

2020 ANNUAL REPORT



Mesa Air Group

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

FORM 10-K

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

For the fiscal year ended September 30, 2020

OR

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

For the transition period from _____ to _____.

Commission File Number 001-38626

MESA AIR GROUP, INC.

(Exact name of registrant as specified in its charter)

NEVADA

(State of incorporation)

85-0302351

(I.R.S. Employer Identification No.)

410 NORTH 44TH STREET, SUITE 700

PHOENIX, ARIZONA 85008

(Address of principal executive offices)

85008

(Zip Code)

(602) 685-4000

Registrant's telephone number, including area code

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

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of Each Exchange of Which Registered</u>
Common Stock, no par value	MESA	Nasdaq Global Select Market

Securities registered pursuant to section 12(g) of the Act:

None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

As of June 30, 2020, the last business day of the registrant's most recently completed 3rd fiscal quarter, the aggregate market value the voting and non-voting stock held by non-affiliate of the registrant was approximately \$121,825,139.

As of September 30, 2020, the registrant had 35,526,918 shares of common stock, no par value per share, issued and outstanding

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement relating to its 2021 annual meeting of shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

MESA AIR GROUP, INC.
ANNUAL REPORT ON FORM 10-K
For the Fiscal Year Ended September 30, 2020

INDEX

	<u>Page</u>
PART I	
Item 1. Business.....	4
Item 1A. Risk Factors	16
Item 1B. Unresolved Staff Comments	35
Item 2. Properties.....	35
Item 3. Legal Proceedings	36
Item 4. Mine Safety Disclosures.....	36
PART II	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	37
Item 6. Selected Financial Data	40
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	44
Item 7A. Quantitative and Qualitative Disclosures About Market Risk.....	70
Item 8. Financial Statements and Supplementary Data.....	71
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	111
Item 9A. Controls and Procedures	111
Item 9B. Other Information	112
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	113
Item 11. Executive Compensation	113
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	113
Item 13. Certain Relationships and Related Transactions, and Director Independence	113
Item 14. Principal Accountant Fees and Services.....	113
PART IV	
Item 15. Exhibits and Financial Statement Schedules	114
Signatures	124

Cautionary Note Regarding Forward Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Many of the forward-looking statements are located in Part II, Item 7 of this Form 10-K under the heading "*Management's Discussion and Analysis of Financial Condition and Results of Operations.*"

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,*" "*could,*" "*can,*" "*may,*" and similar terms. Forward-looking statements are not guarantees of future performance and our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include but are not limited to, those discussed in Part I, Item 1A of this Annual Report on Form 10-K under the heading "*Risk Factors.*" Unless otherwise stated, references to particular years, quarters, months or periods refer to our fiscal years ended September 30 and the associated quarters, months, and periods of those fiscal years. Each of the terms the "*Company,*" "*Mesa Airlines,*" "*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;
- the volatility of pilot attrition;
- dependence on, and changes to, or non-renewal of, our capacity purchase agreements;
- increases in our labor costs;
- reduced utilization (the percentage derived from dividing (i) the number of block hours actually flown during a given month under a particular capacity purchase agreement by (ii) the maximum number of block hours that could be flown during such month under the particular capacity purchase agreement) under our capacity purchase agreements;
- the direct operation of regional jets by our major airline partners;
- the financial strength of our major airline partners and their ability to successfully manage their businesses through the unprecedented decline in air travel attributable to the COVID-19 pandemic or any other public health epidemic;
- limitations on our ability to expand regional flying within the flight systems of our major airline partners' and those of other major airlines;
- our significant amount of debt and other contractual obligations;
- our compliance with ongoing financial covenants under our credit facilities; and
- our ability to keep costs low and execute our growth strategies.

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

PART I

ITEM 1. BUSINESS

General

Mesa Airlines is a regional air carrier providing scheduled passenger service to 102 cities in 39 states, the District of Columbia and Mexico. All of our flights are operated as either American Eagle or United Express flights pursuant to the terms of capacity purchase agreements we entered into with American Airlines, Inc. ("*American*") and United Airlines, Inc. ("*United*") (each, our "*major airline partner*"). We have a significant presence in several of our major airline partners' key domestic hubs and focus cities, including Dallas, Houston, Phoenix and Washington-Dulles.

As of September 30, 2020, we operated a fleet of 146 aircraft with approximately 373 daily departures. We operate 54 CRJ-900 aircraft under our capacity purchase agreement with American (our "*American Capacity Purchase Agreement*") and 20 CRJ-700 and 60 E-175 aircraft under our capacity purchase agreement with United (our "*United Capacity Purchase Agreement*"). For our fiscal year ended September 30, 2020, approximately 52% of our revenues were earned under the American CPA and approximately 48% were earned under United CPA. All of our operating revenue in our 2020, 2019 and 2018 fiscal years was derived from operations associated with our American and United Capacity Purchase Agreements.

Our capacity purchase agreements provide us guaranteed monthly revenue for each aircraft under contract, a fixed fee for each block hour (measured from takeoff to landing, including taxi time) and flight actually flown, and reimbursement of certain direct operating expenses in exchange for providing regional flying on behalf of our major airline partners. Our capacity purchase agreements also shelter us, to an extent, 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 capacity purchase agreements, we use the logos, service marks, flight crew uniforms and aircraft paint schemes of our major airline partners. Our major airline partners control route selection, pricing, seat inventories, marketing and scheduling, and provide us with ground support services, airport landing slots and gate access.

Regional aircraft are optimal for short and medium-haul scheduled flights that connect outlying communities with larger cities and act as "*feeders*" for domestic and international hubs. In addition, regional aircraft are well suited to serve larger city pairs during off-peak times when load factors on larger jets are low. The lower trip costs and operating efficiencies of regional aircraft, along with the competitive nature of the capacity purchase agreement bidding process, provide significant value to major airlines.

COVID-19 Pandemic

COVID-19 has 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 2020, and we expect that it will continue to have an impact on our financial condition and results of operations in the near term and may have a material impact on our financial condition, liquidity, and results of operations in future periods. See "Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for discussion regarding the impact of the COVID-19 pandemic on our financial results. Also, see "Part I. Item 1A. Risk Factors" for discussion of the risks and uncertainties associated with the COVID-19 pandemic.

Our Business Strategy

Our business strategy consists of the following elements:

Maintain Low-Cost Structure

We have established ourselves as a low cost, efficient and reliable provider of regional airline services. We intend to continue our disciplined cost control approach through responsible outsourcing of certain operating functions, by flying large regional aircraft with associated lower maintenance costs and common flight crews across fleet types, and through the diligent control of corporate and administrative costs implementing company-wide efforts to improve our cost position. These efficiencies, coupled with the low average seniority of our pilots, has enabled us to compete aggressively on price in our capacity purchase agreement negotiations.

Attractive Work Opportunities

We believe our employees have been, and will continue to be, a key to our success. Our ability to attract, recruit and retain pilots has supported our industry-leading fleet growth. We intend to continue to offer competitive compensation packages, foster a positive and supportive work environment and provide opportunities to fly state-of-the-art, large-gauged regional jets to differentiate us from other carriers and make us an attractive place to work and build a career.

Maintain a Prudent and Conservative Capital Structure

We intend to continue to maintain a prudent capital structure. We believe that the strength of our balance sheet and credit profile will enable us to optimize terms with lessors and vendors and, when preferred by our major airline partners, allow us to procure and finance aircraft on competitive terms.

Minimize Tail Risk

We have structured our aircraft leases and financing arrangements to minimize or eliminate, as much as possible, so-called "*tail risk*," which is the amount of aircraft-related lease obligations or projected negative equity existing beyond the term of that aircraft's corresponding capacity purchase agreement. We intend to continue to align the terms of our aircraft leases and financing agreements with the terms of our capacity purchase agreements in order to maintain low "*tail risk*."

Aircraft Fleet

We fly only large regional jets manufactured by Bombardier Aerospace ("Bombardier") and Embraer S.A. ("*Embraer*"). Bombardier and Embraer are the primary manufacturers of regional jets operated in the United States, which allows us to enjoy operational, recruiting and cost advantages over other regional airlines that operate smaller regional aircraft from less prominent manufacturers.

As of September 30, 2020, we had 146 aircraft (owned and leased) consisting of the following:

	Embraer Regional Jet-175 (76 seats)	Canadair Regional Jet-700 (70 seats)	Canadair Regional Jet-900 (76-79 seats) ⁽¹⁾	Canadair Regional Jet-200 (50 seats) ⁽²⁾	Boeing 737 (Cargo)	Total
American Eagle	—	—	54	—	—	54
United Express	60	20	—	—	—	80
DHL	—	—	—	—	1	1
Subtotal	60	20	54	—	1	135
Unassigned	—	—	10	1	—	11
Total	60	20	64	1	1	146

(1) As of September 30, 2020, the Company is utilizing ten aircraft to support our American Capacity Purchase Agreement.

(2) CRJ-200 is an operational spare not assigned for service under our capacity purchase agreements.

The following table lists the aircraft we own and lease as of September 30, 2020:

Type of Aircraft	Owned	Leased	Total	Passenger Capacity
E-175 Regional Jet	18	42 ⁽¹⁾	60	76
CRJ-900 Regional Jet	48	16	64	76/79
CRJ-700 Regional Jet	18	2	20	70
CRJ-200 Regional Jet	1	—	1	50
Boeing 737 Cargo Jet	—	1 ⁽²⁾	1	—
Total	85	61	146	

(1) These aircraft are owned by United and leased to us at nominal amounts.

(2) This aircraft is subleased to us by DHL.

The Bombardier and Embraer regional jets are among the quietest commercial jets currently available and offer many of the amenities of larger commercial jet aircraft, including flight attendant service, a stand-up cabin, overhead and under seat storage, lavatories and in-flight snack and beverage service. The speed of Bombardier and Embraer regional jets is comparable to larger aircraft operated by major airlines, and they have a range of approximately 1,600 miles and 2,100 miles, respectively. We do not currently have any existing arrangements with Bombardier or Embraer to acquire additional aircraft.

Capacity Purchase Agreements

Our capacity purchase agreements consist of the following:

- Operation of CRJ-900 aircraft under our American Capacity Purchase Agreement; and
- Operation of CRJ-700 and E-175 aircraft under our United Capacity Purchase Agreement.

The financial arrangement underlying our American and United Capacity Purchase Agreements includes a revenue-guarantee arrangement. Under the revenue-guarantee provisions of our capacity purchase agreements, our major airline partners pay us a fixed minimum monthly amount per aircraft under contract, plus additional amounts related to departures and block hours flown. We also receive direct reimbursement of certain operating expenses, including insurance. Other expenses, including fuel and ground operations are directly paid to suppliers by our major airline partners. We believe we are in material compliance with the terms of our capacity purchase agreements and enjoy good relationships with our major airline partners.

We benefit from our capacity purchase agreements and revenue guarantees because we are sheltered, to an extent, from some of the elements that cause volatility in airline financial performance, including variations in ticket prices, fluctuations in number of passengers and fuel prices. However, we do not benefit from positive trends in ticket prices (including ancillary revenue programs), the number of passengers enplaned or reductions in fuel prices. Our major airline partners retain all revenue collected from passengers carried on our flights. In providing regional flying under our capacity purchase agreements, we use the logos, service marks and aircraft paint schemes of our major airline partners.

The following table summarizes our available seat miles ("ASMs") flown and contract revenue recognized under our capacity purchase agreements for our fiscal years ended September 30, 2020 and 2019, respectively:

	Year Ended September 30, 2020			Year Ended September 30, 2019		
	Available Seat Miles (in thousands)	Contract Revenue (in thousands)	Contract Revenue per ASM	Available Seat Miles (in thousands)	Contract Revenue (in thousands)	Contract Revenue per ASM
American	3,212,283	\$276,870	¢ 8.62	4,735,534	\$376,506	¢ 7.95
United	4,369,223	\$229,720	¢ 5.26	6,128,089	\$306,328	¢ 5.00
Total	<u>7,581,506</u>	<u>\$506,590</u>	<u>¢ 6.68</u>	<u>10,863,623</u>	<u>\$682,834</u>	<u>¢ 6.29</u>

American Capacity Purchase Agreement

As of September 30, 2020, the Company operated 54 CRJ-900 aircraft for American under our American Capacity Purchase Agreement. In exchange for providing flight services under our American Capacity Purchase Agreement, we receive a fixed monthly minimum amount per aircraft under contract plus certain additional amounts based upon the number of flights and block hours flown during each month. In addition, we may also receive incentives or incur penalties based upon our operational performance, including controllable on-time departures and controllable completion percentages. American also reimburses us for certain costs on an actual basis, including passenger liability and hull insurance and aircraft property taxes, all as set forth in our American Capacity Purchase Agreement. Other expenses, including fuel and certain landing fees, are directly paid to suppliers by American. In addition, American also provides, at no cost to us, certain ground handling and customer service functions, as well as airport-related facilities and gates at American hubs and cities where we operate.

Our American Capacity Purchase Agreement establishes utilization credits which are required to be paid if the Company does not operate at minimum levels of flight operations. In prior periods, the FAA Qualification Standards (as defined below) have negatively impacted our ability to hire pilots at a rate sufficient to support required utilization levels, and, as a result, we have issued credits to American pursuant to the terms of our American Capacity Purchase Agreement.

On June 11, 2020, the Company entered into the Twenty-First Amendment to the American Capacity Purchase Agreement effective April 1, 2020. The amendments included the addition of utilization-based credits, entitling American to payment credits for the period April 1, 2020 through September 30, 2020, based upon the achievement of agreed upon aircraft utilization thresholds, subject to Mesa's receipt of previously approved funds under the CARES Act.

At September 30, 2020, our American Capacity Purchase Agreement was scheduled to terminate with respect to different tranches of aircraft between 2021 and 2025, unless otherwise extended or amended. As of the date of this filing, we have entered into an Amended and Restated Capacity Purchase Agreement, dated November 19, 2020 (the “*Amended and Restated American Capacity Purchase Agreement*”), which is effective January 1, 2021 and amends and restates our existing Capacity Purchase Agreement with American dated March 20, 2001 (as theretofore amended). This Amended and Restated Capacity Purchase Agreement covers 40 aircraft and provides for a new five-year term ending December 31, 2025. The Amended and Restated American Capacity Purchase Agreement is subject to termination prior December 31, 2025, subject to our right to cure, in various circumstances including:

- If either American or we become insolvent, file for bankruptcy or fail to pay our debts as they become due, the non-defaulting party may terminate the agreement;
- Failure by us or American to perform the covenants, conditions or provisions of our American Capacity Purchase Agreement, subject to certain notice and cure rights;
- If our FAA or DOT certification used in connection with our scheduled flights is for any reason suspended, revoked or materially impaired or otherwise not in full force and effect and we have not resumed operations, except as a result of an emergency airworthiness directive from the FAA affecting all similarly equipped aircraft, American may terminate the agreement;
- If our controllable flight completion rate or our controllable on the time departures fall below certain levels for a specified period of time, subject to our right to cure; or
- Upon the occurrence of a force majeure event (as defined in the Capacity Purchase Agreement) that lasts for a specified period of consecutive days and affects our ability to operate scheduled flights, including a future epidemic or pandemic;
- If a labor dispute affects our ability to operate over a specified number of days or we operate in violation of any existing American collective bargaining agreement; or
- Upon a change in our ownership or control without the written approval of American.

At September 30, 2020, under the terms of the American Capacity Purchase Agreement American had the right, in lieu of termination to withdraw up to an aggregate of 14 aircraft from service there under. Upon any such withdrawal, American's payments to us would be correspondingly reduced by the number of withdrawn aircraft. As of September 30, 2020, American exercised its right to permanently withdraw ten aircraft from the American Capacity Purchase Agreement due to the Company's failure to meet certain performance metrics.

Under the Amended and Restated American Capacity Purchase Agreement, American has the option in its sole discretion to withdraw up to: (i) 10 aircraft during calendar year 2021, provided that for the 6-month period ending June 30, 2021, American may only exercise this right if the number of mainline narrow body aircraft in American's fleet has been reduced by a specified number of aircraft during such period, (ii) five aircraft during each of calendar years 2022 and 2023, and (iii) during the period from January 1, 2024 to July 31, 2024, American can remove the first 20 aircraft to the extent not otherwise removed in 2021 – 2023, and thereafter they have the right to remove the last 20 aircraft;

United Capacity Purchase Agreement

As of September 30, 2020, we operated 20 CRJ-700 and 60 E-175 aircraft for United under our United Capacity Purchase Agreement. In exchange for providing the flight services under our United Capacity Purchase Agreement, we receive a fixed monthly minimum amount per aircraft under contract plus certain additional amounts based upon the number of flights and block hours flown and the results of passenger satisfaction surveys. United also reimburses us for certain costs on an actual basis, including property tax per aircraft and passenger liability insurance. Other expenses, including fuel and certain landing fees, are directly paid to suppliers by United.

Under our United Capacity Purchase Agreement, United owns 42 of the 60 E-175 aircraft and leases them to us at nominal amounts. United reimburses us on a pass-through basis for all costs related to heavy airframe and engine maintenance, landing gear, auxiliary power units ("APUs") and component maintenance for the 42 E-175 aircraft owned by United. Our United Capacity Purchase Agreement permits United, subject to certain conditions, including the payment of certain costs tied to aircraft type, to terminate the agreement in its discretion, or remove aircraft from service, by giving us notice of 90 days or more. If United elects to terminate our United Capacity Purchase Agreement in its entirety or permanently remove select aircraft from service, we are permitted to return any of the affected E-175 aircraft leased from United at no cost to us. In addition, if United removes any of our 18 owned E-175 aircraft from service at its direction, United would remain obligated to assume the aircraft ownership and associated debt with respect to such aircraft through the end of the term of the agreement.

On November 26, 2019, we amended and restated our United Capacity Purchase Agreement to, among other things, incorporate the terms of the 14 prior amendments to that Agreement and to extend the term thereof through the addition of twenty (20) new Embraer E175LL aircraft to the scope of such Agreement. Under this amendment and restatement, these new aircraft were to be financed and owned by us and operated for a period of twelve (12) years from the in-service date. Deliveries of the new E175LL aircraft were scheduled to begin in May 2020. In March 2020, the deliveries of the new E175LL aircraft were negotiated between United and Embraer to begin in September 2020 and be completed by the quarter ended June 30, 2021. Commencing five (5) years after the actual in-service date, United has the right to remove the E175LL aircraft from service by giving us notice of 90 days or more, subject to certain conditions, including the payment of certain wind-down expenses plus, if removed prior to the ten (10) year anniversary of the in-service date, certain accelerated margin payments.

In addition to adding the 20 new E175LL aircraft to the amended and restated United Capacity Purchase Agreement, we extended the term of our 42 E-175 aircraft leased from United for an additional five (5) years, which now expire between 2024 and 2028. In addition, we own 18 E-175 aircraft that expire in 2028. As part of the amended and restated United Capacity Purchase Agreement, we agreed to lease our CRJ-700 aircraft to another United Express service provider for a term of seven (7) years. We will continue to operate such aircraft until they are transitioned to the new service provider. United has a right to purchase the CRJ-700 aircraft at the then fair market value.

On November 4, 2020, we amended and restated our United Capacity Purchase Agreement to, among other things, amend the ownership by United, in lieu of Mesa Airlines, of the 20 new E175LL aircraft. Under this new amendment, these aircraft will be now financed by United and leased to the Company to operate for a period of twelve (12) years from the in-service date. We agreed to adjusted rates to account for the change in ownership of the E175LL aircraft, granted United relief from certain provisions related to minimum utilization until December 31, 2021 and the additional right to remove one or more E175LL aircraft in the event that we fail to meet certain financial covenants. We also agreed to a one-time provision for United to prepay \$85.0 million under the United Capacity Purchase Agreement for our future performance (the "Prepayment") and the application of certain discounts to certain payment obligations of United under the United Capacity Purchase Agreement. Weekly payments under the United CPA will be discounted following the Prepayment until repaid. Until the Prepayment is fully expended, weekly amounts due from United under the United CPA will be applied toward the balance of the Prepayment. This period is estimated to continue for approximately 4 months following funding of the Prepayment. The terms of the Prepayment also include affirmative and negative covenants and events of default customary for transactions of this type. Proceeds from the Prepayment were used to retire debt on certain airframes and engines that now serve as collateral under the term loan facility provided to Mesa Airlines by the U.S. Treasury as further discussed in Note 18.

Our United Capacity Purchase Agreement is subject to early termination under various circumstances noted above and including:

- By United if certain operational performance factors fall below a specified percentage for a specified time, subject to notice under certain circumstances;
- By United if we fail to perform the material covenants, agreements, terms or conditions of our United Capacity Purchase Agreement or similar agreements with United, subject to thirty (30) days' notice and cure rights;
- If either United or we become insolvent, file bankruptcy or fail to pay debts when due, the non-defaulting party may terminate the agreement;
- or by United 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.

Maintenance and Repairs

Airlines are subject to extensive regulation. We have a FAA mandated and approved maintenance program. Aircraft maintenance and repair consists of routine and non-routine maintenance, and work performed is divided into three general categories: line maintenance, heavy maintenance and component service. We also outsource certain aircraft maintenance and other operating functions. We use competitive bidding among qualified vendors to procure these services. We have long-term maintenance contracts with AAR to provide fixed-rate parts procurement and component overhaul services for our aircraft fleet. Under these agreements, AAR provides maintenance and engineering services on any aircraft that we designate during the term of the agreement, along with access to a spare parts inventory pool in exchange for a fixed monthly fee. Our agreements with AAR expire in 2026, unless earlier terminated for cause. We have not experienced difficulty obtaining spare parts on a timely basis for our aircraft fleet.

Line maintenance consists of routine daily and weekly scheduled maintenance checks on our aircraft. Line maintenance is performed at certain locations throughout our system and represents the majority of and most extensive maintenance we perform. Major airframe maintenance checks consist of a series of more complex tasks that can take from one to four weeks to accomplish and typically are required approximately every 28 months, on average across our fleet. Engine overhauls and engine performance restoration events are quite extensive and can take two months. We maintain an inventory of spare engines to provide for continued operations during engine maintenance events. We expect to begin the initial planned engine maintenance overhauls on our new engine fleet approximately four to six years after the date of manufacture and introduction into our fleet, with subsequent engine maintenance every four to six years thereafter. Due to our current fleet size, we believe outsourcing all of our heavy maintenance, engine restoration and major part repair, is more economical than performing this work using our internal maintenance team.

Competition

We consider our competition to be those U.S. regional airlines that currently hold or compete for capacity purchase agreements with major airlines. Our competition includes, therefore, nearly every other domestic regional airline, including Air Wisconsin Airlines Corporation; Endeavor Air, Inc. (owned by Delta) ("*Endeavor*"); Envoy Air, Inc. ("*Envoy*"), PSA Airlines, Inc. ("*PSA*") and Piedmont Airlines, Inc. ("*Piedmont*") (Envoy, PSA and Piedmont are owned by American); Horizon Air Industries, Inc. (owned by Alaska Air Group, Inc.) ("*Horizon*"); SkyWest Inc., parent of SkyWest Airlines, Inc.; Republic Airways Holdings Inc.; and Trans States Airlines, Inc.

Major airlines typically offer capacity purchase arrangements to regional airlines on the basis of the following criteria: availability of labor resources; proposed contract economic terms; reliable and on-time flight operations; corporate financial resources including ability to procure and finance aircraft; customer service levels; and other factors.

Certain of our competitors are larger and have significantly greater financial and other resources than we do. Moreover, economic downturns, combined with competitive pressures, have contributed to a number of reorganizations, bankruptcies, liquidations and business combinations among major and regional carriers. The effect of economic downturns is somewhat mitigated by our reliance on capacity purchase agreements with revenue-guarantee provisions, but the renewal and continued profitability of these partnerships with our major airline partners is not guaranteed.

