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, 2023

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 July 1, 2023, the registrant had 40,830,594 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, 2022 filed with the Securities and Exchange Commission on December 29, 2022. Unless otherwise stated, references to particular years, quarters, months, or periods refer to our fiscal years ended September 30 and the associated quarters, months, and periods of those fiscal years. Each of the terms "*the Company,*" "*Mesa Airlines,*" "*Mesa,*" "*we,*" "*us*" and "*our*" as used herein refers collectively to Mesa Air Group, Inc. and its wholly owned subsidiaries, unless otherwise stated. We do not assume any obligation to revise or update any forward-looking statements.

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

- public health epidemics or pandemics such as COVID-19;
- the severity, magnitude, and duration of the COVID-19 pandemic, including impacts of the pandemic and of business' and governments' responses to the pandemic on our operations and personnel, and on demand for air travel;
- the supply and retention of qualified airline pilots and mechanics 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 by our major partner;
- the financial strength of our major partners and their ability to successfully manage their businesses through the unprecedented decline in air travel attributable to the COVID-19 pandemic or any other public health epidemic;
- restrictions under our Amended and Restated United CPA to enter into new regional air carrier service agreements, excluding our existing Flight Services Agreement with DHL, 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.

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

MESA AIR GROUP, INC.
Condensed Consolidated Balance Sheets
(In thousands, except share amounts) (June 30, 2023 is unaudited)

	June 30, 2023	September 30, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 48,349	$ 57,683
Restricted cash	3,146	3,342
Receivables, net ($493 and $85 from related party)	3,582	3,978
Expendable parts and supplies, net	28,731	26,715
Assets held for sale	90,954	—
Prepaid expenses and other current assets	6,364	6,616
Total current assets	181,126	98,334
Property and equipment, net	709,694	865,254
Intangible assets, net	—	3,842
Lease and equipment deposits	1,172	6,085
Operating lease right-of-use assets	11,416	43,090
Deferred heavy maintenance, net	8,753	9,707
Assets held for sale	21,000	73,000
Other assets	28,841	16,290
Total assets	$ 962,002	$ 1,115,602
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt and finance leases ($2,622 and $0 from related party)	$ 124,341	$ 97,218
Current portion of deferred revenue	6,398	385
Current maturities of operating leases	4,380	17,233
Accounts payable	51,916	59,386
Accrued compensation	8,358	11,255
Other accrued expenses	26,721	29,000
Total current liabilities	222,114	214,477
Noncurrent liabilities:		
Long-term debt and finance leases, excluding current portion ($30,630 and $0 from related party)	441,941	502,517
Noncurrent operating lease liabilities	8,966	16,732
Deferred credits ($4,489 and $2,193 from related party)	4,489	3,082
Deferred income taxes	11,561	17,719
Deferred revenue, net of current portion	16,327	23,682
Other noncurrent liabilities	28,706	29,219
Total noncurrent liabilities	511,990	592,951
Total liabilities	734,104	807,428
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Common stock of no par value and additional paid-in capital, 125,000,000 shares authorized; 40,830,594 (2023) and 36,376,897 (2022) shares issued and outstanding, 4,899,497 (2023) and 4,899,497 (2022) warrants issued and outstanding	270,673	259,177
Retained earnings/(Accumulated deficit)	(42,775)	48,997
Total stockholders' equity	227,898	308,174
Total liabilities and stockholders' equity	$ 962,002	$ 1,115,602

See accompanying notes to these condensed consolidated financial statements.

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

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Nine Months Ended June 30, 2023	Nine Months Ended June 30, 2022
Operating revenues:				
Contract revenue (2023—$88,415 and $200,184 and 2022—$49,845 and $158,876 from related party)	$ 94,356	$ 118,899	$ 326,588	$ 367,781
Pass-through and other revenue	20,335	15,498	57,111	37,586
Total operating revenues	114,691	134,397	383,699	405,367
Operating expenses:				
Flight operations	51,557	43,254	164,707	133,262
Maintenance	51,072	49,694	145,344	156,032
Aircraft rent	864	9,299	5,782	28,319
General and administrative	11,346	11,112	38,872	31,550
Depreciation and amortization	15,316	20,103	47,060	61,878
Asset impairment	30,489	—	50,951	39,475
(Gain) on sale of assets	(6,722)	—	(7,271)	—
Other operating expenses	999	722	2,358	3,379
Total operating expenses	154,921	134,184	447,803	453,895
Operating income/(loss)	(40,230)	213	(64,104)	(48,528)
Other income (expense), net:				
Interest expense	(12,015)	(8,716)	(36,321)	(24,766)
Interest income	8	24	128	117
Gain/(Loss) on investments, net	2,859	(3,926)	3,275	(12,649)
Other income (expense), net	(946)	(73)	(540)	(203)
Total other expense, net	(10,094)	(12,691)	(33,458)	(37,501)
Loss before taxes	(50,324)	(12,478)	(97,562)	(86,029)
Income tax benefit	(2,764)	(2,493)	(5,791)	(18,987)
Net loss and comprehensive loss	$ (47,560)	$ (9,985)	$ (91,771)	$ (67,042)
Net loss per share attributable to common shareholders				
Basic	$ (1.17)	$ (0.28)	$ (2.35)	$ (1.86)
Diluted	$ (1.17)	$ (0.28)	$ (2.35)	$ (1.86)
Weighted-average common shares outstanding				
Basic	40,688	36,183	38,986	36,064
Diluted	40,688	36,183	38,986	36,064

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, 2022				
	Number of Shares	Number of Warrants	Common Stock and Additional Paid-In Capital	Retained Earnings	Total
Balance at September 30, 2021	35,958,759	4,899,497	$ 256,372	$ 231,675	$ 488,047
Stock compensation expense	—	—	716	—	716
Payment of tax withholding for RSUs	(2,275)	—	(15)	—	(15)
Restricted shares issued	7,500	—	—	—	—
Net loss	—	—	—	(14,274)	(14,274)
Balance at December 31, 2021	35,963,984	4,899,497	$ 257,073	$ 217,401	$ 474,474
Stock compensation expense	—	—	671	—	671
Payment of tax withholding for RSUs	(13,421)	—	(60)	—	(60)
Restricted shares issued	122,594	—	—	—	—
Employee share purchases	53,567	—	239	—	239
Net loss	—	—	—	(42,783)	(42,783)
Balance at March 31, 2022	36,126,724	4,899,497	$ 257,923	$ 174,618	$ 432,541
Stock compensation expense	—	—	719	—	719
Payment of tax withholding for RSUs	(116,455)	—	(339)	—	(339)
Restricted shares issued	282,132	—	100	—	100
Net loss	—	—	—	(9,985)	(9,985)
Balance at June 30, 2022	36,292,401	4,899,497	$ 258,403	$ 164,633	$ 423,036

	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

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, 2023	Nine Months Ended June 30, 2022
Cash flows from operating activities:		
Net loss	$ (91,771)	$ (67,042)
Adjustments to reconcile net loss to net cash flows provided by (used in) operating activities:		
Depreciation and amortization	47,060	61,878
Stock compensation expense	1,912	2,106
(Gain)/Loss on investments, net	(3,275)	12,649
Deferred income taxes	(6,157)	(19,137)
Amortization of deferred credits	1,407	(639)
Amortization of debt discount and issuance costs and accretion of interest into long-term debt	4,922	8,151
Asset impairment	50,951	39,475
Gain on sale of assets	(7,271)	—
Other	1,973	764
Changes in assets and liabilities:		
Receivables	396	(883)
Expendable parts and supplies	(2,016)	(2,418)
Prepaid expenses and other operating assets and liabilities	125	(1,519)
Accounts payable	(6,349)	4,367
Deferred heavy maintenance, net	(1,382)	(4,536)
Deferred revenue	(1,342)	(11,780)
Accrued expenses and other liabilities	(5,689)	(10,949)
Operating lease right-of-use assets and liabilities	2,669	3,097
Net cash provided by (used in) operating activities	(13,837)	13,584
Cash flows from investing activities:		
Capital expenditures	(31,619)	(33,230)
Investments in equity securities	—	(200)
Proceeds from sale of aircraft and engines	139,878	—
Refund (payment) of equipment and other deposits	740	(6,954)
Net cash provided by (used in) investing activities	108,999	(40,384)
Cash flows from financing activities:		
Proceeds from long-term debt	39,000	35,311
Proceeds from issuance of common stock under ESPP	148	239
Principal payments on long-term debt and finance leases	(142,577)	(71,993)
Payments of debt and warrant issuance costs	(917)	(2,414)
Payment of tax withholding for RSUs	(346)	(414)
Net cash used in financing activities	(104,692)	(39,271)
Net change in cash, cash equivalents and restricted cash	(9,530)	(66,071)
Cash, cash equivalents and restricted cash at beginning of period	61,025	123,867
Cash, cash equivalents and restricted cash at end of period	$ 51,495	$ 57,796
Supplemental cash flow information		
Cash paid for interest	$ 28,801	$ 14,695
Cash paid for income taxes, net	$ 27	$ 442
Operating lease payments in operating cash flows	$ 8,203	$ 31,069
Supplemental non-cash operating activities		
Right-of-use assets obtained in exchange for lease liabilities	$ 755	$ 5,481
Supplemental non-cash financing activities		
Finance lease obtained in exchange for lease liability	$ 65,094	$ —
Investments in warrants to purchase common stock	$ —	$ 3,260
Accrued capital expenditures	$ —	$ 1,407

See accompanying notes to these condensed consolidated financial statements.

