	47.3%
Labor and other	60,936	62,763	(1,827)	(2.9)%
Total	$ 137,165	$ 145,344	$ (8,179)	(5.6)%

Aircraft Rent. Aircraft rent expense decreased $1.5 million, or 25.7%, to $4.3 million for our nine months ended June 30, 2024 compared to our nine months ended June 30, 2023. The decrease is due to our December 2022 agreement with RASPRO Trust pursuant to which 15 of our CRJ-900 aircraft were reclassified from operating leases to finance leases, offset by an increase in engine leases expense during our nine months ended June 30, 2024.

General and Administrative. General and administrative expense decreased $6.0 million, or 15.5%, to $32.9 million for our nine months ended June 30, 2024 compared to our nine months ended June 30, 2023. The decrease is primarily driven by decreases in pass-through property taxes and pass-through insurance costs.

Depreciation and Amortization. Depreciation and amortization expense decreased by $14.2 million, or 30.2%, to $32.8 million for our nine months ended June 30, 2024 compared to our nine months ended June 30, 2023 due to aircraft in our fleet being classified as non-depreciable assets held for sale.

Asset Impairment. Asset impairment of $50.9 million was recorded for our nine months ended June 30, 2024 primarily related to 19 CRJ-900 airframes (without engines) and 77 GE model CF34-8C engines being designated as held for sale. There was $51.0 million of asset impairment recorded for our nine months ended June 30, 2023, related to the write-off of our customer relationship intangible asset and 14 CRJ-900 aircraft being designated as held for sale.

Other Operating Expenses. Other operating expenses increased $2.7 million, to $5.1 million for our nine months ended June 30, 2024 compared to our nine months ended June 30, 2023. The increase is primarily attributable to interrupted trip costs during the nine months ended June 30, 2024.

Other Expense

Other expense decreased $16.3 million, or 48.6%, to $17.2 million for our nine months ended June 30, 2024, compared to our nine months ended June 30, 2023. The decrease is primarily attributable to realized gains on investments in equity securities of $6.5 million, gain on extinguishment of debt of $3.0 million, gain on debt forgiveness of $10.5 million, and decreases on interest expense. The decrease is partially offset by $6.1 million in unrealized losses on investments in equity securities for our nine months ended June 30, 2024 compared to $3.3 million in unrealized gains on investments in equity securities for our nine months ended June 30, 2023.

Income Taxes

The income tax expense totaled $0.1 million for the nine months ended June 30, 2024 as compared to a tax benefit of $5.8 million for the nine months ended June 30, 2023. The effective tax rate ("ETR") from continuing operations was -0.2% for the nine months ended June 30, 2024 compared to 5.9% for the nine months ended June 30, 2023. Our ETR during the nine months ended June 30, 2024 decreased from the nine months ended June 30, 2023 due to permanent tax differences, state taxes, and changes in the valuation allowance against federal and state net operating losses.

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

As of June 30, 2024, the Company had aggregate federal and state net operating loss carryforwards of approximately $475.6 million and $214.7 million, respectively, which expire in 2030-2038 and 2024-2043, respectively. Approximately $4.1 million of state net operating loss carryforwards are expected to expire in the current fiscal year.

Cautionary Statement Regarding Non-GAAP Measures

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

Adjusted EBITDA. We define Adjusted EBITDA as net income or loss before interest, income taxes, and depreciation and amortization, adjusted for gains and losses on investments, lease termination costs, impairment charges, and gains or losses on extinguishment of debt including write-off of associated financing fees.

Adjusted EBITDAR. We define Adjusted EBITDAR as net income or loss before interest, income taxes, depreciation and amortization, and aircraft rent, adjusted for gains and losses on investments, lease termination costs, impairment charges, and gains or losses on extinguishment of debt including write-off of associated financing fees.