Seasonality

Our results of operations for any interim period are not necessarily indicative of those for the entire year, since the airline industry is subject to seasonal fluctuations and general economic conditions. Our operations are somewhat favorably affected by increased utilization of our aircraft in the summer months and are unfavorably affected by increased fleet maintenance and by inclement weather during the winter months.

Aircraft Fuel

Our capacity purchase agreements provide that our major airline partners source, procure and directly pay third-party vendors for all fuel used in the performance of those agreements. Accordingly, we do not recognize fuel expenses or revenues for flying under our capacity purchase agreements and we face very limited exposure to fuel price fluctuations.

Insurance

We maintain insurance policies we believe are of types customary in the airline industry and as required by the DOT, lessors and other financing parties and our major airline partners under the terms of our capacity purchase agreements. The policies principally provide liability coverage for public and passenger injury; damage to property; loss of or damage to flight equipment; fire; auto; directors' and officers' liability; advertiser and media liability; cyber risk liability; fiduciary; workers' compensation and employer's liability; and war risk (terrorism). Although we currently believe our insurance coverage is adequate, we cannot assure you that the amount of such coverage will not be changed or that we will not be forced to bear substantial losses from accidents.

Human Capital Management

As of September 30, 2020, we employed approximately 3,200 employees, consisting of 1,275 pilots or pilot recruits, 1,118 flight attendants, 52 flight dispatchers, 466 mechanics and 289 employees in administrative roles. Our continued success is partly dependent on our ability to continue to attract and retain qualified personnel. We have never been the subject of a labor strike or labor action that materially impacted our operations.

FAA regulations require pilots to have an Airline Transport Pilot ("ATP") license with specific ratings for the aircraft to be flown, and to be medically certified as physically fit to fly. FAA and medical certifications are subject to periodic renewal requirements including recurrent training and recent flying experience. Mechanics, quality-control inspectors, and flight dispatchers must be certificated and qualified for specific aircraft. Flight attendants must have initial and periodic competency training and qualification. Training programs are subject to approval and monitoring by the FAA. Management personnel directly involved in the supervision of flight operations, training, maintenance, and aircraft inspection must also meet experience standards prescribed by FAA regulations. All safety-sensitive employees are subject to pre-employment, random, and post-accident drug testing.

The airline industry has from time to time experienced a shortage of qualified personnel, particularly with respect to pilots and maintenance technicians. In addition, as is common with most of our competitors, we have faced considerable turnover of our employees. Regional airline pilots, flight attendants and maintenance technicians often leave to work for larger airlines, which generally offer higher salaries and better benefit programs than regional airlines are financially able to offer. Should the turnover of employees, particularly pilots, sharply increase, the result will be significantly higher training costs than otherwise would be necessary and we may need to request a reduced flight schedule with our major airline partners, which may result in operational performance penalties under our capacity purchase agreements. We cannot

assure that we will be able to recruit, train and retain the qualified employees that we need to carry out our expansion plans or replace departing employees. Since the COVID-19 Pandemic, we have not experienced a shortage and meeting current demand.

As of September 30, 2020, approximately 74.8% of our employees were represented by labor unions under collective-bargaining agreements, as set forth below. No other employees of ours or our subsidiaries are parties to any other collective bargaining agreement or union contracts.

Employee Groups	Number of Employees	Representative	Labor Agreement Expiration
Pilots	1,275	Air Line Pilots Association	7/13/2021
Flight Attendants	1,118	Association of Flight Attendants	10/1/2021
Dispatchers	52	N/A	
Mechanics	466	N/A	
Administrative	289	N/A	

The Railway Labor Act ("*RLA*") governs our relations with labor organizations. Under the *RLA*, the collective bargaining agreements generally do not expire, but instead become amendable as of a stated date. If either party wishes to modify the terms of any such agreement, they must notify the other party in the manner agreed to by the parties. Under the *RLA*, after receipt of such notice, the parties must meet for direct negotiations, and if no agreement is reached, either party may request the National Mediation Board ("*NMB*") to appoint a federal mediator. The *RLA* prescribes no set timetable for the direct negotiation and mediation process. It is not unusual for those processes to last for many months, and even for a few years. If no agreement is reached in mediation, the *NMB* in its discretion may declare at some time that an impasse exists, and if an impasse is declared, the *NMB* proffers binding arbitration to the parties. Either party may decline to submit to arbitration. If arbitration is rejected by either party, a 30-day "*cooling off*" period commences. During that period (or after), a Presidential Emergency Board ("*PEB*") may be established, which examines the parties' positions and recommends a solution. The *PEB* process lasts for 30 days and is followed by another "*cooling off*" period of 30 days. At the end of a "*cooling off*" period, unless an agreement is reached or action is taken by Congress, the labor organization may strike and the airline may resort to "*self-help*," including the imposition of any or all of its proposed amendments and the hiring of new employees to replace any striking workers. Congress and the President have the authority to prevent "*self-help*" by enacting legislation that, among other things, imposes a settlement on the parties. The table above sets forth our employee groups and status of the collective bargaining agreements.

Refer to "Impact of COVID-19 Pandemic" included in "Item 7. Management's Discussion And Analysis Of Financial Condition And Results Of Operations" for information on Human Capital Management actions taken by the Company in response to the COVID-19 pandemic.

Safety and Security

We are committed to the safety and security of our passengers and employees. We have taken many steps, both voluntarily and as mandated by governmental authorities, to increase the safety of our operations. Some of the safety and security measures we have taken with our major airline partners include: aircraft security and surveillance, positive bag matching procedures, enhanced passenger and baggage screening and search procedures, and securing of cockpit doors. We are committed to complying with future safety and security requirements.

Our ongoing focus on safety relies on training our employees to proper standards and providing them with the tools and equipment they require so they can perform their job functions in a safe and efficient manner. Safety in the workplace targets several areas of our operation including: dispatch, flight operations and maintenance.

The TSA and the U.S. Customs and Border Protection, each a division of the U.S. Department of Homeland Security, are responsible for certain civil aviation security matters, including passenger and

baggage screening at U.S. airports, and international passenger prescreening prior to entry into or departure from U.S. international flights are subject to customs, border, immigration and similar requirements of equivalent foreign governmental agencies. We are currently in compliance with all directives issued by such agencies. We maintain active, open lines of communication with the TSA at all of our locations to ensure proper standards for security of our personnel, equipment and facilities are exercised throughout the operation.

Facilities

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

Type	Location	Ownership	Approximate Square Feet
Corporate Headquarters	Phoenix, Arizona	Leased	33,770
Training Center	Phoenix, Arizona	Leased	23,783
Parts/Stores	Phoenix, Arizona	Leased	12,000
Hangar	Phoenix, Arizona	Leased	22,467
Office, Hangar and Warehouse	El Paso, Texas	Leased	31,292
Office, Hangar	Dallas, Texas	Leased	30,440
DFW Parts	Dallas, Texas	Leased	8,143
Hangar	Houston, Texas	Leased	74,524
Hangar	Louisville, Kentucky	Leased	26,762
Hangar	Dulles, Washington	Leased	28,451
TUS Warehouse	Tucson, Arizona	Leased	5,370

Our corporate headquarters and training facilities in Phoenix, Arizona are subject to long-term leases expiring on November 30, 2025 and May 31, 2025, respectively.

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

Foreign Ownership

Under DOT regulations and federal law, we must be owned and controlled by U.S. citizens. The restrictions imposed by federal law and regulations currently require that at least 75% of our voting stock must be owned and controlled, directly and indirectly, by persons or entities who are U.S. citizens, as defined in the Federal Aviation Act, that our president and at least two-thirds of the members of our Board of Directors and other managing officers be U.S. citizens, and that we be under the actual control of U.S. citizens. In addition, at least 51% of our total outstanding stock must be owned and controlled by U.S. citizens and no more than 49% of our stock may be held, directly or indirectly, by persons or entities who are not U.S. citizens and are from countries that have entered into "open skies" air transport agreements with the U.S. which allow unrestricted access between the United States and the applicable foreign country and to points beyond the foreign country on flights serving the foreign country. We are currently in compliance with these ownership provisions. As of September 30, 2020, there were no outstanding warrants to purchase our common stock.

Government Regulation

Aviation Regulation

The DOT and FAA have regulatory authority over air transportation in the United States and all international air service is subject to certain U.S. federal requirements and approvals, as well as the regulatory requirements of the appropriate authorities of the foreign countries involved. The DOT has authority to issue certificates of public convenience and necessity, exemptions and other economic authority required for airlines to provide domestic and foreign air transportation. International routes and international code-sharing arrangements are regulated by the DOT and by the governments of the foreign countries involved. A U.S. airline's ability to operate flights to and from international destinations is subject

to the air transport agreements between the United States and the foreign country and the carrier's ability to obtain the necessary authority from the DOT and the applicable foreign government.

The U.S. government has negotiated "*open skies*" agreements with many countries, which allow broad access between the United States and the applicable foreign country. With certain other countries, however, the United States has a restricted air transportation agreement. Our international flights to Mexico are governed by a recently implemented liberalized bilateral air transport agreements which the DOT has determined has all of the attributes of an "*open skies*" agreement. Our flights to Canada, Cuba and the Bahamas are governed by bilateral air transport agreements between the United States and such countries. Changes in U.S., Mexican, Canadian, Cuban or Bahamian aviation policies could result in the alteration or termination of the corresponding air transport agreement, or otherwise affect our operations to and from these countries. In particular, there is still a degree of uncertainty about the future of scheduled commercial flight operations between the United States and Cuba as a result of changes in diplomatic relations between the two governments, as well as travel and trade restrictions implemented by the U.S. government in 2017. We are largely sheltered from the economic impact changes to existing "*open skies*" agreements or volatility in U.S., Mexican, Canadian, Cuban or Bahamian aviation policies because our major airline partners control route selection and scheduling under our capacity purchase agreements.

The FAA is responsible for regulating and overseeing matters relating to the safety of air carrier flight operations, including the control of navigable air space, the qualification of flight personnel, flight training practices, compliance with FAA airline operating certificate requirements, aircraft certification and maintenance requirements and other matters affecting air safety. The FAA requires each commercial airline to obtain and hold an FAA air carrier certificate. We currently hold an FAR-121 air carrier certificate. In July 2013, as directed by the U.S. Congress, the FAA issued more stringent pilot qualification and crew member flight training standards, which increased the required training time for new airline pilots (the "*FAA Qualification Standards*"). The FAA Qualification Standards, which became effective in August 2013, require first officers to hold an ATP certificate, requiring 1,500 hours total flight time as a pilot. Previously, first officers were required to have only a commercial pilot certificate, which required 250 hours of flight time. The rule also mandates stricter rules to minimize pilot fatigue.

Airport Access

Flights at three major domestic airports are regulated through allocations of landing and takeoff authority (i.e., "*slots*" and "*operating authorizations*") or similar regulatory mechanisms, which limit take-offs and landings at those airports. Each slot represents the authorization to land at or take off from the particular airport during a specified time period. In the United States, the FAA currently regulates the allocation of slots, slot exemptions, operating authorizations or similar capacity allocation mechanisms at two of the airports we serve, Ronald Reagan Washington National Airport (DCA) in Washington, D.C. and New York's LaGuardia Airport (LGA). In addition, John Wayne Airport (SNA) in Orange County, California, has a locally imposed slot system. Our operations at these airports generally require the allocation of slots or analogous regulatory authorizations, which are obtained by our major airline partners.

Consumer Protection Regulation

The DOT also has jurisdiction over certain economic issues affecting air transportation and consumer protection matters, including unfair or deceptive practices and unfair methods of competition, lengthy tarmac delays, air carriers, airline advertising, denied boarding compensation, ticket refunds, baggage liability, contracts of carriage, customer service commitments, customer complaints and transportation of passengers with disabilities. The DOT frequently adopts new consumer protection regulations, such as rules to protect passengers addressing lengthy tarmac delays, chronically delayed flights, capacity purchase disclosure and undisclosed display bias, and is reviewing new guidelines to address the transparency of airline non-ticket fees and refunding baggage fees for delayed checked baggage. The DOT also has authority to review certain joint venture agreements, code-sharing agreements (where an airline places its designator code on a flight operated by another airline) and wet-leasing agreements (where one airline provides aircraft and crew to another airline) between carriers and regulates other economic matters such as slot transactions.

Environmental Regulation

We are subject to various federal, state, local and foreign laws and regulations relating to environmental protection matters. These laws and regulations govern such matters as environmental reporting, storage and disposal of materials and chemicals and aircraft noise. We are, and expect in the future to be, involved in various environmental matters and conditions at, or related to, our properties. We are not currently subject to any environmental cleanup orders or actions imposed by regulatory authorities. We are not aware of any active material environmental investigations related to our assets or properties.

Other Regulations

Airlines are also subject to various other federal, state, local and foreign laws and regulations. For example, the U.S. Department of Justice has jurisdiction over certain airline competition matters. Labor relations in the airline industry are generally governed by the RLA. The privacy and security of passenger and employee data is regulated by various domestic and foreign laws and regulations.

The U.S. government and foreign governments may consider and adopt new laws, regulations, interpretations and policies regarding a wide variety of matters that could directly or indirectly affect our results of operations. We cannot predict what laws, regulations, interpretations and policies might be considered in the future, nor can we judge what impact, if any, the implementation of any of these proposals or changes might have on our business.

Legal Proceedings

The Company is subject to two putative class action lawsuits alleging federal securities law violations in connection with its initial public offering in August 2018 ("IPO") — one in the Superior Court of the State of Arizona and one in U.S. District Court of Arizona. These purported class actions were filed in March and April 2020 against the Company, certain current and former officers and directors, and certain underwriters of the Company's IPO. The state and federal lawsuits each make the same or similar allegations of violations of the Securities Act of 1933, as amended, for allegedly making materially false and misleading statements in, or omitting material information from, our IPO registration statement. The plaintiffs seek unspecified monetary damages and other relief. We do not currently believe that this matter is likely to have a material adverse impact on our consolidated results of operations, cash flows, or our financial position. However, any litigation is inherently uncertain, and any judgment or injunctive relief entered against us or any adverse settlement could materially and adversely impact our business, results of operations, financial condition, and prospects.

In addition, from time to time the Company may become involved in legal proceedings or be subject to claims arising in the ordinary course of its business. Although the results of such litigation and claims cannot be predicted with certainty, the Company currently believes that the final outcome of these ordinary course matters will not have a material adverse effect on its business, operating results, financial condition or cash flows. Regardless of the outcome, any such litigation and claims can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources and other factors.

Corporate Information

We are a Nevada corporation with our principal executive office in Phoenix, Arizona. We were founded in 1982 and reincorporated in Nevada in 1996. In addition to operating Mesa Airlines, we also wholly own Mesa Air Group-Airline Inventory Management, LLC. ("MAG-AIM"), an Arizona limited liability company, which was established to purchase, distribute and manage Mesa Airlines' inventory of spare rotatable and expendable parts. MAG-AIM's financial results are reflected in our consolidated financial statements.

Our principal executive offices are located at 410 North 44th Street, Suite 700, Phoenix, Arizona 85008, and our telephone number is (602) 685-4000. Our website is located at www.mesa-air.com. The information on, or accessible through, our website does not constitute part of, and is not incorporated into, this Annual Report on Form 10-K.

Mesa Airlines, the Mesa Airlines logo and our other registered or common law trade names, trademarks, or service marks appearing in this Annual Report on Form 10-K are our intellectual property. This Annual Report on Form 10-K contains additional trade names, trademarks, and service marks of other companies that are the property of their respective owners. We do not intend our use or display of other companies' trade names, trademarks, or service marks to imply a relationship with, or endorsement or sponsorship of us, by these companies. We have omitted the ® and ™ designations, as applicable, for the trademarks used in this Annual Report on Form 10-K.

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the "*Exchange Act*"), are filed with the Securities and Exchange Commission (the "*SEC*"). We are subject to the informational requirements of the Exchange Act, and we file or furnish reports, proxy statements and other information with the SEC. Such reports and other information we file with the SEC are available free of charge at <http://investor.mesa-air.com/financial-information/sec-filings> when such reports are available on the SEC's website. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov. We periodically provide other information for investors on our corporate website, www.mesa-air.com, and our investor relations website, investor.mesa-air.com. This includes press releases and other information about financial performance, information on corporate governance and details related to our annual meeting of shareholders. The information contained on the websites referenced in this Annual Report on Form 10-K is not incorporated by reference into this filing. Further, our references to website URLs are intended to be inactive textual references only.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. Certain factors may have a material adverse effect on our business, financial condition, and results of operation. You should carefully consider the risks and uncertainties described below, together with all of the other information included in this Annual Report on Form 10-K, including our financial statements and the related notes, and in our other filings with the SEC. Our business, financial condition, operating results, cash flow and prospects could be materially and adversely affected by any of these risks or uncertainties. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to Our Business

We are highly dependent on our agreements with our major airline partners.

We derive all of our operating revenue from our capacity purchase agreements with our major airline partners. American accounted for approximately 52% and 53% of our total revenue for our fiscal years ended September 30, 2020 and 2019, respectively. United accounted for approximately 48% and 47% of our revenue for our fiscal years ended September 30, 2020 and 2019, respectively. A termination of either our American or United capacity purchase agreements would have a material adverse effect on our business prospects, financial condition, results of operations, and cash flows. See "Item 1. Capacity Purchase Agreements" for additional information on our capacity purchase agreements with American and United.

If our capacity purchase agreements with American or United were terminated or not renewed, we would be significantly impacted and likely would not have an immediate source of revenue or earnings to offset such loss. Neither American nor United are under any obligation to renew their respective capacity purchase agreements with us. A termination or expiration of either of these agreements would likely have a material adverse effect on our financial condition, cash flows, ability to satisfy debt and lease obligations, operating revenues and net income unless we are able to enter into satisfactory substitute arrangements for the utilization of the affected aircraft by other airline partners, or, alternatively, obtain the airport facilities, gates, ticketing and ground services and make the other arrangements necessary to fly as an independent airline. We may not be able to enter into substitute capacity purchase arrangements, and any such arrangements we might secure may not be as favorable to us as our current agreements. Operating an airline independently from our major airline partners would be a significant departure from our business plan and would likely require significant time and resources, which may not be available to us at that point.

Reduced utilization levels of our aircraft under our capacity purchase agreements would adversely impact our financial results.

Historically, our major airline partners have utilized our flight operations at levels at or near the maximum capacity of our fleet allocations under our capacity purchase agreements, but there can be no assurance that they will continue utilizing our aircraft at that level. As a result of the unprecedented impact of the COVID-19 pandemic on the travel industry, in April 2020 we reported that our major airline partners asked us to reduce overall block hours in April by approximately 55%. We operated at significantly lower block hours over the remainder of fiscal 2020 and anticipate the schedule reductions of our major airline partners will continue into 2021. If our major airline partners do elect to continue to schedule the utilization of our aircraft below historical levels (including taking into account the stage length and frequency of our scheduled flights), we may not be able to maintain operating efficiencies previously obtained, which would negatively impact our operating results and financial condition.

Our American Capacity Purchase Agreement establishes minimum levels of flight operations. In prior periods, the FAA Qualification Standards have negatively impacted our ability to hire pilots at a rate sufficient to support required utilization levels, and, as a result, we have issued credits to American pursuant to the terms of our American Capacity Purchase Agreement.

Our United Capacity Purchase Agreement does not require United to schedule any specified minimum level of flight operations for our aircraft. Additionally, United may remove aircraft from our United Capacity Purchase Agreement with 90 days' prior notice to us. While United pays us a fixed monthly revenue amount for each aircraft under contract, a significant reduction in the utilization levels of our fleet in the future or removal of aircraft from our United Capacity Purchase Agreement at United's election could reduce our revenues based on the number of flights and block hours flown for United.

Continued challenges with hiring, training and retaining replacement pilots may lead to reduced utilization levels of our aircraft and additional penalties under our capacity purchase agreements and our operations and financial results could be materially and adversely impacted. Additionally, our major airline partners may change routes and frequencies of flights, which can negatively impact our operating efficiencies. Changes in schedules may increase our flight costs, which could exceed the reimbursed rates paid by our major airline partners. Reduced utilization levels of our aircraft or other changes to our schedules under our capacity purchase agreements would adversely impact our financial results.

If our major airline partners experience events that negatively impact their financial strength or operations, our operations also may be negatively impacted.

We may be directly affected by the financial and operating strength of our major airline partners. Any events, such as COVID-19, that negatively impact the financial strength of our major airline partners or have a long-term effect on the use of our major airline partners by airline travelers would likely have a material adverse effect on our business, financial condition and results of operations. In the event of a decrease in the financial or operational strength of any of our major airline partners, such partner may seek to reduce, or be unable to make, the payments due to us under their capacity purchase agreement. In addition, in some cases, they may reduce utilization of our aircraft. Although we receive guaranteed monthly revenue for each aircraft under contract and a fixed fee for each block hour or flight actually flown, our partners are not required to schedule any specified level of flight operations for our aircraft. If any of our other current or future major airline partners become bankrupt, our capacity purchase agreement with such partner may not be assumed in bankruptcy and could be terminated. This and other events, which are outside of our control, could have a material adverse effect on our business, financial condition and results of operations. In addition, any negative events that occur to other regional carriers and that affect public perception of such carriers generally could also have a material adverse effect on our business, financial condition and results of operations.

We have a significant amount of debt and other contractual obligations that could impair our liquidity and thereby harm our business, results of operations and financial condition.

The airline business is a capital intensive business and, as a result, we are highly leveraged. As of September 30, 2020, we had approximately \$743.3 million in total long-term debt (including current portion of \$189.3 million) including \$6.9 million of finance lease obligations, and \$12.1 million available for borrowing under our CIT Revolving Credit Facility. Substantially all of our long-term debt was incurred in connection with the acquisition of aircraft and aircraft engines. During our fiscal years ended September 30, 2020, 2019 and 2018, our principal debt service payments totaled \$138.3 million, \$244.1 million and \$222.2 million, respectively, and our principal aircraft lease payments totaled approximately \$112.1 million, \$100.4 million and \$64.6 million, respectively.

We also have significant long-term lease obligations primarily relating to our aircraft fleet. At September 30, 2020, we had 18 aircraft under lease (excluding aircraft leased from United), with an average remaining term of 4.2 years. As of September 30, 2020, future minimum lease payments due under all long-term operating leases were approximately \$112.9 million and debt service obligations were \$853.4 million, respectively, including finance lease obligations.

The Company's substantial level of indebtedness, its non-investment grade credit ratings and the availability of Company assets as collateral for future loans or other indebtedness, which available collateral would be reduced under other future liquidity-raising transactions and was reduced subsequent to our fiscal year ended September 30, 2020 as a result of the Company's CARES Act loan program borrowings, may make it difficult for the Company to raise additional capital if required to meet its liquidity needs on acceptable terms, or at all.

Although the Company's cash flows from operations and its available capital, including the proceeds from financing transactions, have been sufficient to meet its obligations and commitments to date, the Company's liquidity has been, and may in the future be, negatively affected by the risk factors discussed in this Annual Report on Form 10-K, including risks related to future results arising from the COVID-19 pandemic. If the Company's liquidity is materially diminished, the Company's cash flow available to fund its working capital requirements, capital expenditures and business development efforts may be materially and adversely affected.