1. Organization and Operations

About Mesa Air Group, Inc.

Headquartered in Phoenix, Arizona, Mesa Air Group, Inc. ("Mesa" or the "Company") is the holding company of Mesa Airlines, a regional air carrier providing scheduled passenger service to 89 cities in 40 states, the District of Columbia, the Bahamas, Canada, Cuba, and Mexico as well as cargo services out of Cincinnati/Northern Kentucky International Airport. As of June 30, 2023, Mesa operated a fleet of 80 regional aircraft with approximately 277 daily departures, four (4) 737 cargo aircraft and over 2,341 employees. Mesa's flights were conducted under the Company's Capacity Purchase Agreements ("CPAs") and Flight Services Agreement ("FSA"), leased to a third party, held for sale or maintained as operational spares. Mesa operates all of its flights as either United Express or DHL Express flights pursuant to the terms of the CPA entered into United Airlines, Inc. ("United") and FSA with DHL Network Operations (USA), Inc. ("DHL") (each, our "major partner"). Prior to the wind-down and termination of the Company's CPA with American Airlines, Inc. ("American") on April 3, 2023, Mesa also operated flights as American Eagle. All of the Company's consolidated contract revenues for the three and nine months ended June 30, 2023 and June 30, 2022 were derived from operations associated with the American CPA prior to April 3, 2023, the United CPA, FSA, and leases of aircraft to a third party.

The CPA between us and United 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. Under our FSA with DHL, we receive a fee per block hour with a minimum block hour guarantee in exchange for providing cargo flight services. Ground support expenses including fueling and airport fees are paid directly by DHL.

Impact of Pilot Shortage and Transition of Operations to United

During our three and nine months ended June 30, 2023 and fiscal year ended September 30, 2022, the severity of the pilot shortage, elevated pilot attrition, the transition of our operations with American to United, and increasing costs associated with pilot wages adversely impacted our financial results, cash flows, financial position, and other key financial ratios. One of the primary factors contributing to the pilot shortage and attrition is the demand for pilots at major carriers, which are hiring at an accelerated rate. These airlines now seek to increase their capacity to meet the growing demand for air travel as the global pandemic has moderated. A primary source of pilots for the major U.S. passenger and cargo carriers are the U.S. regional airlines.

As a result of pilot shortage and attrition, we produced less block hours to generate revenues and incurred penalties for operational shortfalls under our CPAs. During the nine months ended June 30, 2023, these challenges resulted in a negative impact on the Company's financial results highlighted by cash flows used in operations of $13.8 million and net loss of $91.8 million including a non-cash impairment charge of $51.0 million related to the Company designating 14 CRJ-900 aircraft as held for sale and our customer relationship intangible asset. 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. As of June 30, 2023, the Company is in compliance with all of its debt covenants.

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. As previously disclosed plans in form 10-K for the fiscal year ended September 30, 2022, the following plans continue to be effective.

- The Company and American agreed to terminate and complete a wind-down of the American CPA. The termination eliminated financial penalties incurred under the American CPA.
- We entered into an agreement with a third party to sell eleven (11) of our CRJ-900 aircraft and one (1) CRJ-200 aircraft to raise capital and retire debt. Four (4) aircraft were sold during the quarter ended March 31, 2023, and we expect to complete the sale of the remaining seven (7) aircraft before 2023 fiscal year end. Sale from remaining seven (7) aircraft will generate approximately $21 million of gross proceeds.

Furthermore, the Company implemented the following additional measures during the period.

- Management is currently engaged in efforts to address the RASPRO aircraft repurchase obligation before it comes due. These efforts include, but are not limited to, obtaining equity financing, issuing debt, entering into other financing arrangements, securing a third party to purchase such aircraft, or restructuring the RASPRO aircraft lease facility.
- On June 22, 2023, the Company closed on the sale of 20 spare engines to United. The approximate gross proceeds from this sale was $53.7 million, resulting in approximately $26.9 million of net proceeds after partial debt reduction of $7.8 million on the UMB engine loan, $7.9 million on the United Bridge Loan, and $11.2 million on the UST loan. This transaction completed the sale of the 30 engines to United under the Engine Sale Agreement entered into on December 27, 2022, as previously reported. The Company recorded a gain on the sale of the engines of $6.7 million for the 20 sold during the quarter, and $7.3 million for all 30.
- The Company entered into an agreement to sell seven (7) surplus CRJ-900 aircraft. The approximate gross proceeds from the sale of such aircraft is expected to be $71.8 million and to generate approximately $8.5 million of net proceeds after the retirement of debt. The sale of these aircraft will occur individually throughout the remainder of the fiscal year, with the final transaction expected to be completed in October 2023.
- Management is in active discussion with United to provide additional liquidity through existing lines of credit and other means.
- The Company has unencumbered parts that can be leveraged to provide additional liquidity.
- In addition to already executed agreements to sell aircraft, the Company is actively seeking arrangements to sell other surplus assets including aircraft, engines, and spare parts to reduce debt and optimize operations.

The Company believes the plans and initiatives outlined above have effectively alleviated the financial concerns above and will allow the Company to meet its cash obligations for the next twelve months following the issuance of its financial statements. While we intend to continue to implement and monitor our plans and initiatives, there is no guarantee that these actions will continue to be effective and achieve their desired objectives.

As of June 30, 2023, the Company has $124.3 million of 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 along with the liquidity we expect to achieve from disposition of surplus assets and other plans to improve cashflow from operations as outlined above.

American Capacity Purchase Agreement

For the first three days of the three months ended June 30, 2023, the Company operated 30 CRJ-900 aircraft under an Amended and Restated Capacity Purchase Agreement with American dated November 19, 2020 (as amended, the “American CPA”), after which the wind-down period of the American CPA was completed, and the American CPA was officially terminated. In exchange for providing passenger flight services, we received a fixed monthly minimum amount per aircraft under contract plus certain additional amounts based upon the number of flights and block hours flown during each month. In addition, we also received incentives or incurred penalties based upon our operational performance, including controllable on-time departure (“CD0”) and controllable flight completion factor (“CCF”) percentages. American also reimbursed us for certain costs on an actual basis, including passenger liability and hull insurance and aircraft property taxes. Other expenses, including fuel and certain landing fees, were directly paid to suppliers by American. In addition, American also provided, at no cost to us, certain ground handling and customer service functions as well as airport-related facilities and gates at American hubs and cities where we operated.

In December 2022, we entered into Amendment No. 11 (the “American Amendment”) to the American CPA. The American Amendment provided for the termination and wind-down of the American CPA by April 3, 2023 (the “Wind-down Period”), at which time all Covered Aircraft (as defined in the American CPA) were removed from the American CPA. In March 2023, we began to transition aircraft operated under the American CPA to the United CPA. The American CPA was previously set to expire by its terms on December 31, 2025.

Under the terms of the American Amendment, during the Wind-down Period (i) we continued to receive a fixed minimum monthly amount per aircraft covered by the American CPA, plus additional amounts based on the number of flights and block hours flown during each month, subject to adjustment based on the Company’s controllable completion rate and certain other factors, and (ii) American agreed not to exercise certain termination or withdrawal rights under the American CPA if we failed to meet certain operational performance targets for the three (3) consecutive month period ending January 31, 2023.

We were in compliance with all of the terms of the American CPA during the Wind-down Period and no Material Breach (as defined in the American CPA) occurred. Pursuant to the American Amendment, as no material breaches occurred during the wind-down period, American agreed to waive Mesa's failure to meet certain past operational performance targets and other requirements, which triggered termination and withdrawal rights for American pursuant to the terms of American CPA. All CCF targets were met during the Wind-down Period, and there were no penalties associated with that performance metric.

The American Amendment provided for liquidated damages (the "Liquidated Damages Claim") payable to American in the event of a Material Breach (as defined in the American CPA) of the American CPA or a repudiation by us of our obligations under the American CPA. No Material Breaches occurred during the wind-down period that would require the Company to pay any liquidated damages. The parties executed a written mutual release of all claims and acknowledgment that no Material Breaches have occurred under the American CPA (including, without limitation, any Liquidated Damages Claim).

United Capacity Purchase Agreement

Under the United CPA, we have the ability to fly up to 80 aircraft for United. The aircraft can be a mix of any number of E-175, E-175LL, or CRJ-900 aircraft so long as the number of aircraft operating at any given time does not exceed 80. As of June 30, 2023, we operated 56 E-175 and 24 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 and all of our E-175LL aircraft and leases them to us at nominal amounts. 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. The E-175LL aircraft have terms expiring in 2032 and 2033.