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

Adjusted EBITDA and Adjusted EBITDAR

The following table presents a reconciliation of net loss to Adjusted EBITDA and Adjusted EBITDAR (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2024	2023	2024	2023
Reconciliation:				
Net loss	$ (19,908)	$ (47,560)	$ (66,097)	$ (91,771)
Income tax benefit	(810)	(2,764)	126	(5,791)
Loss before taxes	(20,718)	(50,324)	$ (65,971)	$ (97,562)
Loss/(Gain) on investments	776	—	(6,454)	—
Unrealized loss/(gain) on investments, net	2,025	(2,859)	6,073	(3,275)
Adjustments(1)(2)(3)(4)(5)(6)(7)(8)(9)(10)(11)(12)(13)	8,120	24,098	43,519	44,673
Adjusted loss before taxes	(9,797)	(29,085)	(22,833)	(56,164)
Interest expense	9,032	12,015	30,832	36,321
Interest income	(17)	(8)	(45)	(128)
Depreciation and amortization	9,730	15,316	32,846	47,060
Adjusted EBITDA	$ 8,948	$ (1,762)	$ 40,800	$ 27,089
Aircraft rent	1,684	864	4,296	5,782
Adjusted EBITDAR	$ 10,632	$ (898)	$ 45,096	$ 32,871

(1) $30.5 million and $47.2 million loss on held for sale accounting treatment on seven and 14 CRJ-900 aircraft during the three and nine months ended June 30, 2023, respectively.
(2) $0.3 million and $1.0 million loss on deferred financing costs related to retirement of debts during the three and nine months ended June 30, 2023, respectively.
(3) $6.7 million and $7.3 million gain from the sale of 20 and 30 engines during the three and nine months ended June 30, 2023, respectively.
(4) $3.7 million impairment loss on intangible asset during the nine months ended June 30, 2023.
(5) $2.2 million impairment fair value adjustment gain on 737 inventory during the three months ended June 30, 2024.
(6) $4.3 million impairment true-up loss and $0.4 million impairment true-up gain on held for sale accounting treatment during the three and nine months ended June 30, 2024, respectively.
(7) $5.7 million and $51.3 million impairment loss on held for sale accounting treatment during the three and nine months ended June 30, 2024, respectively.
(8) $0.2 million and $3.5 million in non-recurring third party costs associated with the sale of assets and retirement of debt during the three and nine months ended June 30, 2024, respectively.
(9) $10.5 million gain on debt forgiveness during the nine months ended June 30, 2024.
(10) $0.9 million loss for early payment fees on the retirement of debt during the nine months ended June 30, 2024.
(11) $0.2 million loss on the sale of assets during the nine months ended June 30, 2024.
(12) $1.5 million loss on deferred financing costs related to retirement of debts during the nine months ended June 30, 2024.
(13) $3.0 million gain on extinguishment of debt during the nine months ended June 30, 2024.

Liquidity and Capital Resources

Going Concern

During our three and nine months ended June 30, 2024 and fiscal year ended September 30, 2023, the decrease in scheduled flying activity associated with the transition of our operations with American to United, increased costs associated with pilot wages, and increasing interest rates adversely impacted our financial results, cash flows, financial position, and other key financial ratios. Additionally, United has asked us to accelerate the removal of CRJ-900 aircraft and transition the pilots to our E-175 fleet. This will lead to increased costs and impact our block hour capabilities while these pilots are in training.

As of July 16, 2024, the Company was not in compliance with a financial covenant related to a minimum liquidity requirement of $15.0 million of cash and cash equivalents associated with its Second Amended and Restated Credit and Guaranty Agreement with United. On September 25, 2024, the Company reached an agreement with United to obtain a waiver for the covenant breach through December 31, 2024. As of the issuance of this Form 10-Q, we are in compliance with all financial covenants.