We cannot assure you that our operations will generate sufficient cash flow to make our required payments, or that we will be able to obtain financing to acquire additional aircraft or make other capital expenditures necessary for expansion. Our ability to pay the high level of fixed costs associated with our contractual obligations will depend on our operating performance, cash flow and our ability to secure adequate financing, which will in turn depend on, among other things, the success of our current business strategy, the U.S. economy, availability and cost of financing, as well as general economic and political conditions and other factors that are, to some extent, beyond our control. The amount of our fixed obligations could have a material adverse effect on our business, results of operations and financial condition. The degree to which we are leveraged could have important consequences to holders of our securities, including the following:

- we must dedicate a substantial portion of cash flow from operations to the payment of principal and interest on applicable indebtedness, which, in turn, reduces funds available for operations and capital expenditures;
- our flexibility in planning for, or reacting to, changes in the markets in which we compete may be limited;
- we may be at a competitive disadvantage relative to our competitors with less indebtedness;
- we are rendered more vulnerable to general adverse economic and industry conditions;
- we are exposed to increased interest rate risk given that a portion of our indebtedness obligations are at variable interest rates; and
- our credit ratings may be reduced and our debt and equity securities may significantly decrease in value.

Additionally, failure to pay our operating leases, debt or other fixed cost obligations or a breach of our contractual obligations could result in a variety of further adverse consequences, including the exercise of remedies by our creditors and lessors. In such a situation, it is unlikely that we would be able to cure our breach, fulfill our obligations, make required lease payments or otherwise cover our fixed costs, which would have a material adverse effect on our business, results of operations and financial condition. In addition, several of the Company's debt agreements contain affirmative and negative covenants that, among other things, restrict the ability of the Company and its subsidiaries to enter into, create, incur, assume or suffer to exist any liens. See Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, of this report for additional information regarding the Company's liquidity as of September 30, 2020.

We are required to comply with certain ongoing financial and other covenants under certain credit facilities and leases, and if we fail to meet those covenants or otherwise suffer a default thereunder, our lenders and lessors may accelerate the payment of such obligations.

Under our (i) credit and guaranty agreement with CIT ("*CIT Revolving Credit Facility*"), we are required to comply with a minimum consolidated interest and rental coverage ratio at the end of each fiscal quarter during the term of such credit facility, (ii) credit agreement with EDC, we are required to comply with a minimum fixed charge coverage ratio at the end of each fiscal quarter during the term of such credit facility, (iii) aircraft lease facility ("*RASPRO Lease Facility*") with RASPRO we are required to comply with minimum current ratio and debt ratio covenants and a minimum available cash covenant until all amounts outstanding thereunder have been paid in full, and (iv) loan and guarantee agreement with the U.S. Treasury, we are required to comply with a minimum collateral coverage ratio, measured monthly during the term of such credit facility, and a minimum liquidity level, measured at the close of any business day during the term of such credit facility.

Failure to comply with the terms of these credit facilities and financing arrangements and the ongoing financial and other covenants thereunder would result in an event of default (as defined in the applicable credit facility and financing agreement) and, to the extent the applicable lenders so elect, an acceleration of our existing indebtedness following the expiration of any applicable cure periods, causing such debt to be immediately due and payable. Acceleration of such indebtedness would also trigger cross-default clauses under our other indebtedness. It could also result in the termination of all commitments to extend further credit under the CIT Revolving Credit Facility. We currently do not have sufficient liquidity to repay all of our outstanding debt in full if such debt were accelerated. If we are unable to pay our debts as they come due, or obtain waivers for such payments, our secured lenders could foreclose on any of our assets securing such debt. These events could materially adversely affect our business, results of operations and financial condition.

The loss of key personnel upon whom we depend to operate our business or the inability to attract additional qualified personnel could adversely affect our business.

We believe that our future success will depend in large part on our ability to retain or attract highly qualified management, technical and other personnel. We may not be successful in retaining key personnel or in attracting other highly qualified personnel. Among other things, the CARES Act imposes significant restrictions on executive compensation, which will remain in place through the date that is one year after the amounts outstanding under our Loan and Guarantee Agreement with the U.S. Treasury are fully repaid. Such restrictions, over time, will likely result in lower executive compensation in the airline industry than is prevailing in other industries which may present retention challenges in the case of executives presented with alternative, non-airline opportunities. Any inability to retain or attract significant numbers of qualified management and other personnel would have a material adverse effect on our business, results of operations and financial condition.

The supply of pilots to the airline industry is limited and may negatively affect our operations and financial condition.

The FAA Qualification Standards (and associated regulations) related to pilot qualification and flight training standards discussed in “Item 1. Government Regulation” have dramatically reduced the supply of qualified pilot candidates and has had a negative effect on pilot scheduling, work hours and the number of pilots required to be employed for our operations. To address the diminished supply of qualified pilot candidates, regional airlines, including us, implemented significant pilot wage and bonus increases, which has substantially increased our labor costs and may continue to negatively impact our operations and financial condition.

In prior periods, the FAA Qualification Standards negatively impacted our ability to hire pilots at a rate sufficient to support required utilization levels under our American Capacity Purchase Agreement, and, as a result, we issued credits to American pursuant to the terms of our American Capacity Purchase Agreement. In February 2018, we mutually agreed with United to temporarily remove two aircraft from service under our United Capacity Purchase Agreement. These aircraft were placed back into service under our United Capacity Purchase Agreement five months later when we were able to fully staff our flight operations. If we are unable to maintain a sufficient number of qualified pilots to operate our scheduled flights, it could lead to, or we may need to request, reduced flight schedules with our major airline partners, which would result in monetary performance penalties under our capacity purchase agreements.

In addition, our operations and financial condition may be negatively impacted if we are unable to train pilots in a timely manner. Due to the industry-wide shortage of qualified pilots, driven by the increased flight hours requirements under the FAA Qualification Standards and attrition resulting from the hiring needs of other airlines, pilot training timelines have significantly increased and stressed the availability of flight simulators, instructors and related training equipment. As a result, the training of our pilots may not be accomplished in a cost-efficient manner or in a manner timely enough to support our operational needs.

Pilot attrition may continue to negatively affect our operations and financial condition.

In recent years, we have experienced significant volatility in our attrition as a result of pilot wage and bonus increases at other regional air carriers, the growth of cargo, low-cost and ultra low-cost carriers and the number of pilots at major airlines reaching the statutory mandatory retirement age of 65 years. In prior periods, these factors caused our pilot attrition rates to be higher than our ability to hire and retain replacement pilots, resulting in our inability to provide flight services at or exceeding the minimum flight operating levels expected by our major airline partners. If our attrition rates are higher than our ability to hire and retain replacement pilots, we may need to request a reduced flight schedule with our major airline partners, which may result in operational performance penalties under our capacity purchase agreements and our operations and financial results could be materially and adversely affected.

Increases in our labor costs, which constitute a substantial portion of our total operating costs, may adversely affect our business, results of operations and financial condition.

As a result of the FAA Qualification Standards, the supply of qualified pilots has been dramatically reduced. This shortage of pilots has driven up our pilot salaries and sign-on bonuses and resulted in a material increase in our labor costs. A continued shortage of pilots could require us to further increase our labor costs, which would result in a material reduction in our earnings.

Our major airline partners may expand their direct operation of regional jets thus limiting the expansion of our relationships with them.

We depend on our major airline partners electing to contract with us instead of operating their own regional jets or operating their own "captive" regional airlines through wholly owned subsidiaries. Currently, the captive regional airlines include Endeavor (owned by Delta), Envoy (owned by American), PSA (owned by American), Piedmont (owned by American) and Horizon (owned by Alaska). These major airlines possess the financial and other resources to acquire and operate their own regional jets, create or grow their own captive regional airlines or acquire other regional air carriers instead of entering into contracts with us. In particular, American, which procures approximately 40% of its regional flying from its wholly owned regional subsidiaries, has expressed a goal of increasing their share to a majority of American's regional flying over time. We have no guarantee that in the future our major airline partners will choose to enter into contracts with us, or renew their existing agreements with us, instead of operating their own regional jets, allocating flying to their captive regional airlines or entering into relationships with competing regional airlines. A decision by American or United to phase out or limit our capacity purchase agreements or to enter into similar agreements with our competitors could have a material adverse effect on our business, financial condition or results of operations.

We may be limited from expanding our flying within our major airline partners' flight systems and there are constraints on our ability to provide services to airlines other than American and United.

Additional growth opportunities within our major airline partners' flight systems are limited by various factors, including a limited number of independent regional aircraft that each such major airline partner can operate in its regional network due to "scope" clauses in the current collective bargaining agreements with their pilots that restrict the number and size of regional jets that may be operated in their flight systems not flown by their pilots. Except as contemplated by our existing capacity purchase agreements, we cannot be sure that our major airline partners will contract with us to fly any additional aircraft.

We may not have additional growth opportunities or may agree to modifications to our capacity purchase agreements that reduce certain benefits to us in order to obtain additional aircraft, or for other reasons. Given the competitive nature of the airline industry, we believe limited growth opportunities may result in competitors accepting reduced margins and less favorable contract terms in order to secure new or additional capacity purchase operations. Even if we are offered growth opportunities by our major airline partners, those opportunities may involve economic terms or financing commitments that are unacceptable to us. Additionally, our major airline partners may reduce the number of regional jets in their system by not renewing or extending existing flying arrangements with regional operators or transitioning those flying arrangements to their own captive regional carriers. Any one or more of these factors may reduce or eliminate our ability to expand our flight operations with our existing major airline partners.

Additionally, our capacity purchase agreements limit our ability to provide regional flying services to other airlines in certain major airport hubs of American and United. These restrictions may make us a less attractive partner to other major airlines whose regional flying needs do not align with our geographical restrictions.

The residual value of our owned aircraft may be less than estimated in our depreciation policies.

As of September 30, 2020, we had approximately \$1,212.4 million of property and equipment and related assets, net of accumulated depreciation, of which, \$1,005.0 million relates to owned aircraft. In accounting for these long lived assets, we make estimates about the expected useful lives of the assets, the expected residual values of certain of these assets, and the potential for impairment based on the fair value of the assets and the cash flows they generate. Factors indicating potential impairment include, but are not limited to, significant decreases in the market value of the long lived assets, a significant change in the condition of the long lived assets and operating cash flow losses associated with the use of the long lived assets. In the event the estimated residual value of any of our aircraft types is determined to be lower than the residual value assumptions used in our depreciation policies, the applicable aircraft type in our fleet may be impaired and may result in a material reduction in the book value of applicable aircraft types

we operate or we may need to prospectively modify our depreciation policies. An impairment on any of the aircraft types we operate or an increased level of depreciation expense resulting from a change to our depreciation policies could result in a material negative impact to our financial results.

The amounts we receive under our capacity purchase agreements may be less than the corresponding costs we incur.

Under our capacity purchase agreements with American and United, a portion of our compensation is based upon pre-determined rates typically applied to production statistics (such as departures and block hours flown). The primary operating costs intended to be compensated by the pre-determined rates include labor costs, including crew training costs, certain aircraft maintenance expenses and overhead costs. During our fiscal year ended September 30, 2020, approximately \$41.9 million, or 8.3%, of our operating costs under our capacity purchase agreements were pass-through costs, excluding fuel which is paid directly to suppliers by our major airline partners. If our operating costs for labor, aircraft maintenance and overhead costs exceed the compensation earned from our pre-determined rates under our capacity purchase agreements, our financial position and operating results will be negatively affected.

Strikes, labor disputes and increased unionization of our workforces may adversely affect our ability to conduct our business and reduce our profitability.

As of September 30, 2020, approximately 74.8% of our workforce was represented by labor unions, including the Air Line Pilots Association, International ("ALPA") and the Association of Flight Attendants ("AFA"). On July 13, 2017, our pilots, represented by the ALPA, ratified a new four-year collective bargaining agreement. Similarly, on October 1, 2017, our flight attendants, represented by the AFA, ratified a new four-year collective bargaining agreement. The terms and conditions of our future collective bargaining agreements may be affected by the results of collective bargaining negotiations at other airlines that may have a greater ability, due to larger scale, greater efficiency or other factors, to bear higher costs than we can. In addition, if we are unable to reach agreement with any of our unionized work groups in future negotiations regarding the terms of their collective bargaining agreements, we may be subject to work interruptions, stoppages or shortages. We may also become subject to additional collective bargaining agreements in the future as non-unionized workers may unionize. We are also subject to various ongoing employment disputes outside of the collective bargaining agreements. We consider these to not be material, but any current or future dispute could become material.

Relations between air carriers and labor unions in the United States are governed by the RLA. Under the RLA, collective bargaining agreements generally contain "amendable dates" rather than expiration dates, and the RLA requires that a carrier maintain the existing terms and conditions of employment following the amendable date through a multi-stage and usually lengthy series of bargaining processes overseen by the NMB. This process continues until either the parties have reached agreement on a new collective bargaining agreement, or the parties have been released to "self-help" by the NMB. In most circumstances, the RLA prohibits strikes; however, after release by the NMB, carriers and unions are free to engage in self-help measures such as lockouts and strikes.

Any strike, labor dispute or increased unionization among our employees could disrupt our operations, reduce our profitability or interfere with the ability of our management to focus on executing our business strategies. For example, if a labor strike were to continue for several consecutive days, United may have cause to terminate our United Capacity Purchase Agreement. As a result, our business, results of operations and financial condition may be materially adversely affected.

We face tail risk in that we have aircraft lease commitments that extend beyond our existing capacity purchase agreement contractual terms on certain aircraft.

We currently have aircraft with leases extending past the term of their corresponding capacity purchase agreement. We may not be successful in extending the flying contract terms on these aircraft with our major airline partners. In that event, we intend to pursue alternative uses for those aircraft over the remaining portions of their leases including, but not limited to, operating the aircraft with another major airline under a negotiated capacity purchase agreement, subleasing the aircraft to another operator or marketing them for sale. Additionally, we may negotiate an early lease return agreement with an aircraft's

lessor. In connection with this, we may incur cash and non-cash early lease termination costs that would negatively impact our operations and financial condition. Additionally, if we are unable to extend a flying contract with an existing major airline partner but reach an agreement to place an aircraft into service with a different major airline partner, we likely will incur inefficiencies and incremental costs, such as changing the aircraft livery, which would negatively impact our financial results.

We may incur substantial maintenance costs as part of our leased aircraft return obligations.

Our aircraft lease agreements contain provisions that require us to return aircraft airframes and engines to the lessor in a specified condition or pay an amount to the lessor based on the actual return condition of the equipment. These lease return costs are recorded in the period in which they are incurred. We estimate the cost of maintenance lease return obligations and accrue such costs over the remaining lease term when the expense is probable and can be reasonably estimated. Any unexpected increase in maintenance return costs may negatively impact our financial position and results of operations.

We may become involved in litigation that may materially adversely affect us.

From time to time, we may become involved in various legal proceedings relating to matters incidental to the ordinary course of our business, including employment, commercial, product liability, class action, whistleblower and other litigation and claims, and governmental and other regulatory investigations and proceedings. Such matters can be time-consuming, divert management's attention and resources, cause us to incur significant expenses or liability and/or require us to change our business practices. Because of the potential risks, expenses and uncertainties of litigation, we may, from time to time, settle disputes, even where we believe that we have meritorious claims or defenses. Because litigation is inherently unpredictable, we cannot assure you that the results of any of these actions will not have a material adverse effect on our business, results of operations and financial condition.

Disagreements regarding the interpretation of our capacity purchase agreements with our major airline partners could have an adverse effect on our operating results and financial condition.

To the extent that we experience disagreements regarding the interpretation of our capacity purchase or other agreements, we will likely expend valuable management time and financial resources in our efforts to resolve those disagreements. Those disagreements may result in litigation, arbitration, settlement negotiations or other proceedings. Furthermore, there can be no assurance that any or all of those proceedings, if commenced, would be resolved in our favor or that we would be able to exercise sufficient leverage in any proceeding relative to our major airline partner to achieve a favorable outcome. An unfavorable result in any such proceeding could have adverse financial consequences or require us to modify our operations. Such disagreements and their consequences could have an adverse effect on our operating results and financial condition.

We rely on third-party suppliers as the sole manufacturers of our aircraft and aircraft engines.

We depend upon Bombardier and Embraer as the sole manufacturers of our aircraft and GE as the sole manufacturer of our aircraft engines. Our operations could be materially and adversely affected by the failure or inability of Bombardier, Embraer or GE to provide sufficient parts or related maintenance and support services to us in a timely manner, or the interruption of our flight operations as a result of unscheduled or unanticipated maintenance requirements for our aircraft or engines.

Maintenance costs will likely increase as the age of our regional jet fleet increases.

The average age of our E-175, CRJ-900 and CRJ-700 type aircraft is approximately 4.9, 14.0 and 16.7 years, respectively. We have incurred relatively low maintenance expenses on our E-175 aircraft because most of the parts are under multi-year warranties and a limited number of heavy airframe checks and engine overhauls have occurred. Our maintenance costs will increase significantly, both on an absolute basis and as a percentage of our operating expenses, as our fleet ages and the E-175 warranties expire. In addition, because our current aircraft were acquired over a relatively short period of time, significant maintenance events scheduled for these aircraft will occur at roughly the same intervals, meaning we will incur our most expensive scheduled maintenance obligations across our present fleet at approximately the same time. These more significant maintenance activities will result in out-of-service periods during which aircraft are dedicated to maintenance activities and unavailable for flying under our capacity purchase agreements. Any unexpected increase in our maintenance costs as our fleet ages or decreased revenues resulting from out-of-service periods could have an adverse effect on our cash flows, operating results and financial condition.

If we face problems with any of our third-party service providers, our operations could be adversely affected.

Our reliance upon others to provide essential services on behalf of our operations may limit our ability to control the efficiency and timeliness of contract services. We have entered into agreements with contractors to provide various facilities and services required for our operations, including aircraft maintenance, ground facilities and IT services, and expect to enter into additional similar agreements in the future. In particular, we rely on AAR and Aviall to provide fixed-rate parts procurement and component overhaul services for our aircraft fleet and GE to provide engine support. Our agreements with AAR, and other service providers, are subject to termination after notice. If our third-party service providers terminate their contracts with us, or do not provide timely or consistently high-quality service, we may not be able to replace them in a cost-efficient manner or in a manner timely enough to support our operational needs, which could have a material adverse effect on our business, financial condition and results of operations. In addition, our operations could be materially and adversely affected by the failure or inability of AAR, Aviall or GE to provide sufficient parts or related maintenance and support services to us in a timely manner.

Regulatory changes or tariffs could negatively impact our business and financial condition.

We import a substantial portion of the equipment we utilize in our operations. For example, the sole manufacturers of our aircraft, Bombardier and Embraer, are headquartered in Canada and Brazil, respectively. We cannot predict the impact of potential regulatory changes or action by U.S. regulatory agencies, including the potential impact of tariffs or changes in international trade treaties on the cost and timing of parts and aircraft. Our business may be subject to additional costs as a result of potential regulatory changes, which could have an adverse effect on our operations and financial results.

The issuance of operating restrictions applicable to one of the fleet types we operate could negatively impact our business and financial condition.

We rely on a limited number of aircraft types, including CRJ-700, CRJ-900 and E-175 aircraft. The issuance of FAA or manufacturer directives restricting or prohibiting the use of the aircraft types we operate could negatively impact our business and financial results.

If we have a failure in our technology or security breaches of our information technology infrastructure our business and financial condition may be adversely affected.

The performance and reliability of our technology, and the technology of our major airline partners, are critical to our ability to compete effectively. Any internal technological error or failure or large scale external interruption in the technological infrastructure we depend on, such as power, telecommunications or the internet, may disrupt our internal network. Any individual, sustained or repeated failure of our technology or that of our major airline partners could impact our ability to conduct our business, lower the utilization of our aircraft and result in increased costs. Our technological systems and related data, and

those of our major airline partners, may be vulnerable to a variety of sources of interruption due to events beyond our control, including natural disasters, terrorist attacks, telecommunications failures, computer viruses, hackers and other security issues.

In addition, as a part of our ordinary business operations, we collect and store sensitive data, including personal information of our employees and information of our major airline partners. Our information systems are subject to an increasing threat of continually evolving cybersecurity risks. Unauthorized parties may attempt to gain access to our systems or information through fraud or other means of deception. The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are constantly evolving, and may be difficult to anticipate or to detect for long periods of time. We may not be able to prevent all data security breaches or misuse of data. The compromise of our technology systems resulting in the loss, disclosure, misappropriation of, or access to, employees' or business partners' information could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information, disruption to our operations and damage to our reputation, any or all of which could adversely affect our business and financial condition.

We are subject to various environmental and noise laws and regulations, which could have a material adverse effect on our business, results of operations and financial condition.

We are subject to increasingly stringent federal, state, local and foreign laws, regulations and ordinances relating to the protection of the environment and noise, including those relating to emissions to the air, discharges (including storm water discharges) to surface and subsurface waters, safe drinking water and the use, management, disposal and release of, and exposure to, hazardous substances, oils and waste materials. We are or may be subject to new or proposed laws and regulations that may have a direct effect (or indirect effect through our third-party specialists or airport facilities at which we operate) on our operations. In addition, U.S. airport authorities are exploring ways to limit de-icing fluid discharges. Any such existing, future, new or potential laws and regulations could have an adverse impact on our business, results of operations and financial condition.

Similarly, we are subject to environmental laws and regulations that require us to investigate and remediate soil or groundwater to meet certain remediation standards. Under certain laws, generators of waste materials, and current and former owners or operators of facilities, can be subject to liability for investigation and remediation costs at locations that have been identified as requiring response actions. Liability under these laws may be strict, joint and several, meaning that we could be liable for the costs of cleaning up environmental contamination regardless of fault or the amount of wastes directly attributable to us.

Our ability to utilize our net operating loss carryforwards and certain other tax attributes may be limited.

As of September 30, 2020, we had aggregate federal and state net operating loss carryforwards of approximately \$512.4 million and \$222.0 million, which expire in fiscal years 2027-2038 and 2021-2040, respectively, with approximately \$3.1 million of state net operating loss carryforwards that expired in 2020 which had a full valuation allowance against them. Our unused losses generally carry forward to offset future taxable income, if any, until such unused losses expire. We may be unable to use these losses to offset income before such unused losses expire. However, US federal net operating losses generated in fiscal years 2019 and forward are not subject to expiration and, if not utilized by fiscal 2021, are only available to offset eighty percent of taxable income each year due to changes in tax law attributable to the passage of Tax Cuts and Jobs Act. In addition, if a corporation undergoes an "ownership change" (generally defined as a greater than 50% cumulative change in the equity ownership of certain shareholders over a rolling three-year period) under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), the corporation's ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes to offset future taxable income or taxes may be limited. We have experienced ownership changes in the past and may experience ownership changes as a result of future changes in our stock ownership (some of which changes may not be within our control). This, in turn, could materially

reduce or eliminate our ability to use our losses or tax attributes to offset future taxable income or tax and have an adverse effect on our future cash flows. See "*—Our corporate charter limits certain transfers of our stock, these limits are intended to preserve our ability to use our net operating loss carryforwards, and these limits could have an effect on the market price of our common stock.*"

We may not be able to successfully implement our growth strategy.

Our growth strategy includes, among other things, providing regional flying to other airlines and/or entering into the cargo and express shipping business. We face numerous challenges in implementing our growth strategy, including our ability to:

- provide regional flying to other airlines with hub cities that overlap with our existing airline partners; and
- enter into relationships with third parties to carry their cargo on terms that are acceptable to us, as we did with DHL Express in October 2020.

Our capacity purchase agreements limit our ability to provide regional flying services to other airlines in certain major airport hubs of American and United. These restrictions may make us a less attractive partner to other major airlines whose regional flying needs do not align with our geographical restrictions.

The potential benefits of entering the air cargo and express shipping sector will depend substantially on our ability to enter into additional relationships with integrated logistics companies and transition our existing business strategies into a new sector. We may be unsuccessful in entering into relationships with integrated logistics companies to carry cargo on terms that are acceptable to us. Additionally, our ability to transition our existing business strategies into a new sector may be costly, complex and time-consuming, and our management will have to devote substantial time and resources to such effort. Should we transition into this new sector, we may experience difficulties or delays in securing gate access and other airport services necessary to operate in the air cargo and express shipping sector. Our inability to successfully implement our growth strategies, could have a material adverse effect on our business, financial condition and results of operations and any assumptions underlying estimates of expected cost savings or expected revenues may be inaccurate.