In exchange for providing passenger flight services, we receive a fixed monthly minimum amount per aircraft under contract plus certain additional amounts based upon the number of flights and block hours flown and the results of passenger satisfaction surveys. United reimburses us for certain costs on an actual basis, including property tax per aircraft and passenger liability insurance. United also reimburses us on a pass-through basis for all costs related to heavy airframe and engine maintenance, landing gear, auxiliary power units ("APUs"), and component maintenance for the E-175 aircraft owned by United. Other expenses, including fuel and certain landing fees, are directly paid to suppliers by United.

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.

DHL Flight Services Agreement

On December 20, 2019, we entered into a Flight Services Agreement with DHL (the "DHL FSA"). Under the terms of the DHL FSA, we operate four (4) Boeing 737 aircraft which are leased to us from DHL and a third party to provide cargo air transportation services as of June 30, 2023. In exchange for providing cargo flight services, we receive a fee per block hour with a minimum block hour guarantee. We are eligible for a monthly performance bonus or subject to a monthly penalty based on timeliness and completion performance. Ground support expenses including fueling and airport fees are paid directly by DHL.

Under our DHL FSA, DHL leases two (2) Boeing 737-400F aircraft and one (1) 737-800F and subleases them to us at nominal amounts. DHL reimburses us on a pass-through basis for all costs related to heavy maintenance including C-checks, off-wing engine maintenance and overhauls including life limited parts (“LLPs”), landing gear overhauls and LLPs, thrust reverser overhauls, and APU overhauls and LLPs. Certain items such as fuel, de-icing fluids, landing fees, aircraft ground handling fees, en-route navigation fees, and custom fees are paid directly to suppliers by DHL or otherwise reimbursed if incurred by us. A third Boeing 737-400F aircraft is leased to us under an operating lease by a third party.

The DHL FSA expires five (5) years from the commencement date of the first aircraft placed into service, which was in October 2020. DHL has the option to extend the agreement with respect to one (1) or more aircraft for a period of one year with 90 days’ advance written notice.

Our DHL FSA is subject to the following termination rights prior to its expiration:

- If either party fails to comply with the obligations, warranties, representations, or undertakings under the DHL FSA, subject to certain notice and cure rights;
- If either party is declared bankrupt or insolvent;
- If we are unable to legally operate the aircraft under the DHL FSA for a specified number of days;
- At any time after the first anniversary of the commencement date of the first aircraft placed in service with 90 days' written notice.
- If we fail to comply with performance standards for three (3) consecutive measurement periods.
- If we are subject to a labor incident that materially and adversely affects our ability to perform services under the DHL FSA for a specified number of days;
- Upon a change in control or ownership of the Company; and
- DHL may terminate the agreement for a specific aircraft if it is subject to a total loss and the Company does not provide alternate services at our expense, or if the aircraft becomes unavailable for more than 30 days due to unscheduled maintenance.

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, 2022 included in the Company's Annual Report on Form 10-K for the year ended September 30, 2022 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, 2023, our chief operating decision maker was the Chief Executive Officer. While we operate under a capacity purchase agreement and a flight services agreement, we do not manage our business based on any performance measure at the individual contract level. Our chief operating decision maker uses consolidated financial information to evaluate our performance and allocate resources, which is the same basis on which he communicates our results and performance to our Board of Directors. Accordingly, we have a single operating and reportable segment.

Use of Estimates

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

Contract Revenue and Pass-through and Other Revenue

We recognize contract revenue when the service is provided under our CPA and FSA. Under the CPA and FSA, our major partners generally pay 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 and FSA. Pass-through revenue represents reimbursements for certain direct expenses incurred including passenger liability and hull 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, 2023, we recognized $1.8 million and $1.3 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, 2023 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 June 30,	Total Deferred Revenue
2023 (remainder of)	$ 522
2024	5,602
2025	7,347
2026	3,701
2027	3,358
Thereafter	2,195
Total	$ 22,725

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 $32.3 million and $38.7 million of lease revenue for the three months ended June 30, 2023 and June 30, 2022, respectively, and $111.4 million and $118.5 million during the nine months ended June 30, 2023 and June 30, 2022, 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.

Historically, the Company has lease agreements with GoJet Airlines LLC (“GoJet”) to lease 20 CRJ-700 aircraft. The lease agreements are accounted for as operating leases and have a term of nine (9) years beginning on the delivery date of each aircraft. Under the lease agreements, GoJet pays fixed monthly rent per aircraft and variable lease payments for supplemental rent based on monthly aircraft utilization at fixed rates. Supplemental rent payments are subject to reimbursement following GoJet’s completion of qualifying maintenance events defined in the agreements. Lease revenue for fixed monthly rent payments is recognized ratably within contract revenue. Lease revenue for supplemental rent is deferred and recognized within contract revenue when it is probable that amounts received will not be reimbursed for future qualifying maintenance events over the lease term.

The Company mitigated the residual asset risks through supplemental rent payments and by leasing aircraft and engine types that can be operated by the Company in the event of a default. Additionally, the leases have specified lease return condition requirements and we maintain inspection rights under the leases. Lease incentive obligations for reimbursements of certain aircraft maintenance costs are recognized as lease incentive assets and were amortized on a straight-line basis and recognized as a reduction to lease revenue over the lease term.

During fiscal year 2022, the Company terminated its lease agreement with GoJet to lease 18 of the 20 CRJ-700 aircraft and classified the 18 aircraft as assets held for sale. All 18 aircraft were sold as of June 30, 2023. The remaining two (2) lease agreements are accounted for as finance leases.

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, 2023 (in thousands):

Periods Ending June 30,	Total Payments
2023 (remainder of)	$ 546
2024	2,184
2025	2,184
2026	2,184
2027	2,184
Thereafter	8,008
Total	$ 17,290

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 and DHL under our United CPA and DHL FSA, 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, 2023 and September 30, 2022 were $4.9 million and $3.9 million, respectively. We recognized $0.1 million and $0.2 million of the deferred credits within contract revenue during the three months ended June 30, 2023 and June 30, 2022, respectively, and $1.6 million and $0.6 million during the nine months ended June 30, 2023 and June 30, 2022, 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 $0.8 million and $0.5 million for the three months ended June 30, 2023 and June 30, 2022, respectively, and $2.3 million and $1.2 million for the nine months ended June 30, 2023 and June 30, 2022, respectively. As of June 30, 2023 and September 30, 2022, our deferred heavy maintenance balance, net of accumulated amortization, was $8.8 million and $9.7 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 $11.5 million and $8.1 million for the three months ended June 30, 2023 and June 30, 2022, respectively, of which $11.3 million and $6.0 million, respectively, was pass-through expense. Engine overhaul expense totaled $28.2 million and $18.2 million for the nine months ended June 30, 2023 and June 30, 2022, respectively, of which $27.9 million and $14.5 million, respectively was pass-through expense. Airframe C-check expense totaled $3.8 million and $5.0 million for the three months ended June 30, 2023 and June 30, 2022, respectively, of which $2.4 million and $1.3 million, respectively, was pass-through expense. Airframe C-check expense totaled $12.6 million and $18.8 million for the nine months ended June 30, 2023 and June 30, 2022, respectively, of which $8.6 million and $1.7 million, respectively, 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 (1) 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 6 for further discussion of our assets classified as held for sale as of June 30, 2023.

3. Recent Accounting Pronouncements

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848) (“ASU 2020-04”). This ASU provides optional expedients and exceptions for a limited period of time for accounting for contracts, hedging relationships, and other transactions affected by the London Interbank Offered Rate (LIBOR), or another reference rate expected to be discontinued. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, has determined that the U.S. dollar LIBOR will be replaced by the Secured Overnight Financing Rate (SOFR) after June 30, 2023. Optional expedients can be applied through December 31, 2024. Under the expedient, the Company will account for amendments to agreements as if the modification was not substantial. The new carrying amounts of debts will consist of the carrying amount of the original debt and any additional fees associated with the modified debt instrument. A new effective yield will be established based on the new carrying amount and revised cash flows.

In June 2022, the FASB issued new guidance to clarify the fair value measurement guidance for equity securities subject to contractual restrictions that prohibit the sale of an equity security. Further, the guidance introduces new disclosure requirements for equity securities subject to contractual sale restrictions that are measured at fair value. The standard will be effective for annual reporting periods beginning after December 15, 2023, including interim reporting periods within those fiscal years. We are currently evaluating the impact that the new guidance will have on our consolidated financial statements.

4. Concentrations of Credit Risk

Financial instruments that potentially expose the Company to a concentration of credit risk consist principally of cash and cash equivalents that are primarily held by financial institutions in the United States and accounts receivable. Amounts on deposit with a financial institution may at times exceed federally insured limits. 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, 2023, we had $3.1 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, $3.3 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, 2023 and June 30, 2022 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, 2023 and September 30, 2022 was derived from these agreements.