As a result of the decrease in scheduled flying activity, we produced less block hours to generate revenues. During the nine months ended June 30, 2024, these challenges resulted in a negative impact on the Company's financial results highlighted by net loss of $66.1 million, including a non-cash impairment charge of $50.9 million primarily related to the Company designating eight CRJ-900 aircraft, 11 CRJ-900 airframes (without engines), and 61 spare engines as held for sale. These conditions and events raised financial concerns about our ability to continue to fund our operations and meet our debt obligations over the next twelve months from the filing of this Form 10-Q.

To address such concerns, management developed and implemented several material changes to our business designed to ensure the Company could continue to fund its operations and meet its debt obligations over the next twelve months. The Company implemented the following measures during or subsequent to the three months ended June 30, 2024.

- We had 15 aircraft under the RASPRO finance lease with a buyout obligation of $50.3 million. On April 22, 2024, we entered into a binding Memorandum with RASPRO that provides for the payment of certain commitment fee amounts by the Company, along with certain RASPRO administration fee amounts, in consideration for the deferral of the $50.3 million buyout obligation over the period of June 2024 to September 2024. Certain of the commitment fee amounts and Trust fees otherwise payable will be waived if the Company completes its purchase obligations with respect to all 15 airframes and 30 engines as set forth in the agreement. During the first fiscal quarter of 2024, we entered into purchase agreements with two separate parties to purchase the RASPRO aircraft and related engines. One agreement is for 30 engines for a total of $19.5 million. The second agreement is for 15 airframes (without engines) for a total of $18.8 million. Both of these transactions are expected to be completed by the end of September 2024, with net cash outflows from these transactions expected to be approximately $12.1 million.
  - During the three months ended June 30, 2024, we purchased six airframes and 15 engines from RASPRO for $22.3 million and sold them to third parties for $17.3 million. Subsequent to June 30, 2024, we purchased the remaining nine airframes and 15 engines from RASPRO for $23.2 million, completely paying off our obligation under the RASPRO finance lease. Subsequent to June 30, 2024, we sold all of the associated airframes and 14 of the engines to third parties for $20.4 million. We expect to close the sale of the final engine by the end of October 2024, with gross proceeds expected to be $0.7 million on the sale.
  - We are leasing three of the airframes that were sold to the third party through the period in which the respective airframes are covered under the United CPA, between July 31, 2024 and January 31, 2025.
- On May 8, 2024, we entered into a Waiver Agreement to our Second Amended and Restated Credit and Guaranty Agreement providing for the waiver of a certain projected financial covenant default with respect to the fiscal quarter ending June 30, 2024.
- On May 29, 2024, and June 20, 2024, we entered into two separate purchase agreements with third parties providing for the sale of nine and fourteen engines, respectively. Gross proceeds from the sale of the engines are expected to be $8.8 million and $24.7 million, respectively, of which, $8.8 million and $20.2 million, respectively, will be used to pay down our UST Loan. Subsequent to June 30, 2024, we closed the sale of eight engines in connection with the June 20, 2024 purchase agreement for gross proceeds of approximately $12.9 million and net proceeds of approximately $4.4 million after the paydown of debt.
- On May 30, 2024, we amended two finance leases on CRJ-700 aircraft providing for the revision of the lease term from June 22, 2031 to May 29, 2027 for initial payments totaling approximately $1.8 million.
- During the three months ended June 30, 2024, we generated an additional approximately $9.6 million in incremental revenue from increased CPA rates agreed upon in the January 2024 United CPA Amendments. We are projected to generate an additional $46.0 million in incremental revenue from September 1, 2024 through August 31, 2025.
- During the three months ended June 30, 2024, the Company sold approximately 760 thousand shares of Archer for approximately $2.7 million of proceeds. Subsequent to June 30, 2024, we sold substantially all of our remaining 1.5 million shares of Archer for approximately $6.9 million of proceeds and realized a gain of approximately $1.6 million on the sale.
- During the three months ended June 30, 2024, the Company furloughed 53 first officers and captains to match scheduled flying activity. This is expected to result in savings of approximately $3.9 million from July 1, 2024 through December 31, 2024.
- On September 23, 2024, we entered into the CCR Modification Agreement to reduce our required minimum CCR for our UST Loan from 1.55:1.0 to 1.44:1.0 through November 22, 2024, after which, the required CCR minimum will revert back to 1.55:1.0.
- On September 25, 2024, we reached an agreement with United to provide additional liquidity described below:
  - The extension of the CPA rate increases agreed upon in the January 2024 United CPA Amendments through August 31, 2025.