We may not be able to make opportunistic acquisitions should we elect to do so as part of our growth strategy.

If we elect to pursue an acquisition, our ability to successfully implement this transaction would depend on a variety of factors, including the approval of our acquisition target's major airline partners, obtaining financing on acceptable terms and compliance with the restrictions contained in our debt agreements. If we need to obtain our lenders' consent prior to an acquisition, they may refuse to provide such consent or condition their consent on our compliance with additional restrictive covenants that limit our operating flexibility. Acquisition transactions involve risks, including those associated with integrating the operations or (as applicable) separately maintaining the operations, financial reporting, disparate technologies and personnel of acquired companies; managing geographically dispersed operations; the diversion of management's attention from other business concerns; unknown risks; and the potential loss of key employees. We may not successfully integrate any businesses we may acquire in the future and may not achieve anticipated revenue and cost benefits relating to any such transactions. Strategic transactions may be expensive, time consuming and may strain our resources. Strategic transactions may not be accretive to our earnings and may negatively impact our results of operations as a result of, among other things, the incurrence of debt, one-time write-offs of goodwill and amortization expenses of other intangible assets. In addition, strategic transactions that we may pursue could result in dilutive issuances of equity securities.

Our ability to obtain financing or access capital markets may be limited.

There are a number of factors that may limit our ability to raise financing or access capital markets in the future, including our significant debt and future contractual obligations, our liquidity and credit status, our operating cash flows, the market conditions in the airline industry, U.S. and global economic conditions, the general state of the capital markets and the financial position of the major providers of commercial aircraft financing. We cannot assure you that we will be able to source external financing for our planned

aircraft acquisitions or for other significant capital needs, and if we are unable to source financing on acceptable terms, or unable to source financing at all, our business could be materially adversely affected. To the extent we finance our activities with additional debt, we may become subject to financial and other covenants that may restrict our ability to pursue our business strategy or otherwise constrain our growth and operations.

Negative publicity regarding our customer service could have a material adverse effect on our business, results of operations and financial condition.

Our business strategy includes the implementation of our major airline partners' brand and product in order to increase customer loyalty and drive future ticket sales. In addition, we also receive certain amounts under our United Capacity Purchase Agreement based upon the results of passenger satisfaction surveys. However, we may experience a high number of passenger complaints related to, among other things, our customer service. These complaints, together with delayed and cancelled flights, and other service issues, are reported to the public by the DOT. If we do not meet our major airline partners' expectations with respect to reliability and service, our and our major airline partners' brand and product could be negatively impacted, which could result in customers deciding not to fly with our major airline partners or with us. If we are unable to provide consistently high-quality customer service, it could have an adverse effect on our relationships with our major airline partners.

Risks associated with our presence in international emerging markets, including political or economic instability, and failure to adequately comply with existing legal requirements, may materially adversely affect us.

Some of our target growth markets include countries with less developed economies, legal systems, financial markets and business and political environments are vulnerable to economic and political disruptions, such as significant fluctuations in gross domestic product, interest and currency exchange rates, civil disturbances, government instability, nationalization and expropriation of private assets, trafficking and the imposition of taxes or other charges by governments. The occurrence of any of these events in markets served by us now or in the future and the resulting instability may have a material adverse effect on our business, results of operations and financial condition.

We emphasize compliance with all applicable laws and regulations and have implemented and continue to implement and refresh policies, procedures and certain ongoing training of our employees, third-party specialists and partners with regard to business ethics and key legal requirements; however, we cannot assure you that our employees, third-party specialists or partners will adhere to our code of ethics, other policies or other legal requirements. If we fail to enforce our policies and procedures properly or maintain adequate recordkeeping and internal accounting practices to record our transactions accurately, we may be subject to sanctions. In the event we believe or have reason to believe our employees, third-party specialists or partners have or may have violated applicable laws or regulations, we may incur investigation costs, potential penalties and other related costs which in turn may materially adversely affect our reputation and could have a material adverse effect on our business, results of operations and financial condition.

Risks Related to Our Industry

The outbreak and global spread of COVID-19 has resulted in a severe decline in demand for air travel, which has adversely impacted the business of our airline partners, American and United and in turn has had an adverse impact that has been material to our business, operating results, financial condition and liquidity. The duration and severity of the COVID-19 pandemic, and similar public health threats that we may face in the future, could result in additional adverse effects on our business, operating results, financial condition and liquidity.

The COVID-19 outbreak, along with the measures governments and private organizations worldwide have implemented in an attempt to contain the spread of this pandemic, has resulted in a severe decline in demand for air travel, which has adversely affected the business of our major airline partners, American and United, from whom we derive substantially all of our operating revenue, and in turn has adversely affected our business, operations and financial condition to an unprecedented extent.

In response to this material deterioration in demand, both American and United made significant cuts in capacity in their domestic and international schedules beginning in the second calendar quarter of 2020.

These capacity reductions impacted flights operated by the Company. As a result of this decline in demand and capacity reductions, the Company experienced a material decline in demand in block hours from both of its major airline partners and operated at significantly lower block hours in the second half of fiscal year 2020. The Company believes that the initiatives and measures put in place to limit the spread of the virus has and will continue to have a materially adverse impact on its business. While there has been a modest demand recovery, the Company anticipates similar schedule reductions may continue for the foreseeable future.

In response to the foregoing events, we implemented cost saving initiatives, including reducing employee-related costs through voluntary unpaid leaves, compensation reductions for executive level employees, a company-wide hiring freeze, delaying non-essential heavy maintenance expense and reducing or suspending discretionary spending. We have also taken steps to increase liquidity and strengthen our financial position, including reducing planned heavy engine and airframe maintenance, working with major partners and OEMs to delay the timing of the delivery of our future aircraft and spare engine deliveries, and drawing \$23 million under our previously undrawn revolving credit facility. While the severity, magnitude and duration of the COVID-19 pandemic remain uncertain, there can be no assurance that these actions will be sufficient to sustain our business operations through the uncertain duration of this pandemic.

We have also taken and intend to take additional actions to improve our financial position, including measures to improve liquidity, such as obtaining financial assistance under the CARES Act. In April 2020, we were granted \$92.5 million in emergency relief through the Payroll Support Program (“PSP”) of the CARES Act, all of which was received by the Company as of September 30, 2020. In September 2020, we were notified that, based on funding availability, recipients that were currently in compliance with executed PSP agreements would receive an approximate 2% increase in their award amount. As a result, we were granted an additional \$2.7 million through the PSP for a total grant of \$95.2 million, which was received in October 2020. Under the terms of this financial assistance, we are required to comply with certain provisions of the CARES Act, including the requirement that funds provided pursuant to the PSP be used exclusively for the continuation of payment of employee wages, salaries and benefits; the requirement against involuntary furloughs and reductions in employee pay rates and benefits through September 2020; the requirement of continuing essential air service; restrictions on share repurchases and dividends; and limits on the payment of certain executive compensation. The substance and duration of these restrictions may materially affect our operations, and we may not be successful in managing these impacts for the duration of the restrictions. In particular, limitations on executive compensation, which, depending on the form of aid, could extend up to six years, may impact the Company's ability to attract and retain senior management or attract other key employees during this critical time.

On October 30, 2020, the Company entered into a five-year Loan and Guarantee Agreement with the U.S. Department of the Treasury (the “U.S. Treasury”), which provided the Company with a secured loan facility to borrow up to \$200.0 million under the CARES Act. On October 30, 2020, the Company borrowed \$43.0 million under the facility and on November 13, 2020, the Company borrowed an additional \$152.0 million. No additional amounts are available for borrowing under this loan facility. Similar to the terms of the PSP, the Company is required to comply with certain provisions of the CARES Act, including the requirement of continuing essential air service; restrictions on share repurchases and dividends; and limits on the payment of certain executive compensation. The substance and duration of these restrictions may materially affect our operations, and we may not be successful in managing these impacts for the duration of the restrictions.

The full extent of the ongoing impact of COVID-19 on our future operational and financial performance will depend on future developments, many of which are outside our control, including the effectiveness of the mitigation strategies discussed above, the severity, magnitude, duration and spread of COVID-19, including any recurrence of the pandemic, and related travel advisories and restrictions, the impact of COVID-19 on overall long-term demand for air travel, the impact on demand and capacity which could result from government mandates on air service including, for instance, any requirement for passengers to wear masks while traveling or have their temperature checked or have administered other tests or examinations prior to entering an airport or boarding an airplane, or which would limit the number of seats that can be

occupied on an aircraft to allow for social distancing, and the impact of COVID-19 on the financial health and operations of our major airline partners and future governmental actions, all of which are highly uncertain and cannot be predicted.

In addition, an outbreak of another disease or similar public health threat, or fear of such an event, that affects travel demand, travel behavior or travel restrictions could adversely impact our business, financial condition and operating results. Outbreaks of other diseases could also result in increased government restrictions and regulation, such as those actions described above or otherwise, which could adversely affect our operations.

The airline industry is highly competitive and has undergone a period of consolidation and transition leaving fewer potential major airline partners.

The airline industry is highly competitive. We compete primarily with other regional airlines, some of which are owned by or operated by major airlines. In certain instances, our competitors are larger than us and possess significantly greater financial and other resources than we do. The airline industry has undergone substantial consolidation, including the mergers between Alaska Airlines and Virgin America Inc. in 2016, American and US Airways in 2013, Southwest Airlines Co. and AirTran Airways in 2011, United and Continental Airlines in 2010 and Delta and Northwest Airlines in 2008. Any additional consolidation or significant alliance activity within the airline industry could further limit the number of potential partners with whom we could enter into capacity purchase agreements.

We are subject to significant governmental regulation.

All interstate air carriers, including us, are subject to regulation by the DOT, the FAA and other governmental agencies, as described in "Item 1. Government Regulation." We cannot predict whether we will be able to comply with all present and future laws, rules, regulations and certification requirements or that the cost of continued compliance will not have a material adverse effect on our operations. We incur substantial costs in maintaining our current certifications and otherwise complying with the laws, rules and regulations to which we are subject. A decision by the FAA to ground, or require time consuming inspections of or maintenance on, all or any of our aircraft for any reason may have a material adverse effect on our operations. In addition to state and federal regulation, airports and municipalities enact rules and regulations that affect our operations and require that we incur substantial on-going costs.

Airlines are often affected by factors beyond their control including: air traffic congestion at airports; air traffic control inefficiencies; adverse weather conditions, such as hurricanes or blizzards; increased security measures; new travel related taxes or the outbreak of disease; any of which could have a material adverse effect on our business, results of operations and financial condition.

Like other airlines, our business is affected by factors beyond our control, including air traffic congestion at airports, air traffic control inefficiencies, increased security measures, new travel-related taxes and fees, adverse weather conditions, natural disasters and the outbreak of disease. Factors that cause flight delays frustrate passengers and increase operating costs and decrease revenues, which in turn could adversely affect profitability. The federal government singularly controls all U.S. airspace, and airlines are completely dependent on the FAA to operate that airspace in a safe, efficient and affordable manner. The air traffic control system, which is operated by the FAA, faces challenges in managing the growing demand for U.S. air travel. U.S. and foreign air-traffic controllers often rely on outdated technologies that routinely overwhelm the system and compel airlines to fly inefficient, indirect routes resulting in delays. In addition, there are currently proposals before Congress that could potentially lead to the privatization of the United States' air traffic control system, which could adversely affect our business. Further, implementation of the Next Generation Air Transport System by the FAA would result in changes to aircraft routings and flight paths that could lead to increased noise complaints and lawsuits, resulting in increased costs. There are additional proposals before Congress that would treat a wide range of consumer protection issues, including, among other things, proposals to regulate seat size, which could increase the costs of doing business.

Adverse weather conditions and natural disasters, such as hurricanes, winter snowstorms or earthquakes, can cause flight cancellations or significant delays. Cancellations or delays due to adverse weather conditions or natural disasters, air traffic control problems or inefficiencies, breaches in security or other factors may affect us to a greater degree than other, larger airlines that may be able to recover more quickly from these events, and therefore could have a material adverse effect on our business, results of operations and financial condition to a greater degree than other air carriers. Any general reduction in airline passenger traffic could have a material adverse effect on our business, results of operations and financial condition.

Terrorist activities or warnings have dramatically impacted the airline industry and will likely continue to do so.

The terrorist attacks of September 11, 2001 and their aftermath have negatively impacted the airline industry in general, including our operations. If additional terrorist attacks are launched against the airline industry, there will be lasting consequences of the attacks, which may include loss of life, property damage, increased security and insurance costs, increased concerns about future terrorist attacks, increased government regulation and airport delays due to heightened security. We cannot provide any assurance that these events will not harm the airline industry generally or our operations or financial condition in particular.

The occurrence of an aviation accident involving our aircraft would negatively impact our operations and financial condition.

An accident or incident involving our aircraft could result in significant potential claims of injured passengers and others, as well as repair or replacement of a damaged aircraft and its consequential temporary or permanent loss from service. In the event of an accident, our liability insurance may not be adequate to offset our exposure to potential claims and we may be forced to bear substantial losses from the accident. Substantial claims resulting from an accident in excess of our related insurance coverage would harm our operational and financial results. Moreover, any aircraft accident or incident, even if fully insured, could cause a public perception that our operations are less safe or reliable than other airlines.

Risks Related to Owning Our Common Stock

The market price of our common stock may be volatile, which could cause the value of an investment in our stock to decline.

The market price of our common stock may fluctuate substantially due to a variety of factors, many of which are beyond our control, including: (i) announcements concerning our major airline partners, competitors, the airline industry or the economy in general; (ii) strategic actions by us, our major airline partners, or our competitors, such as acquisitions or restructurings; (iii) media reports and publications about the safety of our aircraft or the aircraft type we operate; (iv) new regulatory pronouncements and changes in regulatory guidelines; (v) announcements concerning the availability of the type of aircraft we use; (vi) significant volatility in the market price and trading volume of companies in the airline industry; (vii) changes in financial estimates or recommendations by securities analysts or failure to meet analysts' performance expectations; (viii) sales of our common stock or other actions by insiders or investors with significant shareholdings, including sales by our principal shareholders; and (ix) general market, political and other economic conditions.

The stock markets in general have experienced substantial volatility that has often been unrelated to the operating performance of particular companies. Broad market fluctuations may materially adversely affect the trading price of our common stock. In the past, shareholders have sometimes instituted securities class action litigation against companies following periods of volatility in the market price of their securities. Any similar litigation against us could result in substantial costs, divert management's attention and resources and have a material adverse effect on our business, results of operations and financial condition.

If securities or industry analysts do not publish research or reports about our business or publish negative reports about our business, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities and industry analysts may publish about us or our business. If one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, the trading price of our common stock would likely decline. If one or more of these analysts ceases to cover our company or fails to publish reports on us regularly, demand for our stock could decrease, which may cause the trading price of our common stock and the trading volume of our common stock to decline.

The value of our common stock may be materially adversely affected by additional issuances of common stock underlying our outstanding warrants.

As of November 13, 2020, we had outstanding warrants to purchase an aggregate of 4,899,497 shares of our common stock, all of which were issued to the U.S. Treasury pursuant to the terms of the Loan and Guarantee Agreement dated October 30, 2020. The warrants have a term of five years from the date of issuance and an initial exercise price of \$3.98 per share. Any future warrant exercises by the U.S. Treasury, or any authorized transferee of the U.S. Treasury, will be dilutive to our existing common shareholders. Under the terms of the warrant agreement governing such warrants, we are obligated to file a shelf registration to register the resale of such warrants and the shares of common stock issuable thereunder. Upon the effectiveness of this registration statement, all of the shares of common stock issuable upon exercise of such warrants will be freely tradeable without restrictions or further registration under the Securities Act of 1933, as amended. Sales of substantial amounts of our common stock in the public or private market, a perception in the market that such sales could occur, or the issuance of securities exercisable into our common stock, could adversely affect the prevailing price of our common stock.

Provisions in our charter documents might deter acquisition bids for us, which could adversely affect the price of our common stock.

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

- authorize our Board of Directors, without shareholder approval, to designate and fix the voting powers, designations, preferences, limitations, restrictions and relative rights of one or more series of preferred stock so designated, or right to acquire such preferred stock;
- that could dilute the interest of, or impair the voting power of, holders of our common stock and could also have the effect of discouraging, delaying or preventing a change of control;
- establish advance notice procedures that shareholders must comply with in order to nominate candidates to our Board of Directors and propose matters to be brought before an annual or special meeting of our shareholders, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of our company;
- authorize a majority of our Board of Directors to appoint a director to fill a vacancy created by the expansion of our Board of Directors or the resignation, death or removal of a director, which may prevent shareholders from being able to fill vacancies on our Board of Directors;
- restrict the number of directors constituting our Board of Directors to within a set range, and give our Board of Directors exclusive authority to increase or decrease the number of directors within such range, which may prevent shareholders from being able to fill vacancies on our Board of Directors; and
- restrict the ability of shareholders to call special meetings of shareholders.

Our corporate charter includes provisions limiting ownership by non-U.S. citizens.

To comply with restrictions imposed by federal law on foreign ownership of U.S. airlines, our second amended and restated articles of incorporation restrict the ownership and voting of shares of our common stock by people and entities who are not "*citizens of the United States*" as that term is defined in 49 U.S.C. § 40102(a). That statute defines "*citizen of the United States*" as, among other things, a U.S. corporation, of which the president and at least two-thirds of the board of directors and other managing officers are individuals who are citizens of the United States, which is under the actual control of citizens of the United States and in which at least 75% of the voting interest is owned or controlled by persons who are citizens of the United States. Our second amended and restated articles of incorporation prohibits any non-U.S. citizen from owning or controlling more than 24.9% of the aggregate votes of all outstanding shares of our common stock or 49.0% of the total number of outstanding shares of our capital stock. The restrictions imposed by the above-described ownership caps are applied to each non-U.S. citizen in reverse chronological order based on the date of registration on our foreign stock record. At no time may shares of our capital stock held by non-U.S. citizens be voted unless such shares are reflected on the foreign stock record. The voting rights of non-U.S. citizens having voting control over any shares of our capital stock are subject to automatic suspension to the extent required to ensure that we are in compliance with applicable law. In the event any transfer or issuance of shares of our capital stock to a non-U.S. citizen would result in non-U.S. citizens owning more than the above-described cap amounts, such transfer or issuance will be void and of no effect.

As of September 30, 2020, we had no outstanding warrants to purchase of our common stock. We are currently in compliance with all applicable foreign ownership restrictions.

Our corporate charter limits certain transfers of our stock, which limits are intended to preserve our ability to use our net operating loss carryforwards, and these limits could have an effect on the market price and liquidity of our common stock.

To reduce the risk of a potential adverse effect on our ability to use our net operating loss carryforwards for federal income tax purposes, our second amended and restated articles of incorporation prohibit the transfer of any shares of our capital stock that would result in (i) any person or entity owning 4.75% or more of our then-outstanding capital stock, or (ii) an increase in the percentage ownership of any person or entity owning 4.75% or more of our then-outstanding capital stock. These transfer restrictions expire upon the earliest of (i) the repeal of Section 382 of the Code or any successor statute if our Board of Directors determines that such restrictions are no longer necessary to preserve our ability to use our net operating loss carryforwards, (ii) the beginning of a fiscal year to which our Board of Directors determines that no net operating losses may be carried forward, or (iii) such other date as determined by our Board of Directors. These transfer restrictions apply to the beneficial owner of the shares of our capital stock. The clients of an investment advisor are treated as the beneficial owners of stock for this purpose if the clients have the right to receive dividends, if any, the power to acquire or dispose of the shares of our capital stock, and the right to proceeds from the sale of our capital stock. Certain transactions approved by our Board of Directors, such as mergers and consolidations meeting certain requirements set forth in our articles of incorporation, are exempt from the above-described transfer restrictions. Our Board of Directors also has the ability to grant waivers, in its discretion, with respect to transfers of our stock that would otherwise be prohibited.

The transfer restrictions contained in our second amended and restated articles of incorporation may impair or prevent a sale of common stock by a shareholder and may adversely affect the price at which a shareholder can sell our common stock. In addition, this limitation may have the effect of delaying or preventing a change in control of the Company, creating a perception that a change in control cannot occur or otherwise discouraging takeover attempts that some shareholders may consider beneficial, which could also adversely affect the market price of our common stock. We cannot predict the effect that this provision in our second amended and restated articles of incorporation may have on the market price of our common stock.

We currently do not intend to pay dividends on our common stock and, consequently, your only opportunity to achieve a return on your investment is if the price of our common stock appreciates.

We have not historically paid dividends on shares of our common stock and do not expect to pay dividends on such shares in the foreseeable future. Additionally, certain of our aircraft lease facilities contain restrictions that limit our ability to or prohibit us from paying dividends to holders of our common stock. Any future determination to pay dividends will be at the discretion of our Board of Directors and will depend on our results of operations, financial condition, capital requirements, restrictions contained in current or future leases and financing instruments, business prospects and such other factors as our Board of Directors deems relevant, including restrictions under applicable law. Consequently, your only opportunity to achieve a positive return on your investment in us will be if the market price of our common stock appreciates.

General Risk Factors

We are an "emerging growth company," and the reduced disclosure and regulatory requirements applicable to "emerging growth companies" may make our common stock less attractive to investors.

We qualify as an "**emerging growth company**" as defined in the Jumpstart Our Business Startups Act of 2012 (the "**JOBS Act**"), and therefore we may take advantage of reduced disclosure and regulatory requirements that are otherwise generally applicable to public companies. As an emerging growth company:

- we are not required to obtain an attestation and report from our independent registered public accounting firm on our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act;
- we may present reduced disclosure regarding executive compensation in our periodic reports and proxy statements; and
- we are not required to hold nonbinding advisory shareholder votes on executive compensation or golden parachute arrangements.

We may take advantage of these reduced requirements until we are no longer an "**emerging growth company**," which will occur upon the earliest of (i) the last day of our fiscal year following the fifth anniversary of our IPO (i.e. September 30, 2023), (ii) the last day of the first fiscal year in which our annual gross revenue is \$1.07 billion or more, (iii) the date on which we have, during the previous rolling three-year period, issued more than \$1.0 billion in non-convertible debt securities and (iv) the date on which we are deemed to be a "**large accelerated filer**" as defined in the Exchange Act. Investors may find our common stock less attractive or our company less comparable to certain other public companies because we will rely on these reduced requirements.

In addition, the JOBS Act permits an "**emerging growth company**" to take advantage of an extended transition period to comply with new or revised accounting standards. This effectively permits the delayed adoption of certain accounting standards until those standards would otherwise apply to private companies. However, we are electing to "**opt out**" of such extended transition period and, as a result, we will comply with new or revised accounting standards on the dates for which compliance is required for non-emerging growth companies. This election is irrevocable.

The requirements of being a public company may strain our resources, increase our operating costs, divert management's attention and affect our ability to attract and retain qualified board members or executive officers.

We became a public company in August 2018. As a public company, we incur significant legal, accounting and other expenses, including costs associated with public company reporting requirements. We also have incurred and will continue to incur costs associated with the Sarbanes-Oxley Act of 2002, as amended, the Dodd-Frank Wall Street Reform and Consumer Protection Act and related rules implemented or to be implemented by the SEC and the Nasdaq Global Select Market. The expenses incurred by public companies generally for reporting and corporate governance purposes have been increasing. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities

more time-consuming and costly and divert management's time and attention from revenue-generating activities to compliance activities. It could also make it more difficult or costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. These laws and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees, or as our executive officers and may divert management's attention. Furthermore, if we are unable to satisfy our obligations as a public company, we could be subject to delisting of our common stock, fines, sanctions and other regulatory action and potentially civil litigation.