American accounted for approximately 1% and 46% of our total revenue for the three months ended June 30, 2023 and June 30, 2022, respectively, and 31% and 46% of our total revenue for the nine months ended June 30, 2023 and June 30, 2022, respectively. United accounted for approximately 96% and 47% of our total revenue for the three months ended June 30, 2023 and June 30, 2022, respectively, and 65% and 48% of our total revenue for the nine months ended June 30, 2023 and June 30, 2022, respectively. The wind-down period of the American CPA ended on April 3, 2023, at which 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, 2023 or September 30, 2022. 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. Intangible Assets

Information about our intangible assets as of June 30, 2023 and September 30, 2022, is as follows (in thousands):

	June 30, 2023	September 30, 2022
Customer relationship	—	$ 43,800
Accumulated amortization	—	(38,029)
Impairment	—	(1,929)
Net carrying value	$ —	$ 3,842

Total amortization expense recognized was $0 and $0.3 million for the three months ended June 30, 2023 and June 30, 2022, respectively, and $0.1 million and $0.8 million for the nine months ended June 30, 2023 and June 30, 2022, respectively. The Company recognized an impairment loss of $3.7 million on the customer relationship related to the

American CPA during the nine months ended June 30, 2023, which was recorded in asset impairment on our condensed consolidated statements of operations and comprehensive loss. Accordingly, we expect to record amortization expense of zero for the remainder of 2023 and thereafter.

6. 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.

During the three months ended June 30, 2023, the Company closed on the sale of 20 spare engines to United. The approximate gross proceeds from the sale was $53.7 million and generated approximately $26.9 million of net proceeds after partial debt reduction. This transaction completed the sale of the 30 engines to United under the Engine Sale Agreement entered into on December 27, 2022, as previously reported. The Company recorded a gain on the sale of the engines of $6.7 million for the 20 sold during the quarter, and $7.3 million for all 30.

During the three months ended June 30, 2023, seven (7) CRJ-900 aircraft were designated as held for sale. The Company wrote down the value of the aircraft to the agreed upon sales price and recorded an impairment loss of $30.5 million.

As of June 30, 2023, the Company has 21 CRJ-900 aircraft and one (1) CRJ-200 aircraft that are classified as assets held for sale with a net book value of $112.0 million, which is reflected within assets held for sale on our condensed consolidated balance sheet.

7. Balance Sheet Information

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

	June 30, 2023	September 30, 2022
Expendable parts and supplies, net:		
Expendable parts and supplies	$ 38,123	$ 31,913
Less: obsolescence and other	(9,392)	(5,198)
	$ 28,731	$ 26,715
Prepaid expenses and other current assets:		
Prepaid aviation insurance	$ 3,176	$ 2,618
Prepaid vendors	143	1,310
Prepaid other insurance	1,290	1,268
Lease incentives	337	352
Prepaid fuel and other	1,418	1,068
	$ 6,364	$ 6,616
Property and equipment, net:		
Aircraft and other flight equipment	$ 1,041,056	$ 1,260,143
Other equipment	9,452	10,420
Total property and equipment	1,050,508	1,270,563
Less: accumulated depreciation	(340,814)	(405,309)
	$ 709,694	$ 865,254
Other assets:		
Investments in equity securities	$ 18,187	$ 15,178
Lease incentives	990	1,097
Contract asset	9,149	—
Other	515	15
	$ 28,841	$ 16,290
Other accrued expenses:		
Accrued property taxes	$ 4,682	$ 5,866
Accrued interest	5,247	2,882
Accrued vacation	6,832	4,746
Accrued lodging	4,181	3,795
Accrued maintenance	638	1,453
Accrued liability on government payroll program	—	2,967
Accrued simulator costs	931	1,045
Accrued employee benefits	1,331	1,679
Accrued fleet operating expense	504	1,606
Short term lease incentive liability	97	97
Other	2,278	2,864
	$ 26,721	$ 29,000
Other noncurrent liabilities:		
Warrant liabilities	$ 25,225	$ 25,225
Lease incentive obligations	1,050	1,050
Long-term employee benefits	610	1,123
Other	1,821	1,821
	$ 28,706	$ 29,219

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 fiscal year ended September 30, 2022, due to the impacts of the pilot shortage and the pilot wage increase, the Company assessed whether any indicators of impairment existed in any of our long-lived asset groups. The Company concluded there was impairment of its American asset group and recorded it as asset impairment in our condensed consolidated statements of operations and comprehensive loss.

During the nine months ended June 30, 2023, the Company qualitatively evaluated indictors of impairment and concluded that the remaining carrying value of the American intangible asset required impairment. The Company recognized a total impairment loss of $3.7 million related to the American intangible asset in the condensed consolidated statements of operations and comprehensive loss. Additionally, seven (7) CRJ-900 aircraft under the agreement with RASPRO Trust and seven (7) CRJ-900 aircraft under the agreement with Export Development Canada (EDC) reclassified to held for sale during the nine months ended June 30, 2023, were evaluated for impairment and determined that the carrying value of the assets exceeded their estimated fair value. The Company recognized an impairment loss of $30.5 million and $47.2 million during the three and nine months ended June 30, 2023, respectively, related to the held for sale aircraft. The Company determined that 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 $15.3 million and $19.3 million for the three months ended June 30, 2023 and June 30, 2022, respectively, and $46.9 million and $59.9 million for the nine months ended June 30, 2023 and June 30, 2022, 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.

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.

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.

Total net gain/(loss) on our investments in equity securities totaled $2.9 million and $(3.9) million for the three months ended June 30, 2023 and June 30, 2022, respectively, and $3.3 million and $(12.6) million for the nine months ended June 30, 2023 and June 30, 2022, respectively, and are reflected in gain/(loss) on investments, net in our condensed consolidated statements of operations and comprehensive loss. As of June 30, 2023 and September 30, 2022, the aggregate carrying amount of our investments in equity securities was $18.2 million and $15.2 million, respectively, and the carrying amount of our investments without readily determinable fair values was $8.8 million and $9.0 million, respectively.

8. 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 6 and 7, respectively, we did not measure any of our assets or liabilities at fair value on a recurring or nonrecurring basis as of June 30, 2023 and September 30, 2022.

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, 2023		September 30, 2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt and finance leases, including current maturities[1]	$ 577.5	$ 534.4	$ 615.3	$ 541.7

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

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

Long-term debt as of June 30, 2023 and September 30, 2022, consisted of the following (in thousands):

	June 30, 2023	September 30, 2022
Senior and subordinated notes payable to secured parties, due in monthly installments, interest based on LIBOR plus interest spread at 2.71% through 2027, collateralized by the underlying aircraft	$ 67,206	$ 73,850
Notes payable to secured parties, due in semi-annual installments, interest based on LIBOR plus interest spread at 4.75% to 6.25% through 2028, collateralized by the underlying aircraft	120,053	131,010
Notes payable to secured parties, due in quarterly installments, interest based on LIBOR plus interest at spread 2.20% to 2.32% for senior note & 4.50% for subordinated note through 2028, collateralized by the underlying aircraft	94,571	106,865
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	30,630	15,630
United Bridge Loan - due in quarterly installments based on SOFR plus interest spread at 4.50% through 2024	2,622	-
Other obligations due to financial institution, monthly and/or quarterly interest due from 2022 through 2031, collateralized by the underlying equipment	72,657	18,038
Notes payable to financial institution, due in monthly installments, interest based on LIBOR plus interest spread at 3.10% through 2024, collateralized by the underlying equipment	1,869	26,758
Notes payable to financial institution, due in monthly installments, plus interest spread at 5.00% through 2023, secured by flight equipment	—	2,000
Notes payable to financial institution, due in monthly installments, interest based on fixed interest of 7.50%, through 2027, collateralized by the underlying equipment	43,525	36,212
Notes payable to financial institution, quarterly interest based on LIBOR plus interest spread at 3.50% through 2027	144,400	204,947
Gross long-term debt, including current maturities	577,533	615,310
Less unamortized debt issuance costs	(5,745)	(8,303)
Less notes payable warrants	(5,506)	(7,272)
Net long-term debt, including current maturities	566,282	599,735
Less current portion, net of unamortized debt issuance costs	(124,341)	(97,218)
Net long-term debt	$ 441,941	$ 502,517

Principal maturities of long-term debt as of June 30, 2023, and for each of the next five years are as follows (in thousands):

Periods Ending June 30,	Total Principal
2023 (remainder of)	$ 23,893
2024	122,194
2025	70,222
2026	219,302
2027	89,200
Thereafter	52,721
	$ 577,533

The carrying value of collateralized aircraft and equipment as of June 30, 2023 was approximately $729.8 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, 2023, we had $120.1 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. 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.

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 LIBOR 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 ten (10) business days prior to the last business day of March and September of each year beginning March 2021, to appraise the value of the Collateral and recalculate the collateral coverage ratio. If the calculated collateral coverage ratio is less than 1.6 to 1.0, 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 1.6 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.

In December 2022, we entered into an agreement with the U.S. Treasury to lower the minimum collateral coverage ratio ("CCR") covenant to 1.55 to 1.0 effective through the maturity date of the Treasury Loan and waive the CCR covenant requirement with respect to the release of liens on Collateral. We are in compliance with the terms of the Treasury Loan as of June 30, 2023.