- o The commitment of a combined fleet of 60 CRJ-900 and E-175 aircraft through January 2025, and an entirely E-175 fleet by March 2025.
- o Reimbursement of up to $14.0 million of expenses related to the transition to an entirely E-175 fleet.
- o The commitment to buy our two CRJ-700 aircraft out of their lease with GoJet and to purchase the two CRJ-700 aircraft for total proceeds of $11.0 million, $4.5 million of which will pay down the outstanding obligations.
- o The commitment to grant a waiver through December 31, 2024, for the financial covenant breach related to the $15.0 million minimum liquidity requirement on our United Revolving Credit Facility.

- Based on the most recent appraisal value of our spare parts, we have $12.4 million available under our United Revolving Credit Facility.
- In addition to already executed agreements to sell aircraft, the Company is actively seeking arrangements to sell other surplus assets primarily related to the CRJ fleet including aircraft, engines, and spare parts to reduce debt and optimize operations.
- We have delayed and/or deferred major spending on aircraft and engine maintenance to match the current and projected level of flight activity.

The Company believes the plans and initiatives outlined above have effectively alleviated the financial concerns and will allow the Company to meet its cash obligations for the next twelve months following the issuance of its financial statements. The forecast of undiscounted cash flows prepared to determine if the Company has the ability to meet its cash obligations over the next twelve months following the issuance of its financial statements was prepared with significant judgment and estimates of future cash flows based on projections of CPA block hours, maintenance events, labor costs, and other relevant factors. Assumptions used in the forecast may change or not occur as expected.

As of June 30, 2024, the Company has $72.8 million of principal maturity payments on long-term debt due within the next twelve months. We plan to meet these obligations with our cash on hand, ongoing cashflows from our operations, and the liquidity created from the additional measures identified above. If our plans are not realized, we intend to explore additional opportunities to create liquidity by refinancing and deferring repayment of our principal maturity payments that are due within the next twelve months. The Company continues to monitor covenant compliance with its lenders as any noncompliance could have a material impact on the Company's financial position, cash flows and results of operations.

Sources and Uses of Cash

We require cash to fund our operating expenses and working capital requirements, including outlays for capital expenditures, aircraft pre-delivery payments, maintenance, aircraft rent, and debt service obligations, including principal and interest payments. Our cash needs vary from period to period primarily based on the timing and costs of significant maintenance events. Our principal sources of liquidity are cash on hand, cash generated from operations and funds from external borrowings.

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

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

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

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

During the ordinary course of business, we evaluate our cash requirements and, if necessary, adjust operating and capital expenditures to reflect the current market conditions and our projected demand. Our capital expenditures are primarily directed toward our aircraft fleet and flight equipment including spare engines. Our capital expenditures, net of purchases of rotable spare parts and aircraft and spare engine financing for the nine months ended June 30, 2024 were approximately 3.2% of our revenue during the same period. We expect to incur capital expenditures to support our business activities. Future capital expenditures may be impacted by events and transactions that are not currently forecasted.

As of June 30, 2024, our principal sources of cash have been cash and cash equivalents of $16.3 million, restricted cash of $3.0 million as of June 30, 2024, and $77.4 million in assets held for sale as of June 30, 2024. As of June 30, 2024, we had $335.8 million in secured indebtedness incurred primarily in connection with our financing of aircraft and related equipment. As of June 30, 2024, we had $45.4 million of current debt, excluding finance leases, and $284.6 million of long-term debt excluding finance leases.