We are required to assess our internal control over financial reporting on an annual basis, and any future adverse findings from such assessment could result in a loss of investor confidence in our financial reports, result in significant expenses to remediate any internal control deficiencies and have a material adverse effect on our business, results of operations and financial condition.

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting for our fiscal year ended September 30, 2020 and each subsequent year. This assessment includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting. Our independent registered public accounting firm is not required to attest to the effectiveness of our internal control over financial reporting until our first annual report required to be filed with the SEC following the later of the date we are deemed to be an "accelerated filer" or a "large accelerated filer," each as defined in the Exchange Act, or the date we are no longer an "emerging growth company," as defined in the JOBS Act. We are required to disclose, to the extent material, changes made in our internal control over financial reporting on a quarterly basis.

To comply with the requirements of being a public company, we may need to undertake various actions, such as implementing new internal controls and procedures and hiring accounting or internal audit staff. Management assessed the effectiveness of our internal control over financial reporting at September 30, 2020. In making these assessments, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework (2013). Based on our assessments and those criteria, management determined that we maintained effective internal control over financial reporting as of September 30, 2020.

In future periods, if we fail to achieve and maintain an effective internal control environment, it could result in material misstatements in our financial statements and failure to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information and adversely impact our stock price.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Flight Equipment

As of September 30, 2020, our fleet available for scheduled service consisted of the following aircraft:

Aircraft Type	Owned	Leased	Total	Passenger Capacity	Scheduled Flight Range (miles)	Average Cruising Speed (mph)	Average Age (years)
E-175 Regional Jet	18	42	60	76	2,100	530	4.9
CRJ-900 Regional Jet	48	16	64	76/79	1,500	530	14.0
CRJ-700 Regional Jet	18	2	20	70	1,600	530	16.7
CRJ-200 Regional Jet	1	—	1	50	1,500	530	26.7
Boeing 737 Cargo Jet	—	1	1		2,600	530	26.1
Total	85	61	146				

Several factors may impact our fleet size throughout our fiscal 2020 and thereafter, including contract expirations, lease expirations, growth opportunities and opportunities to transition to an alternative airline partner. Below is our fiscal 2020 outlook on our fleet by aircraft type. Our actual future fleet size and mix of aircraft types will likely vary, and may vary materially, from our current fleet size.

- E-175s - As of September 30, 2020, we operated 60 E-175 aircraft under our United Capacity Purchase Agreement. As part of our amended and restated United Capacity Purchase Agreement, we agreed to extend the term of 42 of our E-175 aircraft (owned by United) for an additional five (5) years which will now expire between 2024 and 2028, subject to United's early termination rights. United also has the right to extend the term of these aircraft under our United Capacity Purchase Agreement for four additional three-years. In addition, 18 of the E-175 aircraft (owned by us) operating under our United Capacity Purchase Agreement expire between January 2028 and November 2028, subject to United's early termination rights. Our United Capacity Purchase Agreement permits United, subject to certain conditions, including the payment of certain costs tied to aircraft type, to terminate the agreement in its discretion, or remove aircraft from service, by giving us 90 days' notice
- CRJ-900s – As of September 30, 2020, we operated 54 CRJ-900 aircraft under our American Capacity Purchase Agreement and ten (10) CRJ-900 aircraft as operational spares. Our American Capacity Purchase Agreement will expire with respect to different tranches of aircraft between 2021 and 2025, unless otherwise extended or amended. American has the option to unilaterally extend the term of our American Capacity Purchase Agreement up to three times for one year each (on the same terms) by providing us prior written notice. Our American Capacity Purchase Agreement is subject to termination prior to that date, subject to our right to cure, in various circumstances.
- CRJ-700s – As of September 30, 2020, we operated twenty (20) CRJ-700 aircraft under our United Capacity Purchase Agreement. Subject to certain early termination rights, as part of the amended and restated United Capacity Purchase Agreement, United has elected to have us lease our twenty (20) CRJ-700 aircraft to another United Express service provider for a term of seven (7) years. We will continue to operate such aircraft until they are transitioned in calendar year 2022. Our United Capacity Purchase Agreement permits United, subject to certain conditions, including the payment of certain costs tied to aircraft type, to terminate the agreement in its discretion, or remove aircraft from service, by giving us notice of 90 days or more. In addition, United has right to purchase the CRJ 700 aircraft at the then fair market value.
- CRJ-200s – As of September 30, 2020, we operated one CRJ-200 aircraft as an operational spare.
- Boeing 737 Cargo Jet – As of September 30, 2020, we subleased one Boeing 737 aircraft from DHL. The first revenue generating flight took place in October 2020.

Facilities

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

Type	Location	Ownership	Approximate Square Feet
Corporate Headquarters	Phoenix, Arizona	Leased	33,770
Training Center	Phoenix, Arizona	Leased	23,783
Parts/Stores	Phoenix, Arizona	Leased	12,000
Hangar	Phoenix, Arizona	Leased	22,467
Office, Hangar and Warehouse	El Paso, Texas	Leased	31,292
Office, Hangar	Dallas, Texas	Leased	30,440
DFW Parts	Dallas, Texas	Leased	8,143
Hangar	Houston, Texas	Leased	74,524
Hangar	Louisville, Kentucky	Leased	26,762
Hangar	Dulles, Washington	Leased	28,451
TUS Warehouse	Tucson, Arizona	Leased	5,370

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

ITEM 3. LEGAL PROCEEDINGS

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

In addition, we are subject to certain legal actions which we consider routine to our business activities. As of September 30, 2020, our management believed, after consultation with legal counsel, that the ultimate outcome of the two putative class action lawsuits and such other routine legal matters are not likely to have a material adverse effect on our financial position, liquidity or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock has traded on The Nasdaq Global Select Market under the symbol "MESA" since August 10, 2018. Prior to that date, there was no public market for our common stock.

Holders of Record

Many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, as a result, we are unable to estimate the total number of stockholders represented by these record holders.

The transfer agent and registrar for our common stock is ComputerShare Trust Company, N.A.

Dividends

We have not declared or paid any cash dividends on our capital stock. We currently intend to retain any future earnings and do not expect to pay any cash dividends on our common stock for the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our Board of Directors, subject to applicable laws, and will depend on our financial condition, operating results, capital requirements, general business conditions, and other factors that our Board of Directors considers relevant.

Securities Authorized for Issuance Under Equity Compensation Plans

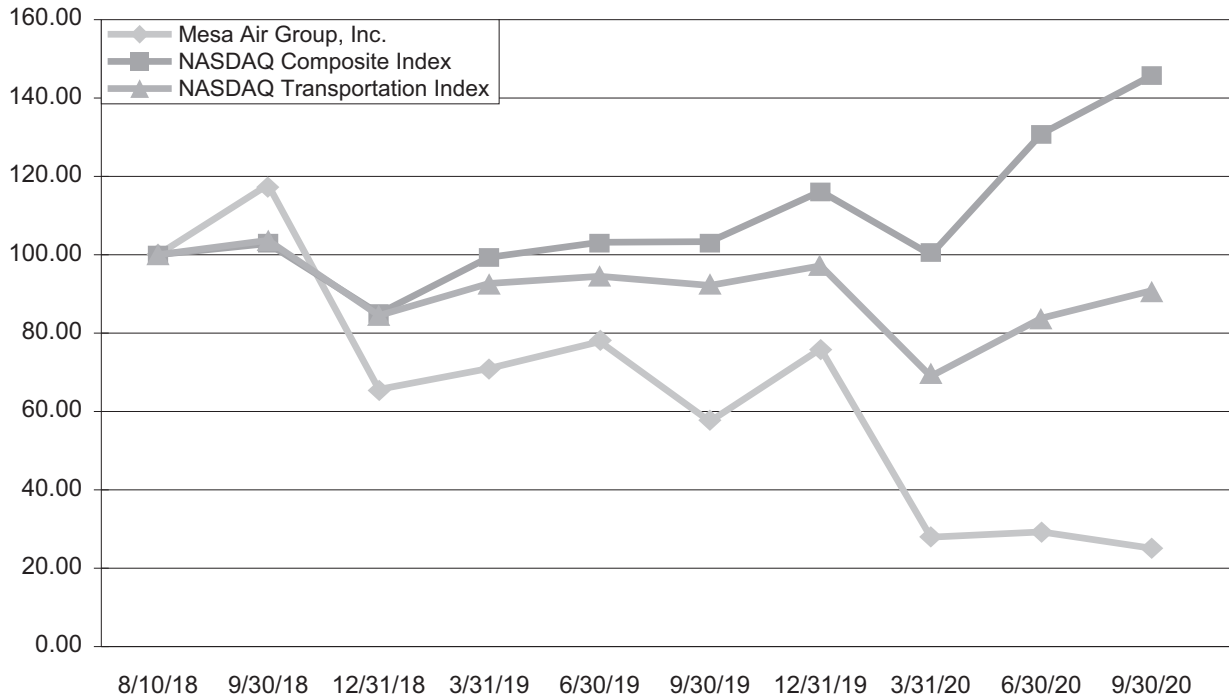
The information required by this item with respect to our equity compensation plans is incorporated by reference to our definitive proxy statement for our 2021 Annual Meeting of Shareholders ("*2021 Proxy Statement*") to be filed with the SEC within 120 days of our fiscal year ended September 30, 2020.

Stock Performance Graph

The following Performance Graph and related information shall not be deemed "soliciting material" or "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, except to the extent we specifically incorporate it by reference into such filing.

The following graph compares the cumulative total return on our common stock with that of the Nasdaq Stock Market (U.S. Companies) and the Nasdaq Stock Market Transportation Index. The period shown commences on August 10, 2018, and ends on September 30, 2020, the end of our fiscal year. The graph assumes an investment of \$100.00 in each of the above on the close of market on August 10, 2018. The stock performance shown on the graph below represents historical stock performance and is not necessarily indicative of future stock price performance.

Comparison of 26 Month Cumulative Total Return
Assumes Initial Investment of \$100
September 2020



Company Name/Index	INDEXED RETURNS									
	Base Period	Months Ending								
	8/10/2018	9/30/2018	12/31/2018	3/31/2019	6/30/2019	9/30/2019	12/31/2019	3/31/2020	6/30/2020	9/30/2020
Mesa Air Group, Inc.	\$ 100.00	\$ 117.96	\$ 65.62	\$ 70.98	\$ 77.79	\$ 57.40	\$ 76.08	\$ 28.00	\$ 29.28	\$ 25.11
NASDAQ Composite	100.00	102.80	85.02	99.31	103.16	103.34	116.22	100.00	130.95	145.67
NASDAQ Transportation Index	100.00	103.70	84.55	92.61	94.45	92.27	97.17	68.94	83.88	90.89

This performance graph is not deemed to be incorporated by reference into any of our other filings under the Exchange Act, or the Securities Act, except to the extent we specifically incorporate it by reference into such filings.

Recent Sales of Unregistered Securities

None

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None

ITEM 6. SELECTED FINANCIAL DATA

The following tables summarize our consolidated financial data. We derived our selected consolidated statements of operations data for our fiscal years ended September 30, 2020, 2019 and 2018 from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The selected consolidated balance sheet data as of September 30, 2020 and 2019 has been derived from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The selected consolidated statements of operations data for our fiscal years ended September 30, 2017 and 2016 and consolidated balance sheet data as of September 30, 2018, September 30, 2017 and September 30, 2016 have been derived from our consolidated financial statements that are not included in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of the results to be expected in the future. You should read the following selected financial data in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements, including the accompanying notes included elsewhere in this Annual Report on Form 10-K.

	Years Ended September 30,				
	2020	2019	2018	2017	2016
	(in thousands, except per share data)				
Operating revenues	\$ 545,070	\$ 723,357	\$ 681,595	\$ 643,576	\$ 587,836
Operating income	80,167	121,137	72,648	100,294	56,758
Net income	27,464	47,580	33,255	32,828	14,920
Net income per share					
Basic ⁽¹⁾	\$ 0.78	\$ 1.37	\$ 1.34	\$ 1.41	\$ 0.62
Diluted ⁽¹⁾	\$ 0.78	\$ 1.36	\$ 1.32	\$ 1.40	\$ 0.62
Weighted-average common shares outstanding					
Basic ⁽²⁾	35,237,444	34,763,762	24,825,610	23,200,864	23,923,801
Diluted ⁽²⁾	35,308,304	35,064,121	25,257,139	23,369,876	24,252,769
Total assets	\$ 1,501,930	\$ 1,451,917	\$ 1,472,388	\$ 1,357,649	\$ 1,283,230
Current assets	155,591	157,841	197,917	145,839	105,167
Long-term debt and financing leases, excluding current portion	542,456	677,423	760,177	803,874	803,115
Stockholders' equity	457,859	425,868	374,467	222,224	189,151
Cash dividends declared per common share	\$ —	\$ —	\$ —	\$ —	\$ —
Non-GAAP financial data:					
Adjusted EBITDA ⁽²⁾	\$ 163,306	\$ 208,652	\$ 164,778	\$ 160,828	\$ 103,159
Adjusted EBITDAR ⁽²⁾	\$ 212,108	\$ 260,858	\$ 233,670	\$ 233,379	\$ 174,794

⁽¹⁾ See Note 10: "Earnings Per Share" to our consolidated financial statements elsewhere in this Annual Report on Form 10-K for an explanation of the method used to calculate the basic and diluted earnings per share.

⁽²⁾ We define Adjusted EBITDA as earnings before interest, income taxes, and depreciation and amortization, adjusted for the impact of revaluation of liability awards, lease termination costs, loss on extinguishment of debt and write-off of associated financing fees. We define Adjusted EBITDAR as earnings before interest, income taxes, depreciation and amortization and aircraft rent, adjusted for the impact of revaluation of liability awards, lease termination costs, loss on extinguishment of debt and write-off of associated financing fees. Adjusted EBITDA and Adjusted EBITDAR are included as supplemental disclosure 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 and Adjusted EBITDAR have limitations as analytical tools. Some of the limitations applicable to these measures include: (i) Adjusted EBITDA and Adjusted EBITDAR do not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing operations; (ii) Adjusted EBITDA and Adjusted EBITDAR do not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments; (iii) Adjusted EBITDA and Adjusted EBITDAR do not reflect changes in, or cash requirements for, our working capital needs; (iv) Adjusted EBITDA and Adjusted EBITDAR do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debts; (v) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future; and (vi) Adjusted EBITDA and Adjusted EBITDAR do not reflect any cash requirements for such replacements and other companies in our industry may calculate Adjusted EBITDA and Adjusted EBITDAR differently than we do, limiting its usefulness as a comparative measure. Because of these limitations, Adjusted EBITDA and Adjusted EBITDAR should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. In addition, Adjusted EBITDAR should not be viewed as a measure of overall performance because it excludes aircraft rent, which is a normal, recurring cash operating expense that is necessary to operate our business. For the foregoing reasons, each of Adjusted EBITDA and Adjusted EBITDAR has significant limitations which affect its use as an indicator of our profitability. Accordingly, you are cautioned not to place undue reliance on this information.

The following table sets forth a reconciliation of net income to Adjusted EBITDA and Adjusted EBITDAR for the periods presented below:

	Year Ended September 30,		
	2020	2019	2018
	(in thousands)		
Reconciliation:			
Net income	\$ 27,464	\$ 47,580	\$ 33,255
Income tax (benefit) expense	9,531	15,706	(17,426)
Income before taxes	\$ 36,995	\$ 63,286	\$ 15,829
Adjustments ⁽¹⁾⁽²⁾⁽³⁾	—	13,156	27,165
Adjusted income before taxes	\$ 36,995	\$ 76,442	\$ 42,994
Interest expense	44,120	55,717	56,867
Interest income	(105)	(1,501)	(114)
Depreciation and amortization	82,296	77,994	65,031
Adjusted EBITDA	<u>163,306</u>	<u>208,652</u>	<u>164,778</u>
Aircraft rent	48,802	52,206	68,892
Adjusted EBITDAR	<u>\$ 212,108</u>	<u>\$ 260,858</u>	<u>\$ 233,670</u>

(1) Our financial results reflect an increase in accrued compensation of approximately \$13.5 million related to an increase in the value of SARs associated with an increase in fair value of our common stock as well as a change in accounting methodology from the intrinsic value method to the fair value method. These changes resulted in a general and administrative expense of approximately \$11.1 million as well as an offset of approximately \$2.4 million to retained earnings as a result of the change in accounting methodology for the year ended September 30, 2018.

(2) Our financial results include lease termination expense of \$9.5 million and \$15.1 million for the year ended September 30, 2019 and 2018, respectively, related to our acquisition of ten CRJ-700 and nine CRJ-900 aircraft, which were previously leased under our aircraft lease facility with Wells Fargo Bank Northwest, National Association, as owner trustee and lessor (the "GECAS Lease Facility").

(3) Our financial results reflect loss on extinguishment of debt of \$3.6 million related to repayment of the Company's Spare Engine Facility for the year ended September 30, 2019. This loss includes a \$1.9 million write-off of financing fees. We also had \$1.0 million of financing fees written off during our year ended September 30, 2018.

Selected Operating Data

The following table summarizes certain operating data that we believe are useful indicators of our operating performance for our fiscal years ended September 30, 2020, 2019, 2018, 2017 and 2016, respectively. The definitions of certain terms related to the airline industry used in the table can be found under "Selected Financial Data - Glossary of Airline Terms" below.

	Year Ended September 30,				
	2020	2019	2018	2017	2016
Operating Data					
Block hours	313,110	456,247	410,974	395,083	368,468
Departures	166,776	246,634	227,978	221,990	208,399
Passengers	8,500,072	14,664,441	13,556,774	13,005,844	12,497,424
Available seat miles—ASMs (thousands)	7,581,506	10,863,623	9,713,877	9,471,911	8,823,595
Revenue passenger miles—RPMs (thousands)	5,128,875	8,587,223	7,699,065	7,392,688	7,019,586
Contract revenue per available seat mile—CRASM (in cents)	¢ 6.68	¢ 6.29	¢ 6.58	¢ 6.53	¢ 6.45
Operating cost per available seat mile — CASM (in cents)	¢ 6.13	¢ 5.54	¢ 6.27	¢ 5.74	¢ 6.02
Average stage length (miles)	597	579	560	561	557
Regional aircraft					
Owned	85	85	75	66	64
Leased	18	18	28	37	37
Leased from United	42	42	42	37	30
Total Aircraft	145	145	145	140	131
E-175	60	60	60	55	46
CRJ-900	64	64	64	64	64
CRJ-700	20	20	20	20	20
CRJ-200	1	1	1	1	1
Employees (FTE)	3,200	3,576	3,412	3,132	3,102

- (1) As of September 30, 2020, the Company leased one Boeing 737 aircraft from DHL. The revenue generated flights were flown starting October 2020. Therefore, this aircraft is excluded from the table above.

Glossary of Airline Terms

Set forth below is a glossary of industry terms used in this Annual Report on Form 10-K:

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

"**Average aircraft**" means the average number of aircraft used in flight operations, as calculated on a daily basis.

"**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.

"**CASM**" or "**unit costs**" means operating expenses divided by ASMs.

"**CRASM**" means contract revenue divided by ASMs.

"**DOT**" means the United States Department of Transportation.

"**FAA**" means the United States Federal Aviation Administration.

"**FTE**" means full-time equivalent employee.

"**Load factor**" means the percentage of aircraft seat miles actually occupied on a flight (RPMs divided by ASMs).

"**NMB**" means the National Mediation Board.

"**Pass-Through Revenue**" means costs from our major airline partners under our capacity purchase agreements that we equally recognize as both a revenue and an expense, including passenger and hull insurance, aircraft property taxes, landing fees, catering and certain maintenance costs related to our E-175 aircraft.

"**Revenue Passenger Miles**" or "**RPMs**" means the number of miles traveled by paying passengers.

"**TSA**" means the United States Transportation Security Administration.

"**Utilization**" means the percentage derived from dividing (i) the number of block hours actually flown during a given month under a particular capacity purchase agreement by (ii) the maximum number of block hours that could be flown during such month under the particular capacity purchase agreement.

ITEM 7. 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 consolidated financial statements, the accompanying notes, and the other financial information included elsewhere in this Annual Report on Form 10-K. 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 those differences in our actual results include, but are not limited to, those discussed below and those discussed elsewhere in this Annual Report on Form 10-K, particularly in the sections "Cautionary Notes Regarding Forward-Looking Statements" above and Part I, Item 1A. "Risk Factors" above.

Overview

Mesa Airlines is a regional air carrier providing scheduled passenger service to 102 cities in 39 states, the District of Columbia and Mexico. All of our flights are operated as either American Eagle or United Express flights pursuant to the terms of capacity purchase agreements we entered into with American and United. We have a significant presence in several of our major airline partners' key domestic hubs and focus cities, including Dallas, Houston, Phoenix and Washington-Dulles.

As of September 30, 2020, we operated a fleet of 146 aircraft with approximately 373 daily departures. We operate 54 CRJ-900 aircraft under our American Capacity Purchase Agreement and 20 CRJ-700 and 60 E-175 aircraft under our United Capacity Purchase Agreement. For our fiscal year ended September 30, 2020, approximately 52% of our aircraft in scheduled service were operated for American and approximately 48% were operated for United. All of our operating revenue in our 2020, 2019 and 2018 fiscal years was derived from operations associated with our American and United Capacity Purchase Agreements.

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

As part of the IPO, stock appreciation rights ("**SARs**") previously issued under the Mesa Air Group, Inc. Amended and Restated Stock Appreciation Rights Plan (the "**SAR Plan**"), which settled only in cash, were cancelled and exchanged for an aggregate of 1,266,034 shares of restricted common stock under the Company's 2018 Equity Incentive Plan (the "**2018 Plan**") (see note 13 "**Share-Based Compensation**"), of which 966,022 were fully vested upon issuance and are included in the number of shares of common stock outstanding after the IPO. Of the 966,022 fully vested shares, 314,198 shares were retained by the Company to satisfy tax withholding obligations, resulting in a net issuance of 651,824 shares. Additionally, 983,113 shares of restricted common stock were issued to certain of its employees and directors under its 2018 Plan in exchange for the cancellation of 491,915 shares of existing unvested restricted phantom stock units and 491,198 shares of restricted stock under the 2011 and 2017 Plans, respectively.

Impact of the COVID-19 Pandemic

The unprecedented and rapid spread of COVID-19 and the related travel restrictions and social distancing measures implemented throughout the world have significantly reduced demand for air travel and has had a material adverse impact on our revenues and financial position. The length and severity of this reduction in demand remains and the exact timing and pace of a recovery in demand is uncertain given the significant impact of the pandemic on the overall U.S. and global economy. Our forecasted expense

management and liquidity measures may be modified as we clarify the demand recovery timing. Since a portion of the consideration we receive under our capacity purchase agreements is fixed, the impact to Mesa will be partially mitigated or offset. In addition, we have limited exposure to fluctuations in passenger traffic, ticket and fuel prices. While our fixed contract consideration remains mostly unchanged, our variable revenue based on number of block hours flown was significantly impacted in 2020. Beginning in March 2020, we experienced capacity reductions a material decline in demand in block hours from both of our major airline partners and operated at significantly lower block hours in the second half of fiscal year 2020. While there has been a modest demand recovery, we anticipate similar schedule reductions may continue throughout the remainder of calendar year 2020 and the foreseeable future.