Spare Engine Financing

In December 2021, we entered into a loan agreement with a financing institution to finance certain purchases of spare engines via a newly formed limited liability company (“LLC”). The loan agreement provides for aggregate borrowings of up to $54.0 million through November 2022. In December 2021, we borrowed an aggregate of $35.3 million under the loan agreement, which matures in December 2027. The borrowed amounts are collateralized by the underlying engines and require monthly principal and interest payments until maturity. In December 2022, the agreement was amended for the borrowings under the loan agreement to bear a fixed interest rate of 7.5%. The borrowings are the obligation of the newly formed LLC and are guaranteed by Mesa Airlines, Inc.

The newly formed LLC, which is wholly owned by Mesa, was determined to be a VIE for which we are the primary beneficiary because we have the power to direct the activities of the LLC that most significantly impact the LLC's economic performance and the obligation to absorb losses and right to receive benefits from the LLC in our capacity as sole member of the LLC and guarantor of the borrowings. Therefore, the LLC is consolidated in our financial statements and the borrowings are reflected as long-term debt in our condensed consolidated balance sheets.

The loan agreement contains a loan-to-value ("LTV") financial covenant pursuant to which we are required to prepay certain amounts of the loan if the aggregate outstanding principal balance of the loan exceeds a specified percentage of the appraised value of the engines beginning in the 12th full month after closing and each June 1 and December 1 thereafter.

10. Loss Per Share

Calculations of net loss per common share were as follows (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2023	2022	2023	2022
Net loss	$ (47,560)	$ (9,985)	$ (91,771)	$ (67,042)
Basic weighted average common shares outstanding	40,688	36,183	38,986	36,064
Diluted weighted average common shares outstanding	40,688	36,183	38,986	36,064
Net loss per common share attributable to Mesa Air Group:				
Basic	$ (1.17)	$ (0.28)	$ (2.35)	$ (1.86)
Diluted	$ (1.17)	$ (0.28)	$ (2.35)	$ (1.86)

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 unvested restricted stock and warrants would have an anti-dilutive effect.

The following number of weighted-average potentially dilutive shares were excluded from the calculation of diluted net loss per share because the effect of including such potentially dilutive shares would have been anti-dilutive:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2023	2022	2023	2022
Warrants	—	—	—	1,011
Restricted stock	—	—	—	142
	—	—	—	1,153

11. Common Stock

As discussed in Note 9, 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, 2023, 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.

12. Income Taxes

Our effective tax rate ("ETR") from continuing operations was 5.5% and 5.9% for the three and nine months ended June 30, 2023, respectively, and 19.9% and 22.1% for the three and nine months ended June 30, 2022, respectively. The Company's ETR during the three and nine months ended June 30, 2023 decreased from the prior year tax rate, primarily as a result of certain tax differences, state taxes, and changes in the valuation allowance against federal and state net operating losses.

We 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 September 30, 2022, the Company had aggregate federal and state net operating loss carryforwards of approximately $591.4 million and $247.0 million, respectively, which expire in fiscal years 2027-2038 and 2023-2043, respectively. Approximately $5.2 million of state net operating loss carryforwards are expected to expire in the current fiscal year.

13. 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 (3) to five (5) years for employees and one (1) 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, 2023 is summarized as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Restricted shares unvested at September 30, 2022	1,172,493	$ 4.43
Granted	483,723	$ 2.43
Vested	(553,755)	$ 4.61
Forfeited	(220,533)	$ 3.39
Restricted shares unvested at June 30, 2023	881,928	$ 3.65

As of June 30, 2023, there was $2.7 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 1.4 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, 2023 and June 30, 2022 was $0.6 million and $0.7 million, respectively, and for the nine months ended June 30, 2023 and June 30, 2022 was $1.9 million and $2.1 million, respectively.

Shares for Restricted Stock Units Tax Withholding

The amounts remitted for employee withholding taxes during the three months ended June 30, 2023 and June 30, 2022 were $0.3 million and $0.4 million, respectively, for which the Company withheld 163,920 and 132,151 shares of our common stock, respectively, that were underlying the RSUs that vested.

14. 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, 2023, eligible employees purchased and we issued an aggregate of 356,415 Mesa Air Group, Inc. ordinary shares under the 2019 ESPP, 52,278 of which were purchased and issued during the nine months ended June 30, 2023.

15. Leases

As of June 30, 2023, we leased 18 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 $3.6 million and $10.8 million for the three months ended June 30, 2023 and June 30, 2022, respectively, and $14.3 million and $33.1 million for the nine months ended June 30, 2023 and June 30, 2022, respectively.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2023	2022	2023	2022
Operating lease costs	$ 1,283	$ 9,534	$ 7,259	$ 28,678
Variable and short-term lease costs	998	1,311	$ 3,121	$ 4,392
Interest expense on finance lease liabilities	230	—	$ 734	—
Amortization expense of finance lease assets	1,046	—	3,138	—
Total lease costs	$ 3,557	$ 10,845	$ 14,252	$ 33,070

As of June 30, 2023, our operating leases have a remaining weighted average lease term of 6.2 years and our operating lease liabilities were measured using a weighted average discount rate of 5.3%.

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.

16. Commitments and Contingencies

Litigation

We are subject to certain legal actions which we consider routine to our business activities. As of June 30, 2023, 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 7, 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 7, 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.

17. Subsequent Events

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

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

Overview

Mesa Airlines is a regional air carrier providing scheduled passenger service to 89 cities in 40 states, the District of Columbia, the Bahamas, Canada, Cuba, and Mexico as well as cargo services out of Cincinnati/Northern Kentucky International Airport. All of our flights are operated as either United Express or DHL Express flights pursuant to the terms of the capacity purchase agreement (“CPA”) entered into with United Airlines, Inc. (“United”), and a Flight Services Agreement (“FSA”) with DHL Network Operations (USA), Inc. (“DHL”) (each, our "major partner"). Prior to the wind-down and termination of our CPA with American Airlines, Inc. ("American") on April 3, 2023, we also operated flights as American Eagle. We have a significant presence in several of our major partners' key domestic hubs and focus cities, including Dallas, Houston, Phoenix and Washington-Dulles.

As of June 30, 2023, our fleet consisted of 84 aircraft which we operated under our CPA and FSA, leased to a third party, held for sale or maintained as spares, with approximately 277 daily departures. For the first three days of the three months ended June 30, 2023, we operated 30 CRJ-900 aircraft under our American CPA, after which the wind-down period of the America CPA was complete, and the American CPA was officially terminated. As of June 30, 2023, we operated 56 E-175 and 24 CRJ-900 aircraft under our United CPA. We operated three (3) Boeing 737-400F and one (1) 737-800F aircraft under our DHL FSA. We leased two (2) aircraft under our lease with a third party. As of June 30, 2023, approximately 93% of our aircraft in scheduled service were operated for United, approximately 5% were operated for DHL, and approximately 2% were leased to a third party. All of our operating revenue in our three and nine months ended June 30, 2023 was derived from operations associated with our American and United CPAs, DHL FSA, and from leases of aircraft to a third party.

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.

Under our DHL FSA, we receive a fee per block hour with a minimum monthly block hour guarantee in exchange for providing cargo flight services. Ground support including fueling and airport fees are paid directly by DHL.

Impact of the COVID-19 Pandemic

Beginning in fiscal 2020, COVID-19 surfaced in nearly all regions around the world and resulted in travel restrictions and business slowdowns or shutdowns in affected areas. The COVID-19 pandemic negatively affected our revenue and operating results during fiscal 2022, 2021, and 2020. Any similar outbreaks in the future may have a material impact on our financial condition, liquidity, and results of operations in future periods. Since a portion of our revenue is fixed due to the structure of our CPAs, the impact to Mesa from the COVID-19 pandemic has been partially mitigated. In addition, our exposure to fluctuations in passenger traffic, ticket and fuel prices is limited.

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 CPAs and FSA with our major partners, along with the additional amounts received based on the number of flights and block hours flown, and rental revenue for aircraft leased to GoJet Airlines L.L.C. Contract revenues we receive from our major partners are paid and recognized over time consistent with the delivery of service under our CPAs and FSA.

Pass-Through and Other Revenue. Pass-through and other revenue consists of passenger and hull 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 CPAs and FSA (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 CPAs and FSA are directly paid and supplied by our major partners. Accordingly, we do not record an expense or pass-through revenue for fuel supplied by American and United for flying under our CPAs or DHL under our FSA.

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.

Gain/Loss on Investments, Net. 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.

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 CPAs and FSA.

While we operate under a capacity purchase agreement and a flight services 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, 2023 Compared to Three Months Ended June 30, 2022

We had an operating loss of $40.2 million in our three months ended June 30, 2023 compared to operating income of $0.2 million in our three months ended June 30, 2022. In our three months ended June 30, 2023, we had net loss of $47.6 million compared to net loss of $10.0 million in our three months ended June 30, 2022.

Our operating results for the three months ended June 30, 2023 worsened as a result of decreases in contract revenue due to reduced block hours flown and fewer aircraft under contract, partially offset by an increased United block hour compensation rate for our new pilot pay scale. Our operating expenses worsened as a result of (i) increases in flight operations expense, due to the implementation of the new pilot pay scale that began on September 15, 2022; (ii) impairment, due to the impairment charge associated with designating seven (7) CRJ-900 aircraft as held for sale; (iii) increased pilot training costs; and (iv) an increase in general and administrative expense due to an increase in pass-through property tax expense and outside services. These increases in operating expense were partially offset by decreases in aircraft rent expense, due to the new agreement with RASPRO Trust entered into in December 2022 in which 15 of our CRJ-900 aircraft were reclassified from operating leases to finance leases; and depreciation and amortization expense, primarily due to the reduced carrying value of our CRJ-900 aircraft asset that was determined to be impaired during fiscal year 2022.