Restricted Cash

As of June 30, 2024, we had $3.0 million in restricted cash. We have an agreement with a financial institution for a letter of credit facility and to issue letters of credit for particular airport authorities, worker's compensation insurance, property and casualty insurance and other business needs as required in certain lease agreements. Pursuant to the term of this agreement, $3.0 million of outstanding letters of credit are required to be collateralized by amounts on deposit.

Cash Flows

The following table presents information regarding our cash flows for each of the nine months ended June 30, 2024 and June 30, 2023 (in thousands):

	Nine Months Ended June 30,	
	2024	2023
Net cash provided by (used in) operating activities	$ 19,596	$ (13,837)
Net cash provided by investing activities	112,918	108,999
Net cash used in financing activities	(149,301)	(104,692)
Net decrease in cash, cash equivalents and restricted cash	(16,787)	(9,530)
Cash, cash equivalents and restricted cash at beginning of period	36,072	61,025
Cash, cash equivalents and restricted cash at end of period	$ 19,285	$ 51,495

Net Cash Used in Operating Activities

Our primary source of cash from operating activities is cash collections from United pursuant to our CPA. Our primary uses of cash from operating activities are for maintenance costs, personnel costs, operating lease payments, and interest payments.

During our nine months ended June 30, 2024, we had cash flow provided by operating activities of $19.6 million. We had net loss of $66.1 million adjusted for the following significant non-cash items: depreciation and amortization of $32.8 million, stock-based compensation of $1.0 million, deferred income taxes of $(0.4) million, gains on investments in equity securities of $(6.5) million, net unrealized losses on investments in equity securities of $6.1 million, amortization of deferred credits of $(0.8) million, amortization of debt discount and financing costs and accretion of interest of $6.2 million, asset impairment of $50.9 million, loss on sale of assets of $0.2 million, gain on debt forgiveness of $(10.5) million, gain on extinguishment of debt of $(3.0) million, and $3.2 million in miscellaneous operating cash flow items. We had a net change of $6.3 million within other net operating assets and liabilities largely driven by decreases in accounts receivable and prepaid expenses and increases in accounts payable and accrued expenses, partially offset by decreases in deferred revenue.

During our nine months ended June 30, 2023, we had cash flow used in operating activities of $13.8 million. We had a net loss of $91.8 million adjusted for the following significant non-cash items: depreciation and amortization of $47.1 million, stock-based compensation of $1.9 million, net gains on investments in equity securities of $(3.3) million, deferred income taxes of $(6.2) million, amortization of deferred credits of $1.4 million, amortization of debt discount and financing costs and accretion of interest of $4.9 million, asset impairment of $51.0 million, gain on sale of assets of $(7.3) million, and

$2.0 million in miscellaneous operating cash flow items. We had a net change of $(13.6) million within other net operating assets and liabilities largely driven by decreases in accounts payable and receivables, which were offset primarily by an increase in accrued expenses and other liabilities.

Net Cash Provided by (Used in) Investing Activities

Our investing activities generally consist of capital expenditures for aircraft and related flight equipment, deposits paid or returned for equipment and other purchases, and strategic investments.

During our nine months ended June 30, 2024, net cash flow provided by investing activities totaled $112.9 million. Proceeds from the sale of aircraft and engines totaled $127.1 million, proceeds from the sale of investments in equity securities totaled $2.7 million, we invested $(16.9) million in capital expenditures, primarily consisting of heavy maintenance rotable parts, paid $(0.4) million in investment transaction costs, and received $0.3 million in refunds of equipment and other deposits.

During our nine months ended June 30, 2023, net cash flow provided by investing activities totaled $109.0 million. Proceeds from the sale of aircraft and engines totaled $139.9 million. We invested $31.6 million in capital expenditures primarily consisting of spare engines, rotable parts, and other equipment, and received $0.7 million in refunds of equipment and other deposits.