In response to the recent COVID-19 pandemic, we have implemented various measures to protect our employees as they continue to provide safe and reliable transportation to the passengers of American and United. The safety of our employees and passengers remains our primary focus and, to that end, measures that we have taken include but are not limited to:

- Increasing the scope of cleaning and sanitization of aircraft both while remaining overnight and on turn flights, including the use of Electrostatic Spraying (ESS) and the expansion of Flight Deck cleaning protocols. Both on our own, and in coordination with our codeshare partners, we have taken steps to ensure that high touch areas used by both employees and customers are routinely and comprehensively cleaned and disinfected to prevent transmission of the virus on surfaces. To assist our crewmembers in keeping the aircraft clean and disinfected, we have increased the supply of sanitizing wipes onboard.
- Mandated face covering for all employees working onboard aircraft, at corporate and training facilities and locations where social distancing cannot be maintained.
- In coordination with our codeshare partners, we've implemented a policy that requires all crewmembers to wear face coverings while on duty. We have provided, and continue to resupply, our employees with Personal Protective Equipment (PPE) consisting of gloves and face coverings for use whenever social distancing cannot be maintained or when working with our customers. In addition, at various locations, we have coordinated with our codeshare partners to conduct temperature checks of employees reporting for duty. In those locations where this is not yet established, crewmembers have been directed to self-monitor their temperature before reporting for duty and twice daily.
- Based on recommendations from the Centers for Disease Control (CDC), we have increased facility cleaning and disinfection protocols at all of our facilities and have implemented social distancing measures including extending our current remote working policy for many of our Corporate personnel. We've enhanced current protocol to increase physical distance between workers who remain working at our Corporate facilities.
- Enhanced protocols that exceed CDC guidance for the handling of employees who are positive for, or suspected of, COVID-19 to ensure that they have the necessary time off. Additionally, we have implemented protocols to ensure that proper notification is made to any affected employees. Protocols have also been put into place for the immediate disinfection of any affected aircraft above and beyond routine cleaning and disinfection protocols.
- Offering Leaves of Absence to employees starting in May in blocks of 1-3 months.

Expense Management. With the reduction in revenue, we have, and will continue to implement cost saving initiatives, including:

- Reducing employee-related costs, including:
- Offering voluntary short-term unpaid leaves to all employees.
- Instituting a company-wide hiring freeze.
- Delaying non-essential heavy maintenance expense and reducing or suspending other discretionary spending.

Balance Sheet, Cash Flow and Liquidity. As of September 30, 2020, our cash and cash equivalents balance was \$99.4 million. We have taken the following actions to increase liquidity and strengthen our financial position.

- Reducing planned heavy engine and airframe maintenance events.
- Working with our major partners and original equipment manufacturers ("OEM") to delay the timing of our future aircraft and spare engine deliveries.
- Drew \$23.0 million from our previously undrawn revolving credit facility with CIT Bank, N.A.
- In April 2020, we were granted \$92.5 million in emergency relief through the Payroll Support Program of the CARES Act, which was received as of September 30, 2020. In September 2020, we were notified that, based on funding availability, recipients that were currently in compliance with signed payroll support program agreements would receive an approximate 2% increase in their award amount. As a result, we were granted an additional \$2.7 million for a total grant of \$95.2 million, which was received in October 2020. We utilized \$83.8 million of these proceeds to offset the payroll expenses in the year ended September 30, 2020 and \$11.4 million has been deferred to offset future payroll costs which we expect to utilize in Q1 2021.
- The CARES Act also provides for up to \$25 billion in secured loans to the airline industry. In October 2020, the Company entered into a five-year Loan and Guarantee Agreement (the "*Loan Agreement*") with the U.S. Department of Treasury (the "*Treasury*") which provided the Company with a secured loan facility to borrow up to \$200.0 million. On October 30, 2020, the Company borrowed \$43.0 million under the facility and on November 13, 2020, the Company borrowed an additional \$152.0 million. No further borrowings are available under the Loan Agreement. All principal amounts outstanding under the Loan Agreement are due and payable in a single installment on October 30, 2025 (the "*Maturity Date*") and all accrued interest is payable in arrears on the first business day following the 14th day of each March, June, September and December (beginning with December 15, 2020), and on the Maturity Date. Interest during the first twelve months will be paid by increasing the principal amount of the loan by the amount of such interest due on an interest payment date, unless Mesa Airlines elects to pay interest in cash at least 30 days prior to each applicable interest payment date. The obligations under the Loan Agreement are guaranteed by the Company and Mesa Air Group Inventory Management. The proceeds may be used for general corporate purposes and operating expenses, to the extent permitted by the CARES Act.

2020 Financial Highlights

For our fiscal year ended September 30, 2020, we had total operating revenues of \$545.1 million, a 24.6% decrease, compared to \$723.4 million for our fiscal year ended September 30, 2019. Net income for our fiscal year ended September 30, 2020 was \$27.5 million, or \$0.78 per diluted share, compared to net income of \$47.6 million, or \$1.36 per diluted share, for our fiscal year ended September 30, 2019.

During our September 30, 2020 fiscal year ended, our completed block hours decreased by 143,137, or 31.4%, compared to our fiscal year ended September 30, 2019.

Industry Trends

We believe our operating and business performance is driven by various factors that typically affect regional airlines and their markets, including trends which affect the broader airline and travel industries, though our capacity purchase agreements reduce our exposure to fluctuations in certain trends. The following key factors may materially affect our future performance.

Availability and Training of Qualified Pilots. On July 8, 2013, as directed by the U.S. Congress, the FAA issued more stringent pilot qualification and crew member flight training standards, which, among other things, increased the required training time for new airline pilots from 250 hours to 1,500 hours of flight time. With these changes, the supply of qualified pilot candidates eligible for hiring by the airline industry has been dramatically reduced. To address the diminished supply of qualified pilot candidates, regional airlines implemented significant pilot wage and bonus increases.

In prior periods, these factors caused our pilot attrition rates to be higher than our ability to hire and retain replacement pilots and resulted in being unable to provide flight services at or exceeding the minimum flight operating levels expected by our major airline partners. However, in July 2017, we reached a new four-year collective bargaining agreement with our pilots that provides increases in our pilots' wages, premium pay for flying on scheduled days off and competitive signing bonuses for prospective new pilots. Our results of operations may be negatively impacted if we are unable to hire and train our pilots in a timely manner.

Pilot Attrition. In recent years, we have experienced significant volatility in our attrition as a result of pilot wage and bonus increases at other regional air carriers, the growth of cargo, low-cost and ultra low-cost carriers and the number of pilots at major airlines reaching the statutory mandatory retirement age of 65 years. If our actual pilot attrition rates are materially different than our projections, our operations and financial results could be materially and adversely affected.

Economic Conditions, Challenges and Risks

Market Volatility. The airline industry is volatile and affected by economic cycles and trends. Consumer confidence and discretionary spending, spread of a virus, fear of terrorism or war, weakening economic conditions, fare initiatives, fluctuations in fuel prices, labor actions, changes in governmental regulations on taxes and fees, weather and other factors have contributed to a number of reorganizations, bankruptcies, liquidations and business combinations among major and regional airlines. The effect of economic cycles and trends may be somewhat mitigated by our reliance on capacity purchase agreements. If, however, any of our major airline partners experiences a prolonged decline in the number of passengers or is negatively affected by low ticket prices or high fuel prices, it may seek rate reductions in future capacity purchase agreements, or materially reduce our scheduled flights in order to reduce its costs. Our financial performance could be negatively impacted by any adverse changes to the rates, number of aircraft or utilization under our capacity purchase agreements.

Labor. The airline industry is heavily unionized. The wages, benefits and work rules of unionized airline industry employees are determined by collective bargaining agreements. As of September 30, 2020, approximately 74.8% of our workforce was represented by the ALPA and AFA. Our pilots and flight attendants ratified new four-year collective bargaining agreements during calendar 2017. The agreements include rate increases for three years and two years, respectively, after the amendable dates. The new agreements are amendable following their four-year term and include labor rate structures for two years (flight attendants) and three years (pilots), respectively, after the amendable dates. The terms and conditions of our future collective bargaining agreements may be affected by the results of collective bargaining negotiations at other airlines that may have a greater ability, due to larger scale, greater efficiency or other factors, to bear higher costs than we can. In addition, conflicts between airlines and their unions can lead to work slowdowns or stoppages. A strike or other significant labor dispute with our unionized employees may adversely affect our ability to conduct business.

Competition. The airline industry is highly competitive. We compete principally with other regional airlines. Major airlines typically award capacity purchase agreements to regional airlines based on the following criteria: ability to fly contracted schedules, availability of labor resources, including pilots, low operating cost, financial resources, geographical infrastructure, overall customer service levels relating to on-time arrival and flight completion percentages and the overall image of the regional airline. Our ability to renew our existing agreements and earn additional flying opportunities in the future will depend, in significant part, on our ability to maintain a low-cost structure competitive with other regional air carriers.

Maintenance Contracts, Costs and Timing. Our employees perform routine airframe and engine maintenance along with periodic inspections of equipment at their respective maintenance facilities. We

also use third-party vendors, such as AAR, Aviall, Bombardier, GE and StandardAero, for certain heavy airframe and engine maintenance work, along with parts procurement and component overhaul services for our aircraft fleet. As of September 30, 2020, \$59.9 million of parts inventory was consigned to us by AAR and Aviall under long-term contracts that is not reflected on our balance sheet.

The average age of our E-175, CRJ-900 and CRJ-700 type aircraft is approximately 4.9, 14.0 and 16.7 years, respectively. Due to the relatively young age of our E-175 aircraft, they require less maintenance now than they will in the future. Over the past five years, we have incurred relatively low maintenance expenses on our E-175 aircraft because most of the parts are under multi-year warranties and a limited number of heavy airframe checks and engine overhauls have occurred. As our E-175 aircraft age and these warranties expire, we expect that maintenance costs will increase in absolute terms and as a percentage of revenue. In addition, because our current aircraft were acquired over a relatively short period of time, significant maintenance events scheduled for these aircraft will occur at roughly the same intervals, meaning we will incur our most expensive scheduled maintenance obligations across our present fleet at approximately the same time. These more significant maintenance activities result in out-of-service periods during which aircraft are dedicated to maintenance activities and unavailable for flying under our capacity purchase agreements.

We use the direct expense method of accounting for our maintenance of regional jet engine overhauls, airframe, landing gear, and normal recurring maintenance wherein we recognize the expense when the maintenance work is completed, or over the repair period, if materially different. Our maintenance policy is determined by fleet when major maintenance is incurred. While we keep a record of expected maintenance events, the actual timing and costs of major engine maintenance expense are subject to variables such as estimated usage, government regulations and the level of unscheduled maintenance events and their actual costs. Accordingly, we cannot reliably quantify the costs or timing of future maintenance-related expenses for any significant period of time.

Aircraft Leasing and Finance Determinations. We have generally funded aircraft acquisitions through a combination of operating leases and debt financing. Our determination to lease or finance the acquisition of aircraft may be influenced by a variety of factors, including the preferences of our major airline partners, the strength of our balance sheet and credit profile and those of our major airline partners, the length and terms of the available lease or financing alternatives, the applicable interest rates, and any lease return conditions. When possible, we prefer to finance aircraft through debt rather than operating leases, due to lower operating costs, extended depreciation period, opportunity for aircraft equity, absence of lease return conditions and greater flexibility in renewing the aircraft under our capacity purchase agreements with our major airline partners after paying off the principal balance.

Subsequent to the initial acquisition of an aircraft, we may also refinance the aircraft or convert one form of financing to another (e.g., replacing an aircraft lease with debt financing). The purchase of leased aircraft allows us to lower our operating costs and avoid lease-related use restrictions and return conditions.

As of September 30, 2020, we had 60 aircraft in our fleet under lease, including 42 E-175 aircraft owned by United and leased to us at nominal amounts. In order to determine the proper classification of our leased aircraft as either operating leases or finance leases, we must make certain estimates at the inception of the lease relating to the economic useful life and the fair value of an asset as well as select an appropriate discount rate to be used in discounting future lease payments. These estimates are utilized by management in making computations as required by existing accounting standards that determine whether the lease is classified as an operating lease or a finance lease. All of our aircraft leases have been classified as operating leases, which results in rental payments being charged to expense over the terms of the related leases.

We are also subject to lease return provisions that require a minimum portion of eligible flight time for certain components remain when the aircraft is returned at the lease expiration. We estimate the cost of maintenance lease return obligations and accrue such costs over the remaining lease term when the expense is probable and can be reasonably estimated. Additionally, operating leases are not reflected on our consolidated balance sheet and accordingly, neither a lease asset nor an obligation for future lease payments is reflected in our consolidated balance sheets.

See "*Risk Factors*" for a discussion of these factors and other risks.

Seasonality

Our results of operations for any interim period are not necessarily indicative of those for the entire year, since the airline industry is subject to seasonal fluctuations and general economic conditions. Our operations are somewhat favorably affected by increased utilization of our aircraft in the summer months and are unfavorably affected by increased fleet maintenance and by inclement weather during the winter months.

Components of Our Results of Operations

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

Operating Revenues

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

Contract Revenue. Contract revenue consists of the fixed monthly amounts per aircraft received pursuant to our capacity purchase agreements with our major airline partners, along with the additional amounts received based on the number of flights and block hours flown. Contract revenues we receive from our major airline partners are paid on weekly basis and recognized overtime consistent with the delivery of service under our capacity purchase agreements.

Pass-Through and Other. Pass-through and other revenue consists of passenger and hull insurance, aircraft property taxes, landing fees, and catering costs, and other aircraft and traffic servicing costs received pursuant to our capacity purchase agreements with our major airline partners, as well as received pursuant to our capacity purchase agreements with our major airline 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.

Fuel. Fuel expense includes fuel and related fueling costs for flying we undertake outside of our capacity purchase agreements, including aircraft repositioning and maintenance. All aircraft fuel and related fueling costs for flying under our capacity purchase agreements were directly paid and supplied by our major airline partners. Accordingly, we do not record an expense or the related revenue for fuel supplied by American and United for flying under our capacity purchase agreements.

Maintenance. Maintenance 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, as well as maintenance lease return obligations on our leased aircraft when the expense is probable and can be reasonably estimated. We record these expenses using the direct expense method of accounting, wherein the expense is recognized when the maintenance work is completed, or over the repair period, if materially different. As a result of using the direct expense method, the timing of maintenance expense reflected in the financial statements may vary significantly from period to period.

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

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

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

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

Other (Expense) Income, Net

Interest Expense. Interest expense is interest on our debt to finance purchases of aircraft, engines, equipment as well as debt financing costs amortization.

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

Other Expense. Other expense includes expense derived from activities not classified in any other area of the consolidated statements of income.

Results of Operations

Comparison of our Fiscal Years Ended September 30, 2020 and 2019

Operating Revenues

	Year Ended September 30,		Change	
	2020	2019		
Operating revenues (\$ in thousands):				
Contract	\$ 506,590	\$ 682,834	\$ (176,244)	(25.8)%
Pass-through and other	38,480	40,523	(2,043)	(5.0)%
Total operating revenues	\$ 545,070	\$ 723,357	\$ (178,287)	(24.6)%
Operating data: ⁽¹⁾				
Available seat miles—ASMs (thousands)	7,581,506	10,863,623	(3,282,117)	(30.2)%
Block hours	313,110	456,247	(143,137)	(31.4)%
Revenue passenger miles—				
RPMs (thousands)	5,128,875	8,587,223	(3,458,348)	(40.3)%
Average stage length (miles)	597	579	18	3.1%
Contract revenue per available seat				
mile—CRASM (in cents)	¢ 6.68	¢ 6.29	¢ 0.39	6.2%
Passengers	8,500,072	14,664,441	(6,164,369)	(42.0)%

⁽¹⁾ The definitions of certain terms related to the airline industry used in the table can be found under "Glossary of Airline Terms" in Part II, Item 6 "Selected Financial Data" above.

Total operating revenue decreased by \$178.3 million, or 24.6%, during our fiscal year ended September 30, 2020, compared to our fiscal year ended September 30, 2019. Contract revenue decreased by \$176.2 million, or 25.8%, primarily due to a decrease in flying on our CRJ-900, CRJ-700, and E-175 fleets as a result of COVID-19. Our block hours flown during our fiscal year September 30, 2020 decreased 31.4%, compared to our fiscal year ended September 30, 2019, due to decreased flying with our E-175, CRJ-900 and CRJ-700 fleets. Our pass-through and other revenue decreased during our fiscal year ended September 30, 2020 by \$2.0 million, or 5.0%, primarily due to a reduction in pass-through maintenance costs related to our E-175 fleet.

For our fiscal year ended September 30, 2020, the Company completed a significantly lower than normal number of flights due to the impact of COVID-19. Since the revenue recognition is based on number of flights completed, the fixed amount of cash received exceeded the revenue recognized based on the number of flights completed during the third and fourth quarter 2020. Under US GAAP, the fixed monthly payments are recognized as revenue ratably based on completed flights over the contract term. As a result, the Company deferred \$23.8 million of revenue in the fiscal year ended September 30, 2020. The deferred revenue will be recognized when flights are completed over the remaining contract term.

Operating Expenses

	Year Ended September 30,		Change	
	2020	2019		
Operating expenses (\$ in thousands):				
Flight operations	\$ 169,242	\$ 210,879	\$ (41,637)	(19.7)%
Fuel	672	588	84	14.3%
Maintenance	192,123	196,514	(4,391)	(2.2)%
Aircraft rent	48,802	52,206	(3,404)	(6.5)%
Aircraft and traffic servicing	3,356	3,972	(616)	(15.5)%
General and administrative	52,246	50,527	1,719	3.4%
Depreciation and amortization	82,296	77,994	4,302	5.5%
Lease termination	—	9,540	(9,540)	(100.0)%
CARES Act grant recognition	(83,834)	—	(83,834)	100.0%
Total operating expenses	\$ 464,903	\$ 602,220	\$ (137,317)	(22.8)%

Operating data:

Available seat miles—ASMs (thousands)	7,581,506	10,863,623	(3,282,117)	(30.2)%
Block hours	313,110	456,247	(143,137)	(31.4)%
Average stage length (miles)	597	579	18	3.1%
Departures	166,776	246,634	(79,858)	(32.4)%

Flight Operations. Flight operations expense decreased \$41.6 million, or 19.7%, to \$169.2 million for our fiscal year ended September 30, 2020, compared to our fiscal year ended September 30, 2019. The decrease was primarily driven by a decrease in pilot and flight attendant wages and pilot training expense due to less flying.

Fuel. Fuel expense increased \$0.08 million, or 14.3%, to \$0.7 million for our fiscal year ended September 30, 2020, compared to our fiscal year ended September 30, 2019. The increase was primarily driven by an increased number of ferry flights for maintenance events and maintenance fuel in our Phoenix hub. All fuel costs related to flying under our capacity purchase agreements during our fiscal years ended September 30, 2020 and 2019 were directly paid to suppliers by our major airline partners.

Maintenance. Aircraft maintenance costs decreased \$4.4 million, or 2.2%, to \$192.1 million for our fiscal year ended September 30, 2020, compared to our fiscal year ended September 30, 2019. This decrease was primarily driven by a decrease in component contracts, rotatable and expendable parts, and labor and other expense. This decrease was partially offset by an increase in engine and pass-through engine and pass-through C-check expense. During our 2020 fiscal year, \$7.0 million of engine overhaul expenses were reimbursable by our major airline partners. Total pass-through maintenance expenses reimbursed by our major airline partners increased by \$4.1 million during our fiscal 2020, compared to fiscal year 2019.

The following table presents information regarding our aircraft maintenance costs during our fiscal years ended September 30, 2020 and 2019:

	<u>Year Ended September 30,</u>		<u>Change</u>	
	<u>2020</u>	<u>2019</u>		
	(in thousands)			
Engine overhaul	\$ 33,472	\$ 24,077	\$ 9,395	39.0%
Pass-through engine overhaul	7,048	5,960	1,088	18.3%
C-check	16,279	16,807	(528)	(3.1)%
Pass-through C-check	7,194	396	6,798	1,716.7%
Component contracts	31,105	37,572	(6,467)	(17.2)%
Rotable and expendable parts	23,302	29,853	(6,551)	(21.9)%
Other pass-through	9,075	12,885	(3,810)	(29.6)%
Labor and other	64,648	68,964	(4,316)	(6.3)%
Total	<u>\$ 192,123</u>	<u>\$ 196,514</u>	<u>\$ (4,391)</u>	<u>(2.2)%</u>

Aircraft Rent. Aircraft rent expense decreased \$3.4 million, or 6.5%, to \$48.8 million for our fiscal year ended September 30, 2020, compared to our fiscal year ended September 30, 2019. This decrease was primarily attributable to \$9.9 million decrease in aircraft lease expense due to the purchase of ten CRJ-700 aircraft, previously leased under the GECAS Lease Facility June 2019. This decrease was partially offset by an increase in engine rent expense.

Aircraft and Traffic Servicing. Aircraft and traffic servicing expense decreased \$0.6 million, or 15.5%, to \$3.4 million for our fiscal year ended September 30, 2020, compared to our fiscal year ended September 30, 2019. This decrease was primarily due to a decrease in pass-through regulatory charges. For our fiscal years ended September 30, 2020 and 2019, 59.5% and 52.6%, respectively, of our aircraft and traffic servicing expenses were reimbursed by our major airline partners.

General and Administrative. General and administrative expense increased \$1.7 million, or 3.4%, to \$52.2 million for our fiscal year ended September 30, 2020, compared to our fiscal year ended September 30, 2019. This increase was primarily due to an increase in pass-through property tax, partially offset by a decrease in amortization of management equity. For our fiscal year ended September 30, 2020 and 2019, \$17.5 million and \$15.7 million, respectively, of our insurance and property tax expenses were reimbursed by our major airline.

Depreciation and Amortization. Depreciation and amortization expense increased \$4.3 million, or 5.5%, to \$82.3 million for our fiscal year ended September 30, 2020, compared to our fiscal year ended September 30, 2019. This increase was primarily attributable to an increase in aircraft depreciation expense related to the purchase of ten CRJ-700 aircraft, previously leased under the GECAS Lease Facility in June 2019.

Lease Termination. Lease termination expense decreased \$9.5 million, or 100.0%, for our fiscal year ended September 30, 2020, compared to our fiscal year ended September 30, 2019. We incurred a lease termination expense for the ten CRJ-700 aircraft purchased in June 2019 that were previously leased under the GECAS facility.

CARES Act grant recognition. Payroll Support Gov't Plan funds increased \$83.8 million, or 100.0%, to \$83.8 million for our fiscal year ended September 30, 2020 compared to the same period in 2019. Under the CARES Act, the government granted us \$95.2 million in payroll support for the period of April through September 2020, of which \$83.8 million was recognized as of September 30, 2020.

Other Expense

Other expense decreased \$14.7 million, or 25.4%, to \$43.2 million for our fiscal year ended September 30, 2020, compared to our fiscal year ended September 30, 2019. The decrease is primarily a

result of a decrease in outstanding aircraft principal balances, a decrease in interest expense related to our Spare Engine Facility, and a one-time extinguishment of debt expense of \$3.6 million related to the repayment of our Spare Engine Facility recorded in 2019. Additionally, interest income decreased by \$1.4 million in the year ended September 30, 2020, compared to the same period in 2019.

Income Taxes

In our fiscal year ended September 30, 2020, our effective tax rate was 25.8% compared to 25.0% in our fiscal year ended September 30, 2019. Our tax rate can vary depending on changes in tax laws, adoption of accounting standards, the amount of income we earn in each state and the state tax rate applicable to such income, as well as any valuation allowance required on our state net operating losses.

We recorded an income tax provision of \$9.5 million and an income tax provision of \$15.7 million for the years ended September 30, 2020 and 2019, respectively.

The income tax provision for our fiscal year ended September 30, 2020 resulted in an effective tax rate of 25.8%, which differed from the U.S. federal statutory rate of 21%, primarily due to the impact of state taxes and permanent differences between financial statement and taxable income. In addition to the state effective tax rate impact, other state impacts include changes in the valuation allowance against state net operating losses, expired state attributes, and changes in state apportionment and statutory rates.