Operating Revenues

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Change	
Operating revenues ($ in thousands):				
Contract	$ 94,356	$ 118,899	$ (24,543)	(20.6)%
Pass-through and other	20,335	15,498	4,837	31.2%
Total operating revenues	$ 114,691	$ 134,397	$ (19,706)	(14.7)%
Operating data:				
Available seat miles—ASMs (thousands)	1,002,945	1,553,616	(550,671)	(35.4)%
Block hours	45,301	63,486	(18,185)	(28.6)%
Revenue passenger miles—RPMs (thousands)	844,291	1,358,298	(514,007)	(37.8)%
Average stage length (miles)	555	619	(64)	(10.3)%
Contract revenue per available seat mile—CRASM (in cents)	¢ 9.41	¢ 7.65	¢ 1.76	23.0%
Passengers	1,500,634	2,164,295	(663,661)	(30.7)%

"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 $19.7 million, or 14.7%, to $114.7 million for our three months ended June 30, 2023 as compared to our three months ended June 30, 2022. Contract revenue decreased by $24.5 million, or 20.6%, to $94.4 million primarily driven by reduced block hours flown and fewer aircraft under contract compared to the three months ended June 30, 2022, partially offset by an increased United block hour compensation rate for our new pilot pay scale. Our block hours flown during our three months ended June 30, 2023, decreased 28.6% compared to the three months ended June 30, 2022 due to a decrease in scheduled flying for United across the E-175 and CRJ fleet. Our pass-through and other revenue increased $4.8 million, or 31.2%, to $20.3 million compared to our three months ended June 30, 2022 due to an increase in pass-through maintenance related to our E-175 fleet.

Operating Expenses

	Three Months Ended June 30,		Change	
	2023	2022		
Operating expenses ($ in thousands):				
Flight operations	$ 51,557	$ 43,254	$ 8,303	19.2 %
Maintenance	51,072	49,694	1,378	2.8 %
Aircraft rent	864	9,299	(8,435)	(90.7)%
General and administrative	11,346	11,112	234	2.1 %
Depreciation and amortization	15,316	20,103	(4,787)	(23.8)%
Asset impairment	30,489	—	30,489	100.0 %
(Gain) on sale of assets	(6,722)	—	(6,722)	100.0 %
Other operating expenses	999	722	277	38.4 %
Total operating expenses	$ 154,921	$ 134,184	$ 20,737	15.5 %
Operating data:				
Available seat miles—ASMs (thousands)	1,002,945	1,553,616	(550,671)	(35.4)%
Block hours	45,301	63,486	(18,185)	(28.6)%
Average stage length (miles)	555	619	(64)	(10.3)%
Departures	24,555	33,291	(8,736)	(26.2)%

Flight Operations. Flight operations expense increased $8.3 million, or 19.2%, to $51.6 million for our three months ended June 30, 2023 compared to our three months ended June 30, 2022. The increase was primarily driven by the implementation of our new pilot pay scale.

Maintenance. Aircraft maintenance expense increased $1.4 million, or 2.8%, to $51.1 million for our three months ended June 30, 2023 compared to our three months ended June 30, 2022. This increase was primarily driven by increases in pass-through engine overhauls and pass-through C-check maintenance expenses, partially offset by a lower volume of airframe C-checks, other pass-through, component contracts, rotable and expendable parts, and engine overhaul. Total pass-through maintenance expenses reimbursed by our major partners increased by $5.7 million during our three months ended June 30, 2023 compared to our three months ended June 30, 2022.

The following table presents information regarding our maintenance costs during the three months ended June 30, 2023 and June 30, 2022 (in thousands):

	Three Months Ended June 30,		Change	
	2023	2022		
Engine overhaul	$ 199	$ 2,052	$ (1,853)	(90.3)%
Pass-through engine overhaul	11,263	6,028	5,235	86.8 %
C-check	1,424	3,725	(2,301)	(61.8)%
Pass-through C-check	2,368	1,260	1,108	87.9 %
Component contracts	4,756	6,131	(1,375)	(22.4)%
Rotable and expendable parts	4,850	5,726	(876)	(15.3)%
Other pass-through	4,366	4,997	(631)	12.6 %
Labor and other	21,846	19,775	2,071	10.5 %
Total	$ 51,072	$ 49,694	$ 1,378	2.8 %

Aircraft Rent. Aircraft rent expense decreased $8.4 million, or 90.7%, to $0.9 million for our three months ended June 30, 2023 compared to our three months ended June 30, 2022. The decrease is primarily due to the new agreement with RASPRO Trust in December 2022 in which 15 of our CRJ-900 aircraft were reclassified from operating leases to finance leases.

General and Administrative. General and administrative expense increased $0.2 million, or 2.1%, to $11.3 million for our three months ended June 30, 2023 compared to our three months ended June 30, 2022. The increase is primarily driven by an increase in wages and related expenses.

Depreciation and Amortization. Depreciation and amortization expense decreased by $4.8 million, or 23.8%, to $15.3 million for our three months ended June 30, 2023 compared to our three months ended June 30, 2022 due to (i) the sale of 18 CRJ-700 aircraft; (ii) aircraft in our fleet being classified as non-depreciable assets held for sale; and (iii) the reduced carrying value of our CRJ-900 aircraft asset that was determined to be impaired during the prior fiscal year ended September 30, 2022.

Asset Impairment. Asset impairment charge of $30.5 million was recorded for our three months ended June 30, 2023 related to seven (7) CRJ-900 aircraft being designated as held for sale. There was no impairment recorded for the three months ended June 30, 2022.

Gain on sale of assets. A gain on the sale of assets of $6.7 million was recorded for our three months ended June 30, 2023 related to the sale of 20 Engines to United. There was no gain on sale of assets recorded for the three months ended June 30, 2022.

Other Operating Expenses. Other operating expenses increased $0.3 million, or 38.4%, to $1.0 million for our three months ended June 30, 2023 compared to our three months ended June 30, 2022. The increase is primarily attributable to aircraft servicing expense during the three months ended June 30, 2023.

Other Expense

Other expense decreased $2.6 million, or 20.5%, to $10.1 million for our three months ended June 30, 2023, compared to our three months ended June 30, 2022. The decrease is primarily attributable to an increase of unrealized gains on investments in equity securities of $6.8 million compared to the three months ended June 30, 2022, partially offset by an increase of $3.3 million on interest expense.

Income Taxes

The income tax benefit totaled $2.8 million for the three months ended June 30, 2023 as compared to a tax benefit of $2.5 million for the three months ended June 30, 2022. The effective tax rate ("ETR") from continuing operations was 5.5% for the three months ended June 30, 2023 compared to 19.9% for the three months ended June 30, 2022. Our ETR during the three months ended June 30, 2023 decreased from the prior year tax rate, primarily as a result of certain 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 September 30, 2022, the Company had aggregate federal and state net operating loss carryforwards of $591.4 million and $247.0 million, respectively, which expire in 2027-2038 and 2023-2043, respectively. Approximately $5.2 million of state net operating loss carryforwards are expected to expire in the current year.

Nine Months Ended June 30, 2023 Compared to Nine Months Ended June 30, 2022

We had operating loss of $64.1 million in our nine months ended June 30, 2023 compared to operating loss of $48.5 million in our nine months ended June 30, 2022. In our nine months ended June 30, 2023, we had net loss of $91.8 million compared to net loss of $67.0 million in our nine months ended June 30, 2022.

Our operating results for the nine months ended June 30, 2023 worsened as a result of (i) increases in flight operations expense, due to the implementation of the new pilot pay scale that began on September 15, 2022; (ii) impairment, due to the impairment charge associated with designating 14 CRJ-900 aircraft as held for sale; (iii) increased pilot training costs; and (iv) an increase in general and administrative expense due to an increase in pass-through property tax expense and outside services. These increases in operating expense were partially offset by decreases in aircraft rent expense, due to the new agreement with RASPRO Trust entered into in December 2022 in which 15 of our CRJ-900 aircraft were reclassified from operating leases to finance leases; depreciation and amortization expense, primarily due to the reduced carrying value of our CRJ-900 aircraft asset that was determined to be impaired during fiscal year 2022; and maintenance expense as a result of fewer C-check events and lower component contracts and parts expense.