Net Cash (Used in) Provided by Financing Activities

Our financing activities generally consist of debt borrowings, principal repayments of debt, payment of debt financing costs, payment of tax withholding for RSUs, and proceeds received from issuing common stock under our ESPP.

During our nine months ended June 30, 2024, net cash flow used in financing activities was $149.3 million. We received $86.9 million of proceeds from long-term debt, made $(235.2) million of principal repayments on long-term debt, paid $(0.9) million for debt prepayment costs, and paid $0.1 million for tax withholding of RSUs.

During our nine months ended June 30, 2023, net cash flow used in financing activities was $104.7 million. We received $39.0 million of proceeds from long-term debt, made $142.6 million of principal repayments on long-term debt, and paid $0.9 million of costs related to debt financing. We received $0.1 million in proceeds from the issuance of common stock under our ESPP and paid $0.3 million for tax withholding of RSUs.

Critical Accounting Estimates

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

The accompanying discussion and analysis of our financial condition and results of operations is based upon our unaudited condensed consolidated interim financial statements included elsewhere in this Form 10-Q. We believe certain of our accounting estimates and policies are critical to understanding our financial position and results of operations. There have been no material changes to the critical accounting estimates as explained in Part 1, Item 7 of our Annual Report on Form 10-K for the fiscal year ended September 30, 2023 under the heading "Critical Accounting Estimates."

Recently Issued Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

As of June 30, 2024, we had $230.4 million of variable-rate debt, including current maturities. A hypothetical 100 basis point change in market interest rates would have affected interest expense by approximately $2.3 million in the nine months ended June 30, 2024.

As of June 30, 2024, we had $136.2 million of fixed-rate debt, including current maturities. A hypothetical 100 basis point change in market interest rates would not impact interest expense or have a material effect on the fair value of our fixed-rate debt instruments as of June 30, 2024.

On July 27, 2017, the U.K. Financial Conduct Authority (the authority that regulates LIBOR) announced that it would stop compelling banks to submit rates for the calculation of LIBOR after 2021. In December 2020, the administrator of LIBOR proposed to cease publication of certain LIBOR settings after December 2021 and to cease publication of the remainder of the LIBOR settings after June 2023. The majority of our debt arrangements were indexed to one- and three-month LIBOR, which were sunset on June 30, 2023. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, replaced LIBOR with SOFR after June 30, 2023. We applied expedients to agreements under LIBOR that were replaced by SOFR. Under the expedient, we now account for amendments to agreements as if the modification was not substantial. The new carrying amounts of debts consist of the carrying amount of the original debt and any additional fees associated with the modified debt instrument. New effective yields were established based on the new carrying amount and revised cash flows.

Our debts based on LIBOR have been modified to use SOFR as a reference rate which went into effect between July 31, 2023 and December 31, 2023. As of June 30, 2024, we had $160.4 million of borrowings based on SOFR.

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

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting and has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of June 30, 2024. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with general accepted accounting principles. Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of June 30, 2024.

Update on Remediation of Previously Reported Material Weaknesses

Management identified two material weaknesses in internal controls in the areas of (i) information technology general controls ("ITGCs"); and (ii) debt covenant compliance for the period ended September 30, 2023. Management is taking steps to successfully remediate these material weaknesses by implementing remediation efforts described below:

Management is committed to the remediation of the material weaknesses described above, as well as the continued improvement of our internal control over financial reporting. Our efforts resulting in successful remediation include:

1. Implementing additional IT monitoring controls and strengthening our process documentation over the access management program change management domains of ITGCs
2. Additional review procedures involving our debt covenant calculation controls and disclosure controls

Management identified a material weakness in internal controls related to the omission of a disclosure of an impairment charge associated with assets classified as held for sale for the period ended December 31, 2023. Management remains committed to the remediation of this material weakness.