The income tax provision for our fiscal year ended September 30, 2019 resulted in an effective tax rate of 25.0%, which differed from the U.S. federal statutory rate of 21% primarily due to the impact of state taxes and permanent differences between financial statement and taxable income. In addition to the state effective tax rate impact, other state impacts include changes in the valuation allowance against state net operating losses, expired state attributes, and changes in state apportionment and statutory rates.

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

As of September 30, 2020, we had aggregate federal and state net operating loss carryforwards of approximately \$512.4 million and \$223.9 million, which expire in 2027-2038 and 2021-2040, respectively, with approximately \$3.1 million of state net operating loss carryforwards that expired in 2020.

See Note 12: "*Income Taxes*" in the notes to the audited consolidated financial statements included elsewhere in this Annual Report Form 10-K.

Comparison of our Fiscal Years Ended September 30, 2019 and 2018

Operating Revenues

	Year Ended September 30,		Change	
	2019	2018		
Operating revenues (\$ in thousands):				
Contract	\$ 682,834	\$ 639,264	\$ 43,570	6.8%
Pass-through and other	40,523	42,331	(1,808)	(4.3)%
Total operating revenues	\$ 723,357	\$ 681,595	\$ 41,762	6.1%
Operating data: ⁽¹⁾				
Available seat miles—ASMs (miles in thousands)	10,863,623	9,713,877	1,149,746	11.8%
Block hours	456,247	410,974	45,273	11.0%
Revenue passenger miles—RPMs (miles in thousands)	8,587,223	7,699,065	888,158	11.5%
Average stage length (miles)	579	560	19	3.4%
Contract revenue per available seat mile—CRASM (in cents)	¢ 6.29	¢ 6.58	\$ (0.29)	(4.4)%
Passengers	14,664,441	13,556,774	1,107,667	8.2%

(1) The definitions of certain terms related to the airline industry used in the table can be found under "Glossary of Airline Terms" in Part II, Item 6 "Selected Financial Data" above.

Total operating revenue increased by \$41.8 million, or 6.1%, during our fiscal year ended September 30, 2019, compared to our fiscal year ended September 30, 2018. Contract revenue increased by \$43.6 million, or 6.8%, primarily due to an increase in flying with our E-175, CRJ-900 and CRJ-700 fleets, an increase in performance incentive pay, and a decrease in credits given to our major airline partners based on contractual utilization levels. Our block hours flown during our fiscal year September 30, 2019 increased 11.0%, compared to our fiscal year ended September 30, 2018, due to increased flying with our E-175, CRJ-900 and CRJ-700 fleets. Our pass-through and other revenue decreased during our fiscal year ended September 30, 2019 by \$1.8 million, or 4.3%, primarily due to a reduction in pass-through maintenance costs related to our E-175 fleet.

Operating Expenses

	Year Ended September 30,		Change	
	2019	2018		
Operating expenses (\$ in thousands):				
Flight operations	\$ 210,879	\$ 209,065	\$ 1,814	0.9%
Fuel	588	498	90	18.1%
Maintenance	196,514	193,164	3,350	1.7%
Aircraft rent	52,206	68,892	(16,686)	(24.2)%
Aircraft and traffic servicing	3,972	3,541	431	12.2%
General and administrative	50,527	53,647	(3,120)	(5.8)%
Depreciation and amortization	77,994	65,031	12,963	19.9%
Lease Termination	9,540	15,109	(5,569)	(36.9)%
Total operating expenses	\$ 602,220	\$ 608,947	\$ (6,727)	(1.1)%
Operating data:				
Available seat miles—ASMs (miles in thousands)	10,863,623	9,713,877	1,149,746	11.8%
Block hours	456,247	410,974	45,273	11.0%
Average stage length (miles)	579	560	19	3.4%
Departures	246,634	227,978	18,656	8.2%

Flight Operations. Flight operations expense increased \$1.8 million, or \$0.9%, to \$210.9 million for our fiscal year ended September 30, 2019, compared to our fiscal year ended September 30, 2018. The increase was primarily driven by an increase in pilot and flight attendant wages due to additional flying, offset by a decrease in pilot premium pay as our pilot staffing levels have improved.

Fuel. Fuel expense increased \$0.09 million, or 18.1%, to \$0.6 million for our fiscal year ended September 30, 2019, compared to our fiscal year ended September 30, 2018. The increase was primarily driven by an increased number of ferry flights for maintenance events and maintenance fuel in our Phoenix hub. All fuel costs related to flying under our capacity purchase agreements during our fiscal years ended September 30, 2019 and 2018 were directly paid to suppliers by our major airline partners.

Maintenance. Aircraft maintenance costs increased \$3.4 million, or 1.7%, to \$196.5 million for our fiscal year ended September 30, 2019, compared to our fiscal year ended September 30, 2018. This increase was primarily driven by an increase in labor and other expense, component contracts, and rotatable and expendable parts expense. This increase was partially offset by a decrease in engine and pass-through engine and C-Check expense. During our 2019 fiscal year, \$6.0 million of engine overhaul expenses were reimbursable by our major airline partners. Total pass-through maintenance expenses reimbursed by our major airline partners decreased by \$8.6 million during our fiscal 2019, compared to fiscal 2018.

The following table presents information regarding our aircraft maintenance costs during our fiscal years ended September 30, 2019 and 2018:

	<u>Year Ended September 30,</u>		<u>Change</u>	
	<u>2019</u>	<u>2018</u>		
	(in thousands)			
Engine overhaul	\$ 24,077	\$ 38,869	\$ (14,792)	(38.1)%
Pass-through engine overhaul	5,960	12,341	(6,381)	(51.7)%
C-check	16,807	14,048	2,759	19.6%
Pass-through C-check	396	7,456	(7,060)	(94.7)%
Component contracts	37,572	33,221	4,351	13.1%
Rotable and expendable parts	29,853	23,989	5,864	24.4%
Other pass-through	12,885	8,019	4,866	60.7%
Labor and other	68,964	55,221	13,743	24.9%
Total	<u>\$ 196,514</u>	<u>\$ 193,164</u>	<u>\$ 3,350</u>	<u>1.7%</u>

Aircraft Rent. Aircraft rent expense decreased \$16.7 million, or 24.2%, to \$52.2 million for our fiscal year ended September 30, 2019, compared to our fiscal year ended September 30, 2018. This decrease was primarily attributable to \$16.6 million decrease in aircraft lease expense due to the purchase of nine CRJ-900 and ten CRJ-700 aircraft, previously leased under the GECAS Lease Facility, in June 2018 and June 2019, respectively.

Aircraft and Traffic Servicing. Servicing. Aircraft and traffic servicing expense increased \$0.4 million, or 12.2%, to \$4.0 million for our fiscal year ended September 30, 2019, compared to our fiscal year ended September 30, 2018. This increase was primarily due to an increase in interrupted trip expense and higher pass-through regulatory charges. For our fiscal years ended September 30, 2019 and 2018, 52.6% and 53.0%, respectively, of our aircraft and traffic servicing expenses were reimbursed by our major airline partners.

General and Administrative. General and administrative expense decreased \$3.1 million, or 5.8%, to \$50.5 million for our fiscal year ended September 30, 2019, compared to our fiscal year ended September 30, 2018. This decrease was primarily due to a decrease in amortization of our restricted stock compensation and slightly offset in pass-through property tax and passenger liability expense.

Depreciation and Amortization. Depreciation and amortization expense increased \$13.0 million, or 19.9%, to \$78.0 million for our fiscal year ended September 30, 2019, compared to our fiscal year ended September 30, 2018. This increase was primarily attributable to an increase in depreciation expense related to our purchase of spare engines and aircraft depreciation related to the purchase of the nine CRJ-900 and ten CRJ-700 aircraft, previously leased under the GECAS Lease Facility, in June 2018 and June 2019 respectively.

Lease Termination. Lease termination expense decreased \$5.6 million, or 36.9%, for our fiscal year ended September 30, 2019, compared to our fiscal year ended September 30, 2018. The decrease is primarily driven by a lower lease termination expense for the ten CRJ-700 aircraft purchased in June 2019, compared to the lease termination expense associated the purchase of the nine CRJ-900 aircraft in June 2018, which were both under the GECAS Lease facility.

Other Expense

Other expense increased \$1.0 million, or 1.8%, to \$57.9 million for our fiscal year ended September 30, 2019, compared to our fiscal year ended September 30, 2018. The increase is primarily due to a one-time extinguishment of debt expense of \$3.6 million related to the repayment of our Spare Engine Facility. Interest expense decreased \$1.2 million primarily due to a decrease in interest expense related to our Spare Engine Facility, CIT Revolving Credit Facility and EDC engine financing, which decrease was partially offset by an increase in interest expense due to the financing of nine CRJ-900 and ten CRJ-700 aircraft in June 2018 and June 2019, respectively, which were previously leased under the GECAS Lease Facility. Our expenses related to debt financing amortization decreased by \$0.3 million is primarily due to the write-off of financing fees related to the repayment of our Spare Engine Facility. Additionally, interest income increased by \$1.4 million in the year ended September 30, 2019, compared to the same period in 2018.

Income Taxes

In our fiscal year ended September 30, 2019, our effective tax rate was 25.0% compared to (110.1%) in our fiscal year ended September 30, 2018. Our tax rate can vary depending on changes in tax laws, adoption of accounting standards, the amount of income we earn in each state and the state tax rate applicable to such income, as well as any valuation allowance required on our state net operating losses.

We recorded an income tax provision of \$15.7 million and an income tax provision of (\$17.4) million for the years ended September 30, 2019 and 2018, respectively.

The income tax provision for our fiscal year ended September 30, 2019 resulted in an effective tax rate of 25.0%, which differed from the U.S. federal statutory rate of 21%, primarily due to the impact of state taxes and permanent differences between financial statement and taxable income. In addition to the state effective tax rate impact, other state impacts include changes in the valuation allowance against state net operating losses, expired state attributes, and changes in state apportionment and statutory rates.

The income tax provision for our fiscal year ended September 30, 2018 resulted in an effective tax rate of (110.1%), which differed from the U.S. federal statutory rate of 35% through December 31, 2017 and 21% as of January 1, 2018, primarily due to a re-measurement of our net deferred tax liability due to federal tax law changes and the adoption of Accounting Standards Update 2016-09. Other factors include changes in the valuation allowance against state net operating losses, expired state attributes and state apportionment and statutory rates.

On December 22, 2017, the President signed the Tax Act into law. The Tax Act incorporated several new provisions that had an impact on our financial statements. Most notably, the Tax Act decreased the federal statutory rate to 21% for our fiscal year ended September 30, 2019 and subsequent fiscal years. The decrease in the federal statutory rate resulted in a net tax benefit in fiscal 2018 due to the re-measurement of our net deferred tax liability. The Company's net operating losses incurred in the fiscal

year ended September 30, 2019 and in subsequent years may be used to offset up to 80% of taxable income in a given year and the Company's net operating losses incurred in fiscal year ended September 30, 2018 and in subsequent fiscal years are allowed to be carried indefinitely.

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.

As of September 30, 2019, we had aggregate federal and state net operating loss carryforwards of approximately \$478.3 million and \$228.3 million, which expire in 2027-2037 and 2020-2039, respectively, with approximately \$0.9 million of state net operating loss carryforwards that expired in 2019.

See Note 12: "Income Taxes" in the notes to the audited consolidated financial statements included elsewhere in this Annual Report Form 10-K

Cautionary Statement Regarding Non-GAAP Measures

We present Adjusted EBITDA and Adjusted EBITDAR in this Annual Report on Form 10-K, which are not recognized financial measures under accounting principles generally accepted in the United States of America ("GAAP"), 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, depreciation and amortization, adjusted for the impact of revaluation of liability awards, lease termination costs, loss on extinguishment of debt and write-off of associated financing fees.

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

You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. In evaluating Adjusted EBITDA and Adjusted EBITDAR, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in our presentation of Adjusted EBITDA and Adjusted EBITDAR. Our presentation of Adjusted EBITDA and Adjusted EBITDAR should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. There can be no assurance that we will not modify the presentation of Adjusted EBITDA or Adjusted EBITDAR and any such modification may be material.

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

and Adjusted EBITDAR has significant limitations which affect its use as an indicator of our profitability. Accordingly, you are cautioned not to place undue reliance on this information.

Adjusted EBITDA and Adjusted EBITDAR

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

	Year Ended September 30,		
	2020	2019	2018
	(in thousands)		
Reconciliation:			
Net income	\$ 27,464	\$ 47,580	\$ 33,255
Income tax (benefit) expense	9,531	15,706	(17,426)
Income before taxes	\$ 36,995	\$ 63,286	\$ 15,829
Adjustments ⁽¹⁾⁽²⁾⁽³⁾	—	13,156	27,165
Adjusted income before taxes	\$ 36,995	\$ 76,442	\$ 42,994
Interest expense	44,120	55,717	56,867
Interest income	(105)	(1,501)	(114)
Depreciation and amortization	82,296	77,994	65,031
Adjusted EBITDA	163,306	208,652	164,778
Aircraft rent	48,802	52,206	68,892
Adjusted EBITDAR	\$ 212,108	\$ 260,858	\$ 233,670

- (1) Our financial results reflect an increase in accrued compensation of approximately \$13.5 million related to an increase in the value of SARs associated with an increase in fair value of our common stock as well as a change in accounting methodology from the intrinsic value method to the fair value method. These changes resulted in a general and administrative expense of approximately \$11.1 million as well as an offset of approximately \$2.4 million to retained earnings as a result of the change in accounting methodology for the year ended September 30, 2018.
- (2) Our financial results include lease termination expense of \$9.5 million and \$15.1 million for the year ended September 30, 2019 and 2018, respectively, related to our acquisition of ten CRJ-700 and nine CRJ-900 aircraft, which were previously leased under our GECAS Lease Facility.
- (3) Our financial results reflect loss on extinguishment of debt of \$3.6 million related to repayment of the Company's Spare Engine Facility for the year ended September 30, 2019. This loss includes a \$1.9 million write-off of financing fees. We also had \$1.0 million of financing fees written off during our year ended September 30, 2018.

Liquidity and Capital Resources

As a result of the COVID-19 pandemic, we have taken, and are continuing to take, certain actions to increase liquidity and strengthen our financial position which include:

Reducing planned heavy engine and airframe maintenance events.

Working with major partners and original equipment manufacturers ("OEM") to delay the timing of our future aircraft and spare engine deliveries.

Drew \$23.0 million from our previously undrawn revolving credit facility with CIT Bank, N.A.

On April 9, 2020, the Company entered into a letter amendment with lender, Export Development Canada ("EDC"), which provided for the deferral of scheduled principle payments beginning on March 19, 2020 through September 30, 2020. As of September 30, 2020, the Company had deferred 28.0 million of scheduled principal payments. On October 29, 2020 and November 12, 2020, the Company entered into subsequent letter amendments with EDC extending the principal deferrals through and including August 2, 2020. Amounts deferred are due in lump sum payment on August 2, 2020, there were no other amendments to the terms of the debt agreement with EDC resulting from the letter amendments. As further discussed in Note 18 to the consolidated financial statements, the Company repaid \$145 million of existing aircraft debt

subsequent to year end, which included repayment of \$19.9 million of the previously deferred principal payments owed to EDC as of September 30, 2020.

In June 2020, the Company amended its RASPRO aircraft agreement to defer a \$4.0 million lease payment otherwise due in June 2020. Per the amended agreement dated June 5, 2020, the Company is required to pay this amount over the period of September 2021 through March 2024. The Company made the accounting election available for COVID-19 related concession provided by a lessor resulting in no change to the related lease accounting.

In April 2020, we were granted \$92.5 million in emergency relief through the Payroll Support Program of the CARES Act, which was received as of September 30, 2020. In September we were notified that, based on funding availability, recipients that were currently in compliance with signed payroll support program agreements would receive an approximate 2% increase in their award amount. As a result, we were granted an additional \$2.7 million for a total grant of \$95.2 million, which was received in October 2020. Of this amount, \$83.8 million has been utilized to offset the payroll expenses in the year ended September 30, 2020 and \$11.4 million has been deferred to offset future payroll costs which we expect to utilize in Q1 2021.

The relief payments are conditioned on our agreement to refrain from conducting involuntary employee layoffs or furloughs through September 30, 2020. Other conditions include continuing essential air service as directed by the U.S. Department of Transportation and certain limitations on executive compensation.

On October 30, 2020 the Company entered into a Loan and Guarantee Agreement with the Treasury under the "CARES Act". The Loan Agreement provides for a secured term loan facility of up to \$200.0 million. On October 30, 2020, the Company borrowed \$43.0 million under the facility and on November 13, 2020, the Company borrowed an additional \$152.0 million. No additional sums are available for borrowing under this facility. The obligations under the Loan Agreement are secured by certain aircraft, aircraft engines, accounts receivable, ground service equipment and tooling (collectively, the "Collateral"). All principal amounts outstanding under the Loan Agreement are due and payable in a single installment on October 30, 2025 (the "*Maturity Date*") and all accrued interest is payable in arrears on the first business day following the 14th day of each March, June, September and December (beginning with December 15, 2020), and on the Maturity Date. Interest will be paid by increasing the principal amount of the loan by the amount of such interest due on an interest payment date for the first 12 months, unless Mesa Airlines elects to pay interest in cash at least 30 days prior to each applicable interest payment date. The obligations under the Loan Agreement are guaranteed by the Company and Mesa Air Group Inventory Management. The proceeds may be used for general corporate purposes and operating expenses, to the extent permitted by the CARES Act. Voluntary prepayments of loans under the Loan Agreement may be made, in whole or in part, by Mesa Airlines, without premium or penalty, at any time and from time to time. Amounts prepaid may not be reborrowed. Mandatory prepayments of loans under the Loan Agreement 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 Loan Agreement) occurs with respect to Mesa Airlines, Mesa Airlines will be required to repay the loans outstanding under the Loan Agreement.

The Loan Agreement requires the Company, under certain circumstances, including within ten (10) business days prior to the last business day of March and September of each year, beginning March 2021, to appraise the value of the Collateral and recalculate the collateral coverage ratio. If the calculated collateral coverage ratio is less than 1.6 to 1.0, Mesa Airlines will be required either to provide additional Collateral (which may include cash collateral) to secure its obligations under the Loan Agreement or repay the term loans under the Loan Agreement, 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 Loan Agreement contains two financial covenants, a minimum collateral coverage ratio and a minimum liquidity level. The Loan Agreement also contains customary negative and affirmative covenants for credit facilities of this type, including, among others: (a) limitations on dividends and distributions;

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

The CARES Act provides for deferred payment of the employer portion of social security taxes through the end of 2020. The Company expects to defer approximately \$7.0 million of such taxes, with 50% of the deferred amount to be repaid on December 31, 2021 and the remaining 50% to be repaid on December 31, 2022.

These aforementioned forms of relief provided by the CARES Act are expected to provide liquidity during the recovery periods this year.

We expect to meet our cash needs for the next twelve months with cash and cash equivalents, financing arrangements, government assistance from the CARES Act, and cash flows from operations. As of September 30, 2020, we had \$99.4 million in unrestricted liquidity. However, we continue to monitor the impact of the pandemic, including its adverse effect on customer demand, the general economy, and our major airline partners. Should the effects of the pandemic continue long-term, our capital requirements and sources of capital may be adversely impaired. See Part II, Item 1A, Risk Factors for additional discussion.

Sources and Uses of Cash

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

As noted above, we entered into a Loan and Guarantee Agreement with the Treasury on October 30, 2020 pursuant to which we borrowed an aggregate of \$195.0 million.

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, 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 to 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.

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

During the ordinary course of business, we evaluate our cash requirements and, if necessary, adjust operating and capital expenditures to reflect the current market conditions and our projected demand. Our capital expenditures, net of purchases of rotatable spare parts and aircraft and spare engine for the year ended September 30, 2020 is approximately 5.7% which is higher compared to our historical expense of approximately 1.2% to 1.5% of annual revenues not only due to expenses incurred related to aircraft enhancements but also a decrease in revenue due to the COVID-19 pandemic impact on the airline industry. We expect to continue 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 September 30, 2020, our principal sources of liquidity were cash and cash equivalents and marketable securities of \$99.4 million. In addition, we had restricted cash of \$3.4 million as of September 30, 2020. Restricted cash includes certificates of deposit that secure letters of credit issued for particular airport authorities as required in certain lease agreements. Furthermore, as of September 30, 2020, we also had \$734.9 million in secured indebtedness incurred in connection with our financing of 84 total aircraft. Our primary uses of liquidity are capital expenditures and debt repayments. As of September 30, 2020, we had \$189.3 million of short-term debt, excluding finance leases, and \$540.6 million of long-term debt excluding finance leases.

Sources of cash for our fiscal year ended September 30, 2020 were primarily cash flows from operations of \$174.7 million. The positive cash flow from operations was driven by receipts from performance under our capacity purchase agreements.

Restricted Cash

As of September 30, 2020, we had \$3.4 million in restricted cash. We have an agreement with a financial institution for a \$6.0 million letter of credit facility and to issue letters of credit for landing fees, worker's compensation insurance and other business needs. Pursuant to the agreement, \$3.4 million of outstanding letters of credit are required to be collateralized by amounts on deposit.

Cash Flows

The following table presents information regarding our cash flows for each of our fiscal years ended September 30, 2020 and 2019:

	Year Ended September 30,		
	2020	2019	2018
	(in thousands)		
Net cash provided by operating activities	\$ 174,662	\$ 151,676	\$ 118,939
Net cash used in investing activities	(26,667)	(104,842)	(138,563)
Net cash provided by (used in) financing activities	(117,655)	(81,467)	66,411
Net increase (decrease) in cash, cash equivalents and restricted cash	\$ 30,340	\$ (34,633)	\$ 46,787
Cash, cash equivalents and restricted cash at beginning of period	72,501	107,134	60,347
Cash, cash equivalents and restricted cash at end of period	<u>\$ 102,841</u>	<u>\$ 72,501</u>	<u>\$ 107,134</u>

Net Cash Flow Provided by Operating Activities

During our fiscal year ended September 30, 2020, our cash flow provided by operating activities of \$174.7 million. We had net income of \$27.5 million adjusted for the following significant non-cash items: depreciation and amortization of \$82.3 million, amortization of stock-based compensation of \$4.4 million, deferred income taxes of \$9.2 million, \$14.4 million of long-term deferred revenue, amortization of deferred credits of \$(3.7) million, amortization of debt financing costs and accretion of interest on non-interest bearing subordinated notes of \$4.2 million and \$0.4 million for gain on disposal assets. We had net change of \$36.0 million within other net operating assets and liabilities largely driven by accrued liabilities during our fiscal year ended September 30, 2020.

During our fiscal year ended September 30, 2019, our cash flow provided by operating activities of \$151.7 million reflected our growth and execution of our strategic initiatives. We had net income of \$47.6 million adjusted for the following significant non-cash items: depreciation and amortization of \$78.0 million, amortization of stock-based compensation of \$5.5 million, deferred income taxes of \$15.5 million, amortization of unfavorable lease liabilities and deferred credits of \$(10.8) million, amortization of debt financing costs and accretion of interest on non-interest bearing subordinated notes of \$4.2 million, loss on extinguishment of debt of \$3.6 million and lease termination expense of \$9.5 million. We had net change of \$(2.1) million within other net operating assets and liabilities largely driven by expendable parts and accounts payable during our fiscal year ended

During our fiscal year ended September 30, 2018, our cash flow provided by operating activities of \$118.9 million reflected our growth and execution of our strategic initiatives. We had net income of \$33.3 million adjusted for the following significant non-cash items: depreciation and amortization of \$65.0 million, amortization of stock-based compensation of \$12.9 million, deferred income taxes of \$(17.9) million, amortization of unfavorable lease liabilities and deferred credits of \$(11.0) million, amortization of debt financing costs and accretion of interest on non-interest bearing subordinated notes of \$4.6 million and lease termination expense of \$15.1 million. We had a net change of \$16.4 million within other net operating assets and liabilities largely driven by accrued compensation liability and other accrued liabilities during our fiscal year ended September 30, 2018.