Operating Revenues

	Nine Months Ended June 30, 2023	Nine Months Ended June 30, 2022	Change	
Operating revenues ($ in thousands):				
Contract	$ 326,588	$ 367,781	$ (41,193)	(11.2)%
Pass-through and other	57,111	37,586	19,525	51.9%
Total operating revenues	$ 383,699	$ 405,367	$ (21,668)	(5.3)%
Operating data:				
Available seat miles—ASMs (thousands)	3,244,461	5,275,133	(2,030,672)	(38.5)%
Block hours	144,427	215,178	(70,751)	(32.9)%
Revenue passenger miles—RPMs (thousands)	2,705,920	4,427,618	(1,721,698)	(38.9)%
Average stage length (miles)	554	644	(90)	(14.0)%
Contract revenue per available seat mile—CRASM (in cents)	¢ 10.07	¢ 6.97	¢ 3.10	44.5%
Passengers	4,792,859	6,779,398	(1,986,539)	(29.3)%

Total operating revenue decreased by $21.7 million, or 5.3%, to $383.7 million for our nine months ended June 30, 2023 as compared to our nine months ended June 30, 2022. Contract revenue decreased by $41.2 million, or 11.2%, to $326.6 million due to reduced block hours flown and fewer aircraft under contract compared to the nine months ended June 30, 2022, partially offset by an increased United block hour compensation rate for our new pilot pay scale. Our block hours flown during our nine months ended June 30, 2023, decreased 32.9% compared to the nine months ended June 30, 2023 due to a decrease in scheduled flying for United across the E-175 and CRJ fleet. Our pass-through and other revenue increased during our nine months ended June 30, 2023 by $19.5 million, or 51.9%, to $57.1 million due to an increase in pass-through maintenance related to our E-175 fleet.

Operating Expenses

	Nine Months Ended June 30, 2023	Nine Months Ended June 30, 2022	Change	
Operating expenses ($ in thousands):				
Flight operations	$ 164,707	$ 133,262	$ 31,445	23.6%
Maintenance	145,344	156,032	(10,688)	(6.8)%
Aircraft rent	5,782	28,319	(22,537)	(79.6)%
General and administrative	38,872	31,550	7,322	23.2%
Depreciation and amortization	47,060	61,878	(14,818)	(23.9)%
Asset impairment	50,951	39,475	11,476	29.1%
(Gain) on sale of assets	(7,271)	—	(7,271)	100.0%
Other operating expenses	2,358	3,379	(1,021)	(30.2)%
Total operating expenses	$ 447,803	$ 453,895	$ (6,092)	(1.3)%
Operating data:				
Available seat miles—ASMs (thousands)	3,244,461	5,275,133	(2,030,672)	(38.5)%
Block hours	144,427	215,178	(70,751)	(32.9)%
Average stage length (miles)	554	644	(90)	(14.0)%
Departures	52,331	108,721	(56,390)	(51.9)%

Flight Operations. Flight operations expense increased $31.4 million, or 23.6%, to $164.7 million for our nine months ended June 30, 2023 compared to our nine months ended June 30, 2022. The increase was primarily driven by the implementation of our new pilot and flight attendant pay scale and an increase in lodging and pilot training-related costs, partially offset by a decrease in flight activity.

Maintenance. Aircraft maintenance expense decreased $10.7 million, or 6.8%, to $145.3 million for our nine months ended June 30, 2023 compared to our nine months ended June 30, 2022. This decrease was primarily driven by a lower volume of airframe C-checks, other pass-through component contracts, rotable and expendable parts, and engine overhaul, partially offset by increases in pass-through engine overhauls and pass-through C-check maintenance expenses. Total pass-through maintenance expenses reimbursed by our major partners increased by $14.4 million during our nine months ended June 30, 2023 compared to our nine months ended June 30, 2022.

The following table presents information regarding our maintenance costs during our nine months ended June 30, 2023 and June 30, 2022 (in thousands):

	Nine Months Ended June 30,			
	2023	2022	Change	
Engine overhaul	$ 359	$ 3,699	$ (3,340)	(90.3)%
Pass-through engine overhaul	27,903	14,453	13,450	93.1%
C-check	3,962	17,047	(13,085)	(76.8)%
Pass-through C-check	8,644	1,749	6,895	394.2%
Component contracts	15,168	20,380	(5,212)	(25.6)%
Rotable and expendable parts	15,537	21,167	(5,630)	(26.6)%
Other pass-through	11,008	16,996	(5,988)	(35.2)%
Labor and other	62,763	60,541	2,222	3.7%
Total	$ 145,344	$ 156,032	$ (10,688)	(6.8)%

Aircraft Rent. Aircraft rent expense decreased $22.5 million, or 79.6%, to $5.8 million for our nine months ended June 30, 2023 compared to our nine months ended June 30, 2022. The decrease is primarily due to the reduced carrying value of our CRJ-900 aircraft lease liability that was determined to be impaired during the prior fiscal year ended September 30, 2022.

General and Administrative. General and administrative expense increased $7.3 million, or 23.2%, to $38.9 million for our nine months ended June 30, 2023 compared to our nine months ended June 30, 2022. The increase is primarily driven by pass-through property taxes, higher wages, and outside consulting.

Depreciation and Amortization. Depreciation and amortization expense decreased $14.8 million, or 23.9%, to $47.1 million for our nine months ended June 30, 2023 compared to our nine months ended June 30, 2022 due to aircraft in our fleet being classified as non-depreciable assets held for sale and the reduced carrying value of our CRJ-900 aircraft assets that were determined to be impaired during the prior fiscal year ended September 30, 2022.

Asset Impairment. Asset impairment charges of $51.0 million were recorded for our nine months ended June 30, 2023 related to eight 14 CRJ 900 aircraft held for sale and impairment related to the American customer relationship intangible asset compared to $39.5 million for the nine months ended June 30, 2022 due to the impairment loss on twelve 12 CRJ-900 aircraft designated as held for sale during the nine months ended June 30, 2022.

Gain on sale of assets. A gain on the sale of assets of $7.3 million was recorded for our nine months ended June 30, 2023 related to the sale of 30 Engines to United. There was no gain on sale of assets recorded for the nine months ended June 30, 2022.

Other Operating Expenses. Other operating expenses decreased $1.0 million, or 30.2%, to $2.4 million for nine months ended June 30, 2023 compared to our nine months ended June 30, 2022. The decrease is primarily due to a decrease in fuel expense during the nine months ended June 30, 2023.

Other Expense

Other expense decreased $4.1 million, or 10.8%, to $33.5 million for our nine months ended June 30, 2023 compared to our nine months ended June 30, 2022. The decrease is primarily attributable to an increase of unrealized gains on investments in equity securities of $15.9 million compared to the nine months ended June 30, 2022, partially offset by an increase in interest expense due to higher interest rates and greater outstanding finance lease principal balances.

Income Taxes

The income tax benefit totaled $5.8 million for the nine months ended June 30, 2023 as compared to a tax benefit of $19.0 million for the nine months ended June 30, 2022. The ETR was 5.9% for the nine months ended June 30, 2023 compared to 22.1% for the nine months ended June 30, 2022. Our ETR during the nine months ended June 30, 2023 decreased from the nine months ended June 30, 2022 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 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.

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,	
	2023	2022	2023	2022
Reconciliation:				
Net loss	$ (47,560)	$ (9,985)	$ (91,771)	$ (67,042)
Income tax benefit	(2,764)	(2,493)	(5,791)	(18,987)
Loss before taxes	(50,324)	(12,478)	$ (97,562)	$ (86,029)
(Gain)/Loss on investments, net	(2,859)	3,926	(3,275)	12,649
Adjustments[1][2][3][4][5][6][7]	24,098	(135)	44,673	39,708
Adjusted loss before taxes	(29,085)	(8,687)	(56,164)	(33,672)
Interest expense	12,015	8,716	36,321	24,766
Interest income	(8)	(24)	(128)	(117)
Depreciation and amortization	15,316	20,103	47,060	61,878
Adjusted EBITDA	$ (1,762)	$ 20,108	$ 27,089	$ 52,855
Aircraft rent	864	9,299	5,782	28,319
Adjusted EBITDAR	$ (898)	$ 29,407	$ 32,871	$ 81,174

[1] $0.1 million true-up adjustment recorded during the three months ended June 30, 2022 related to the termination loss previously recorded in Q2 2022 pertaining to the abandonment of one of our leased facilities.
[2] $0.2 million impairment loss on operating lease right of use asset related to the abandonment of one the Company's leased facilities during the nine months ended June 30, 2022.
[3] $39.5 million impairment loss on held for sale accounting treatment on 12 CRJ 900 aircraft during the nine months ended June 30, 2022.
[4] $30.5 million and $47.2 million impairment loss on held for Sale accounting treatment on seven (7) and 14 CRJ 900 aircraft during the three and nine months, respectively ended June 30, 2023.
[5] $3.7 million impairment loss on intangible asset during the nine months ended June 30, 2023.
[6] $0.3 million and $1.0 million loss on deferred financing costs related to retirement of debts during the three and nine months, respectively ended June 30, 2023.
[7] $6.7 million and $7.3 million gain from the sale of 20 and 30 engines during the three and nine months, respectively ended June 30, 2023.

Liquidity and Capital Resources

Impact of Pilot Shortage and Transition of Operations to United

During our three and nine months ended June 30, 2023 and fiscal year ended September 30, 2022, the severity of the pilot shortage, elevated pilot attrition, the transition of our operations with American to United, and increasing costs associated with pilot wages adversely impacted our financial results, cash flows, financial position, and other key financial ratios. One of the primary factors contributing to the pilot shortage and attrition is the demand for pilots at major carriers, which are hiring at an accelerated rate. These airlines now seek to increase their capacity to meet the growing demand for air travel as the global pandemic has moderated. A primary source of pilots for the major U.S. passenger and cargo carriers are the U.S. regional airlines.