Notwithstanding the assessment that our internal controls over financial reporting are not effective and that material weaknesses exist, we believe we have employed supplementary procedures to ensure the financial statements contained in this report fairly present in all material respects, our financial position as of June 30, 2024 and September 30, 2023, and the results of operations and cash flows for the period ended June 30, 2024 and June 30, 2023.

Changes in Internal Control Over Financial Reporting

During the three months ended June 30, 2024, there were no changes in our internal control over financial reporting that materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

Inherent Limitations on Effectiveness of Controls

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to certain legal actions which we consider routine to our business activities. As of June 30, 2024, our management believed the ultimate outcomes of other routine legal matters are not likely to have a material adverse effect on our financial position, liquidity or results of operations.

Item 1A. Risk Factors

We refer you to documents filed by us with the SEC, specifically "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2023 ("2023 Form 10-K"), which identify important risk factors that could materially affect our business, financial condition and future results. We also refer you to the factors and cautionary language set forth in the section entitled "Cautionary Statements Regarding Forward-looking Statements" of this Quarterly Report on Form 10-Q. This Quarterly Report on Form 10-Q, including the accompanying condensed consolidated financial statements and related notes, should be read in conjunction with such risks and other factors for a full understanding of our operations and financial condition. The risks described in our 2023 Form 10-K and herein are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, or operating results. There have been no material changes to the risk factors previously disclosed in our 2023 Form 10-K, besides the risk factor described below:

Our failure to be current in our SEC filings could pose significant risks to our business, each of which could materially and adversely affect our financial condition and results of operations

Under the Exchange Act, the Company, as reporting company, is required to provide investors on a regular basis with periodic reports that contain important financial and business information. Examples of these reports include the annually filed Form 10-K and the quarterly filed Form 10-Q. The timely and complete submission of periodic reports provides investors with information to help them make informed investment decisions. Our inability to timely file our periodic reports with the SEC, as occurred with our Annual Report on Form 10-K for the fiscal year ended September 30, 2023 and Quarterly Reports on Form 10-Q for the periods ended December 31, 2023, March 31, 2024, and June 30, 2024, could have an adverse impact on our ability to, among other things, (i) remain listed on the Nasdaq Stock Market, (ii) access our credit facilities, (iii) attract and retain key employees, and (iv) raise funds in the public markets, any of which could materially and adversely affect our financial condition and results of operations.

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

The amounts remitted for employee withholding taxes during the nine months ended June 30, 2024 and June 30, 2023 were $0.1 million and $0.3 million, respectively, for which the Company withheld 102,436 and 163,920 shares of our common stock, respectively, that were underlying the RSUs that vested.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

During the three months ended June 30, 2024, none of our directors or officers (as defined in Rule 16a-1(f) promulgated under the Securities Exchange Act of 1934, as amended) adopted, terminated, or modified a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K).

Item 6. Exhibits

EXHIBIT INDEX

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

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

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

SIGNATURES

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

MESA AIR GROUP, INC.

Date: October 15, 2024

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

Exhibit 31.1

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

I, Jonathan G. Ornstein, certify that:

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

Date: October 15, 2024

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

Exhibit 31.2

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

I, Michael J. Lotz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mesa Air Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 15, 2024

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

Exhibit 32.1

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

I, Jonathan G. Ornstein, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Quarterly Report on Form 10-Q of Mesa Air Group, Inc. for the fiscal quarter ended June 30, 2024 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Mesa Air Group, Inc.

Dated: October 15, 2024	/s/ JONATHAN G. ORNSTEIN
	Jonathan G. Ornstein
	Chairman and Chief Executive Officer

Exhibit 32.2

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

I, Michael J. Lotz, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Quarterly Report on Form 10-Q of Mesa Air Group, Inc. for the fiscal quarter ended June 30, 2024 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Mesa Air Group, Inc.

Dated: October 15, 2024

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