As a result of pilot shortage and attrition, we produced less block hours to generate revenues and incurred penalties for operational shortfalls under our CPAs. During the nine months ended June 30, 2023, these challenges resulted in a negative impact on the Company's financial results highlighted by cash flows used in operations of $13.8 million and net loss of $91.8 million including a non-cash impairment charge of $51.0 million related to the Company designating 14 CRJ-900 aircraft as held for sale and our customer relationship intangible asset. 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. As of June 30, 2023, the Company is in compliance with all of its debt covenants.

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. As previously disclosed plans in form 10-K for the fiscal year ended September 30, 2022, the following plans continue to be effective.

- The Company and American agreed to terminate and complete a wind-down of the American CPA. The termination eliminated financial penalties incurred under the American CPA.
- We entered into an agreement with a third party to sell eleven (11) of our CRJ-900 aircraft and one (1) CRJ-200 aircraft to raise capital and retire debt. Four (4) aircraft were sold during the quarter ended March 31, 2023, and we expect to complete the sale of the remaining seven (7) aircraft before 2023 fiscal year end. Sale from remaining seven (7) aircraft will generate approximately $21 million of gross proceeds.

Furthermore, the Company implemented the following additional measures during the period.

- Management is currently engaged in efforts to address the RASPRO aircraft repurchase obligation before it comes due. These efforts include, but are not limited to, obtaining equity financing, issuing debt, entering into other financing arrangements, securing a third party to purchase such aircraft, or restructuring the RASPRO aircraft lease facility.
- On June 22, 2023, the Company closed on the sale of 20 spare engines to United. The approximate gross proceeds from this sale was $53.7 million, resulting in approximately $26.9 million of net proceeds after partial debt reduction of $7.8 million on the UMB engine loan, $7.9 million on the United Bridge Loan, and $11.2 million on the UST loan. This transaction completed the sale of the 30 engines to United under the Engine Sale Agreement entered into on December 27, 2022, as previously reported. The Company recorded a gain on the sale of the engines of $6.7 million for the 20 sold during the quarter, and $7.3 million for all 30.
- The Company entered into an agreement to sell seven (7) surplus CRJ-900 aircraft. The approximate gross proceeds from the sale of such aircraft is expected to be $71.8 million and to generate approximately $8.5 million of net proceeds after the retirement of debt. The sale of these aircraft will occur individually throughout the remainder of the fiscal year, with the final transaction expected to be completed in October 2023.
- Management is in active discussion with United to provide additional liquidity through existing lines of credit and other means.
- The Company has unencumbered parts that can be leveraged to provide additional liquidity.
- In addition to already executed agreements to sell aircraft, the Company is actively seeking arrangements to sell other surplus assets including aircraft, egines, and spare parts to reduce debt and optimize operations.

The Company believes the plans and initiatives outlined above have effectively alleviated the financial concerns above and will allow the Company to meet its cash obligations for the next twelve months following the issuance of its financial statements. While we intend to continue to implement and monitor our plans and initiatives, there is no guarantee that these actions will continue to be effective and achieve their desired objectives.

As of June 30, 2023, the Company has $124.3 million of 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 along with the liquidity we expect to achieve from disposition of surplus assets and other plans to improve cashflow from operations as outlined above.

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, 2023 were approximately 1.6% 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, 2023, our principal sources of cash have been cash and cash equivalents of $48.3 million, restricted cash of $3.1 million as of June 30, 2023, and $112.0 million in assets held for sale as of June 30, 2023. As of June 30, 2023, we had $504.9 million in secured indebtedness incurred primarily in connection with our financing of 74 total aircraft and related equipment. As of June 30, 2023, we had $79.4 million of current debt, excluding finance leases, and $425.5 million of long-term debt excluding finance leases.

Restricted Cash

As of June 30, 2023, we had $3.1 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, $3.3 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, 2023 and June 30, 2022 (in thousands):

	Nine Months Ended June 30,	
	2023	2022
Net cash (used in) provided by operating activities	$ (13,837)	$ 13,584
Net cash provided by (used in) investing activities	108,999	(40,384)
Net cash used in financing activities	(104,692)	(39,271)
Net decrease in cash, cash equivalents and restricted cash	(9,530)	(66,071)
Cash, cash equivalents and restricted cash at beginning of period	61,025	123,867
Cash, cash equivalents and restricted cash at end of period	$ 51,495	$ 57,796

Net Cash Provided by (Used in) Operating Activities

Our primary source of cash from operating activities is cash collections from our major partners pursuant to our CPA and FSA. 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, 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.

During our nine months ended June 30, 2022, we had cash flow provided by operating activities of $13.6 million. We had net loss of $67.0 million adjusted for the following significant non-cash items: depreciation and amortization of $61.9 million, stock-based compensation of $2.1 million, losses on investments in equity securities of $12.6 million, deferred income taxes of $(19.1) million, amortization of deferred credits of $(0.6) million, amortization of debt discount and financing costs and accretion of interest of $8.2 million, and impairment of assets held for sale of $39.5 million. We had a net change of $(24.6) million within other net operating assets and liabilities largely driven by decreases in accrued expenses and other liabilities, deferred revenue, and operating lease liabilities and an increase in accounts receivable, partially offset by an increase in accounts payable.

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, 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.

During our nine months ended June 30, 2022, net cash flow used in investing activities totaled $40.4 million. We invested $33.2 million in capital expenditures primarily consisting of spare engines, rotable parts, and other equipment, and $7.0 million in payments of equipment and other deposits. We also invested $0.2 million in equity securities of a private company.

Net Cash Used in 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, 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.

During our nine months ended June 30, 2022, net cash flow used in financing activities was $39.3 million. We received $35.3 million of proceeds from long-term debt. We made $72.0 million of principal repayments on long-term debt during the period and paid $2.4 million of costs related to debt financing. We received $0.2 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, 2022 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 LIBOR or 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, 2023, we had $322.1 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 $2.4 million in the nine months ended June 30, 2023.

As of June 30, 2023, we had $255.5 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, 2023.

On July 27, 2017, the U.K. Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. 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 are indexed to one- and three-month LIBOR, which will be sunset on June 30, 2023. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, has determined that the U.S. dollar LIBOR will be replaced by SOFR after June 30, 2023. We have the option to apply expedients to agreements under LIBOR that are being replaced by another index including SOFR. Under the expedient, we will account for amendments to agreements as if the modification was not substantial. The new carrying amounts of debts will consist of the carrying amount of the original debt and any additional fees associated with the modified debt instrument. A new effective yield will be established based on the new carrying amount and revised cash flows.

Several of our debts based on LIBOR have been modified to use SOFR as a reference rate which will go into effect on July 31, 2023. Additionally, we will pursue amendments to our remaining LIBOR-based debt transactions to provide for a transaction mechanism or other reference rate in anticipation of LIBOR’s discontinuation, but we may not be able to reach agreement with our lenders on any such amendments. As of June 30, 2023, we had $385.1 million of borrowings based on LIBOR. The replacement of LIBOR with a comparable or successor rate could cause the amount of interest payable on our long-term debt to be different or higher than expected.

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

Fuel Price Risk. Unlike other airlines, our 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, 2023. 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, 2023.

Update on Remediation of Previously Reported Material Weaknesses

Management identified material weaknesses in internal control over financial reporting for the period ended September 30, 2022 related to: (1) the application of the accounting for net operating loss carryforwards governed by the Tax Cuts and Jobs Act (TCJA) and (2) the accounting for the impairment of the assets, which have been successfully remediated 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. Adding supplementary technical accounting personnel and continuing to engage with external technical accounting consultants to facilitate timely and accurate accounting for non-routine transactions.
2. Partnering with external consultants specializing in public company control compliance to assess and implement more timely operation of review controls and improve communications amongst the various stakeholders in the Company.

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, 2023 and September 30, 2022, and the results of operations and cash flows for the period ended June 30, 2023 and June 30, 2022.

Changes in Internal Control Over Financial Reporting

During the three months ended June 30, 2023, 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, 2023, 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, 2022 ("2022 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 2022 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 2022 Form 10-K.

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

The amounts remitted for employee withholding taxes during the three months ended June 30, 2023 and June 30, 2022 were $0.3 million and $0.4 million, respectively, for which the Company withheld 163,920 and 132,151 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, 2023, 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: August 11, 2023

By: /s/ D. Torque Zubeck
Torque Zubeck
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: August 11, 2023

/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, Torque Zubeck, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mesa Air Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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

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

Date: August 11, 2023

/s/ D. TORQUE ZUBECK
Torque Zubeck
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, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Mesa Air Group, Inc.

Dated: August 11, 2023	/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, Torque Zubeck, 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, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Mesa Air Group, Inc.

Dated: August 11, 2023	/s/ D. TORQUE ZUBECK
	Torque Zubeck
	Chief Financial Officer