Net Cash Flows Used in Investing Activities

During our fiscal year ended September 30, 2020, our net cash flow used in investing activities was \$26.7 million. We invested \$11.0 million in two spare engines and \$ 3.8 million in aircraft improvements, \$ 9.4 million in inventory, \$2.5 million in tools and miscellaneous projects.

During our fiscal year ended September 30, 2019, our net cash flow used in investing activities was \$104.8 million. We invested \$125.4 million in ten aircraft and seven spare engines and aircraft improvements, offset by \$20.1 million from net sales of investment securities, and \$0.4 million in equipment deposits.

During our fiscal year ended September 30, 2018, our net cash flow used in investing activities was \$138.6 million. We invested \$118.0 million in nine aircraft, eight spare engines and aircraft improvements, \$19.9 million from purchases of investment securities offset partially by equipment deposits.

Net Cash Flows Provided by (Used in) Financing Activities

During our fiscal year ended September 30, 2020, our net cash flow used in financing activities was \$117.7 million. We drew \$23.0 million from our \$35.0 million working capital draw loan for operational needs. We made \$138.3 million of principal repayments on long-term debt during the period. We incurred \$1.8 million of costs related to debt financing and \$0.6 million of costs related to the repurchase of shares of our common stock.

During our fiscal year ended September 30, 2019, our net cash flow used in financing activities was \$81.5 million. We received \$171.7 million in proceeds from long-term debt primarily related to purchasing ten aircraft, and spare aircraft engine and aircraft engine kit financing. We made \$244.1 million of principal repayments on long-term debt during the period. We incurred \$5.7 million of costs related to debt financing,

\$1.7 million in debt prepayment costs, and \$1.9 million of costs related to the repurchase of shares of our common stock.

During our fiscal year ended September 30, 2018, our net cash flow provided by financing activities was \$66.4 million. We received \$187.7 million in proceeds from long-term debt primarily related to purchasing nine aircraft, refinancing debt on aircraft, as well as spare aircraft engine and aircraft engine kit financing. We made \$223.2 million of principal repayments on long-term debt during the period. We received \$111.7 million, net of issuance costs, in proceeds from the issuance of our common stock. We also incurred \$5.9 million of costs related to debt financing and \$5.0 million of costs related to the repurchase of shares of our common stock.

Commitments and Contractual Obligations

As of September 30, 2020, we had \$966.3 million of long-term debt (including principal and projected interest obligations) and capital and operating lease obligations (including current maturities). This amount consisted of \$738.8 million in notes payable related to owned aircraft used in continuing operations, \$81.9 million in notes payable related to spare engines and engine kits, \$7.8 million in financing lease obligations and \$24.9 million outstanding under our working capital line of credit. As of September 30, 2020, we also had \$112.9 million of operating lease obligations primarily related to aircraft flown under our capacity purchase agreements. Our long-term debt obligations set forth below include an aggregate of \$110.1 million in projected interest costs through our fiscal 2028.

The following table sets forth our cash obligations as of September 30, 2020:

(in thousands)	Total	Payment Due for Year Ending September 30,					
		2021	2022	2023	2024	2025	Thereafter
Aircraft notes	\$738,795	\$190,842	\$150,983	\$95,218	\$76,685	\$66,147	\$158,920
Engine notes	81,921	28,295	23,714	22,954	6,958	—	—
Operating lease obligations	112,876	47,377	33,216	15,947	14,682	1,654	—
Working capital line of credit	24,868	969	969	22,930	—	—	—
Financing lease obligations	7,810	2,860	2,640	2,310	—	—	—
Total	<u>\$966,270</u>	<u>\$270,343</u>	<u>\$211,522</u>	<u>\$159,359</u>	<u>\$98,325</u>	<u>\$67,801</u>	<u>\$158,920</u>

As of September 30, 2020, we had variable rate notes representing 65.2% of our total long-term debt. Actual interest commitments will change based on the actual variable interest.

Operating Leases

We have significant long-term lease obligations primarily relating to our aircraft fleet. As of September 30, 2020, we had 18 aircraft on lease (excluding aircraft leased from United) with remaining lease terms up to 3.6 years. Future minimum lease payments due under all long-term operating leases were approximately \$106.5 million as of September 30, 2020.

RASPRO Lease Facility. On September 23, 2005, Mesa Airlines, as lessee, entered into the RASPRO Lease Facility, with RASPRO as lessor, for 15 of our CRJ-900 aircraft. The obligations under the RASPRO Lease Facility are guaranteed by us, and basic rent is paid quarterly on each aircraft. On each of March 10, 2014, June 5, 2014 and December 8, 2017, the RASPRO Lease Facility was amended to defer certain payments of basic rent (the "Deferred Amounts"). Until the principal of and accrued interest on the Deferred Amounts are paid in full, (i) we and Mesa Airlines are prohibited from paying any dividends to holders of our common stock, (ii) we are prohibited from repurchasing any of our warrants or other equity interests, (iii) Mesa Airlines must maintain available a minimum of \$35.0 million of cash, cash equivalents and availability under lines of credit, (iv) Mesa Airlines must provide RASPRO with periodic monthly, quarterly and annual reports containing certain financial information and forecasted engine repair costs and (v) we must maintain a minimum debt-to-assets ratio.

Pursuant to the December 2017 amendment referenced above, we deferred \$29.3 million of payments originally due in December 2017 through March 2018. Deferred Amounts are charged 7.5% interest per annum and are due for repayment in December 2021. In June 2020, the company amended their RASPRO

aircraft lease agreement to defer a \$4.0 million lease payment otherwise due in June 2020. Per the amended agreement dated June 5, 2020, the company is to pay this amount over the period of September 2021 through March 2024. The company made the accounting election available for COVID-19 related concession provided by a lessor. This event is not a lease modification and requires no changes to current accounting treatment. As of September 30, 2020, we were in compliance with the covenants in the RASPRO Lease Facility.

Financing Leases

On February 7, 2018, Mesa Airlines, as lessee, entered into two agreements for the lease of two spare aircraft engines (the "**Engine Leases**"). Basic rent on the engines is paid monthly and at the end of the lease term. In November 2022, Mesa Airlines will have the option to purchase the engines for \$935,230. The Engine Leases are reflected as debt obligations of \$6.9 million on our balance sheet as of September 30, 2020. The Engine Leases set forth specific redelivery requirements and conditions, but do not contain operational or financial covenants.

Working Capital Line of Credit

In August 2016, we, as guarantor, our wholly owned subsidiaries, Mesa Airlines and MAG-AIM, as borrowers, CIT, as administrative agent, and the lenders party thereto, entered into the CIT Revolving Credit Facility, pursuant to which the CIT Lenders committed to lend to Mesa Airlines and MAG-AIM revolving loans in the aggregate principal amount of up to \$35.0 million. The borrowers' and guarantor's obligations under the CIT Revolving Credit Facility are secured primarily by a first priority lien on certain engines, spare parts and related collateral, including engine warranties and proceeds of the foregoing. The CIT Revolving Credit Facility contains affirmative, negative and financial covenants that are typical in the industry for similar financings, including, but not limited to, covenants that, subject to exceptions described in the CIT Revolving Credit Facility, restrict our ability and the ability of Mesa Airlines and MAG-AIM and their subsidiaries to: (i) enter into, create, incur, assume or suffer to exist any liens; (ii) merge, dissolve, liquidate, consolidate or sell or transfer substantially all of its assets; (iii) sell assets; (iv) enter into transactions with affiliates; (v) amend certain material agreements and organizational documents; (vi) make consolidated unfinanced capital expenditures; or (viii) maintain a consolidated interest and rental coverage ratio above the amount specified in the CIT Revolving Credit Facility. As of September 30, 2020, we were in compliance with the financial covenants under the CIT Revolving Credit Facility. The CIT Revolving Credit Facility also includes customary events of defaults, including but not limited to: (i) payment defaults; (ii) breach of covenants; (iii) breach of representations and warranties; (iv) cross-defaults; (v) certain bankruptcy-related defaults; (vi) change of control; and (vii) revocation of instructions with respect to certain controlled accounts.

On September 25, 2019, the Company extended the term on its \$35.0 million working capital draw loan by three years, which now terminates in September 2022. Interest is assessed on drawn amounts at one-month LIBOR plus 3.75%. In 2nd quarter 2020, \$23.0 million was drawn to cover operational needs. As of September 30, 2020, we had \$22.9 million outstanding under these notes.

Maintenance Commitments

In August 2005, we entered into a ten-year agreement with AAR, for the maintenance and repair of certain of our CRJ-200, CRJ-700 and CRJ-900 aircraft. The agreement has since been amended to include a term extending through 2021, and to provide certain E-175 aircraft rotatable spare parts with a term through December 2027. Under the agreements, we pay AAR a monthly access fee per aircraft for certain consigned inventory as well as a fixed "*cost per flight hour*" fee on a monthly basis for repairs on certain repairable parts during the term of the agreement, which fees are subject to annual adjustment based on increases in the cost of labor and component parts.

In July 2013, we entered into an engine maintenance contract with GE to perform heavy maintenance on certain CRJ-700, CRJ-900 and E-175 engines based on a fixed pricing schedule. The pricing may escalate annually in accordance with GE's spare parts catalog for engines. The engine maintenance contract extends through 2024.

In 2014, we entered into a ten-year contract with Aviall to provide maintenance and repair services on the wheels, brakes and tires of our CRJ-700 and CRJ-900 aircraft. Under the agreement, we pay Aviall a fixed "cost per landing" fee for all landings of our aircraft during the term of the agreement, which fee is subject to annual adjustment based on increases in the cost of labor and component parts.

We entered into an engine maintenance contract with StandardAero, which became effective on June 1, 2015, to perform heavy maintenance on certain CRJ-700 and CRJ-900 engines based on a fixed pricing schedule. The pricing may escalate annually in accordance with the GE's spare parts catalog for engines. The engine maintenance contract extends through 2020.

Our employees perform routine airframe and engine maintenance along with periodic inspections of equipment at their respective maintenance facilities. We also use third-party vendors, such as AAR, Ascent, Embraer, Aviall and GE, for certain heavy airframe and engine maintenance work, along with parts procurement and component overhaul services for our aircraft fleet. As of September 30, 2020, \$59.9 million of parts inventory was consigned to us by AAR and Aviall under long-term contracts that is not reflected on our balance sheet.

We use the direct expense method of accounting for our maintenance of regional jet engine overhauls, airframe, landing gear, and normal recurring maintenance wherein we recognize the expense when the maintenance work is completed, or over the repair period, if materially different. Our maintenance policy is determined by fleet when major maintenance is incurred. While we keep a record of expected maintenance events, the actual timing and costs of major engine maintenance expense are subject to variables such as estimated usage, government regulations and the level of unscheduled maintenance events and their actual costs. Accordingly, we cannot reliably quantify the costs or timing of future maintenance-related expenses for any significant period of time.

Off-Balance Sheet Arrangements

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

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

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

Critical Accounting Policies

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

We have identified the accounting policies discussed below as critical to us. The discussion below is not intended to be a comprehensive list of our accounting policies. Our significant accounting policies are

more fully described in Note 2: "*Summary of Significant Accounting Policies*" to the consolidated financial statements.

Adoption of New Lease Standard

Effective October 1, 2019, we have adopted ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02") which provides guidance requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for substantially all leases, with the exception of short-term leases. Leases will be classified as either financing or operating, with classification affecting the pattern of expense recognition in the statement of income. We determine if an arrangement is a lease at inception. Our current lease activities are recorded in operating lease right-of-use ("ROU") assets, current maturities of operating lease and noncurrent operating lease liabilities in the consolidated balance sheets. Finance leases are included in property and equipment, net, current portion of long-term debt and financing leases, long-term debt and financing leases, excluding current portion.

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. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. 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. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

As a lessee, we elected a short-term lease exception policy on all classes of underlying assets, permitting us to not apply the recognition requirements of this standard to short-term leases (i.e. leases with terms of 12 months or less).

As a lessor, our capacity purchase agreements identify the "*right of use*" of a specific type and number of aircraft over a stated period-of-time. A portion of the compensation in the capacity purchase agreements are designed to reimburse the Company for certain aircraft ownership costs of these aircraft. 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.

Revenue Recognition

On October 1, 2018, the Company adopted ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("*ASU 2014-09*" or "*ASC 606*") using the modified retrospective method. See Note 4: "*Recent Accounting Pronouncements*" in the notes to our consolidated financial statements for more information. To conform to ASC 606, the Company modified its revenue recognition policy as described below.

The Company recognizes revenue when the service is provided under its capacity purchase agreements. Under these agreements, the major airline partners generally pay a fixed monthly minimum amount per aircraft, plus certain additional amounts based upon the number of flights and block hours flown. The contracts also include reimbursement of certain costs incurred by the Company in performing flight services. These costs, known as "*pass-through costs*," may include passenger and hull insurance as well as aircraft property taxes and other flight service expenditures defined in our capacity purchase agreements with our major partners. Additionally, for the E-175 aircraft owned by United, the capacity purchase agreement provides that United will reimburse the Company for heavy airframe and engine maintenance, landing gear, APUs and component maintenance. The Company also receives compensation under its

capacity purchase agreements for heavy maintenance expenses at a fixed hourly rate or per aircraft rate for all aircraft in scheduled service other than the E-175 aircraft owned by United. The contracts also include a profit margin on certain reimbursable costs, as well as a profit margin, incentives and penalties based on certain operational benchmarks. The Company is eligible to receive incentive compensation upon the achievement of certain performance criteria defined in the capacity purchase agreements. At the end of each period during the term of an agreement, the Company calculates the incentives achieved during that period and recognizes revenue attributable to the agreement during the period accordingly, subject to the variable constraint guidance under ASC 606. All revenue recognized under these contracts is presented as the gross amount billed to the major airline partners.

Under the capacity purchase agreements, the Company has committed to perform various activities that can be generally classified into in-flight services and maintenance services. When evaluating these services, the Company determined that the nature of its promise is to provide a single integrated service, flight services, because its contracts require integration and assumption of risk associated with both services to effectively deliver and provide the flights as scheduled over the contract term. Therefore, the in-flight services and maintenance services are inputs to that combined integrated flight service. Both the services occur over the term of the agreement and the performance of maintenance services significantly effects the utility of the in-flight services. The Company's individual flights flown under the capacity purchase agreements are deemed to be distinct and the flight service promised in the capacity purchase agreements represents a series of services that should be accounted for as a single performance obligation. This single performance obligation is satisfied over time as the flights are completed. Therefore, revenue is recognized when each flight is completed.

In allocating the transaction price, variable payments (i.e. billings based on flights and block hours flown, pass-through costs, etc.) that relate specifically to the Company's efforts in performing flight services are recognized in the period in which the individual flight is completed. The Company has concluded that allocating the variability directly to the individual flights results in an overall allocation meeting the objectives in ASC 606. This results in a pattern of revenue recognition that follows the variable amounts billed from the Company to their customers.

A portion of the Company's compensation under its capacity purchase agreements with American and United is designed to reimburse the Company for certain aircraft ownership costs. The Company has concluded that a component of its revenue under these agreements is deemed to be lease revenue, as such agreements identify the "right of use" of a specific type and number of aircraft over a stated period-of-time. The lease revenue associated with the Company's capacity purchase agreements is accounted for as an operating lease and is reflected as contract revenue on the Company's consolidated statements of operations. The Company recognized \$208.9 million, \$219.0 million and \$217.0 million of lease revenue for the year ended September 30, 2020, 2019 and 2018, respectively. The Company has not separately stated aircraft rental income and aircraft rental expense in the consolidated statements of operations because the use of the aircraft is not a separate activity of the total service provided.

The Company's capacity purchase agreements are renewable periodically and contain provisions pursuant to which the parties could terminate their respective agreements, subject to certain conditions as described in Note 1. The capacity purchase agreements also contain terms with respect to covered aircraft, services provided and compensation as described in Note 1. The capacity purchase agreements are amended from time to time to change, add or delete terms of the agreements.

The Company's revenues could be impacted by a number of factors, including amendment or termination of its capacity purchase agreements, contract modifications resulting from contract renegotiations, its ability to earn incentive payments contemplated under applicable agreements, and settlement of reimbursement disputes with the Company's major airline partners. In the event contracted rates are not finalized at a quarterly or annual financial statement date, the Company evaluates the enforceability of its contractual terms and when it has an enforceable right, it estimates the amount the Company expects to be entitled subject to the variable constraint guidance under ASC 606.

The Company's capacity purchase agreements contain an option that allows its major airline partners to assume the contractual responsibility for procuring and providing the fuel necessary to operate the flights

that it operates for them. Both of the Company's major airline partners have exercised this option. Accordingly, the Company does not record an expense or revenue for fuel and related fueling costs for flying under its capacity purchase agreements. In addition, the Company's major airline partners also provide, at no cost to the Company, certain ground handling and customer service functions, as well as airport-related facilities and gates at their hubs and other cities. Services and facilities provided by the Company's major airline partners at no cost are presented net in its consolidated financial statements; hence, no amounts are recorded for revenue or expense for these items.

Aircraft Leases

In addition to the aircraft we lease from United under our United Capacity Purchase Agreement, approximately 12% of our aircraft are leased from third parties. All of our aircraft leases have been classified as operating leases, which results in rental payments being charged to expense over the term of the related leases. In the event that we or one of our major airline 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 will be written off.

Income Taxes

Income taxes are accounted for using the asset and liability method. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for those deferred tax assets for which we cannot conclude that it is more likely than not that such deferred tax assets will be realized.

In determining the amount of the valuation allowance, estimated future taxable income, as well as feasible tax planning strategies for each taxing jurisdiction, are considered. If we determine it is more likely than not that all or a portion of the remaining deferred tax assets will not be realized, the valuation allowance will be increased with a charge to income tax expense. Conversely, if we determine we are more likely than not to be able to utilize all or a portion of the deferred tax assets for which a valuation allowance has been provided, the related portion of the valuation allowance will be recorded as a reduction to income tax expense.

We recognize and measure benefits for uncertain tax positions using a two-step approach. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that the tax positions will be sustained upon audit, including resolution of any related appeals or litigation processes. For tax positions that are more likely than not to be sustained upon audit, the second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon settlement. Our practice is to recognize interest and/or penalties related to income tax matters in income tax expense. Significant judgment is required to evaluate uncertain tax positions. Evaluations are based upon a number of factors, including changes in facts or circumstances, changes in tax law, correspondence with tax authorities during the course of tax audits and effective settlement of audit issues. Changes in the recognition or measurement of uncertain tax positions could result in material increases or decreases in income tax expense in the period in which the change is made, which could have a material impact to our effective tax rate. See Note 12: "*Income Taxes*" in the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for additional information. See also "*Management's Discussion and Analysis—Results of Operations—Income Taxes*" for additional information.

For a further listing and discussion of our accounting policies, see Note 2: "*Summary of Significant Accounting Policies*" in the notes to our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

Emerging Growth Company Status

We are an “emerging growth company” as defined in the Jumpstart Our Business Startups Act (the JOBS Act). The JOBS Act permits us to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies until those standards would otherwise apply to private companies. We have irrevocably elected to “*opt out*” of this provision and, as a result, we will comply with new or revised accounting standards when they are required to be adopted by public companies that are not emerging growth companies.

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements, see Note 4: “*Recent Accounting Pronouncements*” in the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

As of September 30, 2020, we had \$486.6 million of variable rate debt including current maturities. A hypothetical 50 basis point change in market interest rates would have increased interest expense by approximately \$2.4 million in our fiscal year ended September 30, 2020.

As of September 30, 2020, we had \$259.9 million of fixed rate debt, including current maturities. A hypothetical 50 basis point change in market interest rates would not impact interest expense or have a material effect on the fair value of our fixed rate debt instruments as of September 30, 2020.

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

	<u>Page</u>
Part I – Financial Information	
Item 1.	
Consolidated Balance Sheets	74
Consolidated Statements of Operations and Comprehensive Income	75
Consolidated Statement of Stockholders' Equity	76
Consolidated Statements of Cash Flows.....	77
Notes to Consolidated Financial Statements	78

The information set forth below should be read together with "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," appearing elsewhere in this Annual Report on Form 10-K.

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Mesa Air Group, Inc. (the Company) as of September 30, 2020, the related consolidated statement of operations and comprehensive income, stockholders' equity and cash flows for the year ended September 30, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at September 30, 2020, and the results of its operations and its cash flows for the period ended September 30, 2020, in conformity with U.S. generally accepted accounting principles.

Adoption of ASU No. 2016-02

As discussed in Note 4 to the consolidated financial statements, the Company changed its method of accounting for leases in the year ended September 30, 2020 due to the adoption of ASU No. 2016-02, "Leases (Topic 842)."

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2019.

Phoenix, Arizona
December 14, 2020

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Mesa Air Group, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Mesa Air Group, Inc. and subsidiaries (the "Company") as of September 30, 2019, the related consolidated statements of operations, shareholders' equity, and cash flows, for each of the two years in the period ended September 30, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2019, and the results of its operations and its cash flows for each of the two years in the period ended September 30, 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Phoenix, Arizona

December 16, 2019

We began serving as the Company's auditor in fiscal year 2000. In fiscal year 2020 we became the predecessor auditor.

Part I – Financial Information**Item 1. Financial Statements****MESA AIR GROUP, INC.
Consolidated Balance Sheets**

(in thousands, except share amounts)

	<u>September 30,</u> <u>2020</u>	<u>September 30,</u> <u>2019</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 99,395	\$ 68,855
Restricted cash	3,446	3,646
Receivables, net	13,712	23,080
Expendable parts and supplies, net	22,971	21,337
Prepaid expenses and other current assets	16,067	40,923
Total current assets	155,591	157,841
Property and equipment, net	1,212,415	1,273,585
Intangibles, net	8,032	9,532
Lease and equipment deposits	1,899	2,167
Operating lease right-of-use assets	123,251	—
Other assets	742	8,792
Total assets	<u>\$ 1,501,930</u>	<u>\$ 1,451,917</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt and financing leases	\$ 189,268	\$ 165,900
Current maturities of operating leases	43,932	—
Accounts payable (\$1,729 (2019) to related party)	53,229	49,930
Accrued compensation	12,030	11,988
Other accrued expenses	54,867	28,888
Total current liabilities	353,326	256,706
Long-term debt and financing leases, excluding current portion	542,456	677,423
Noncurrent operating lease liabilities	62,531	—
Deferred credits (\$5,751 (2019) to related party)	5,705	12,134
Deferred income taxes	64,275	55,303
Deferred revenue, net of current portion	14,369	—
Other noncurrent liabilities	1,409	24,483
Total noncurrent liabilities	690,745	769,343
Total liabilities	1,044,071	1,026,049
Commitments and contingencies (Note 15 and Note 16)		
Stockholders' equity:		
Preferred stock of no par value, 5,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock of no par value and additional paid-in capital, 125,000,000 shares authorized; 35,526,918 (2020) and 31,413,287 (2019) shares issued and outstanding, and 0 (2020) and 3,600,953 (2019) warrants issued and outstanding	242,772	238,504
Retained earnings	215,087	187,364
Total stockholders' equity	457,859	425,868
Total liabilities and stockholders' equity	<u>\$ 1,501,930</u>	<u>\$ 1,451,917</u>

See accompanying notes to these consolidated financial statements.

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

(in thousands, except per share amounts)

	Year Ended September 30,		
	2020	2019	2018
Operating revenues:			
Contract revenue (\$376,506 (2019), \$359,467 (2018) from related party)	\$ 506,590	\$ 682,834	\$ 639,264
Pass-through and other (\$7,257 (2019), \$6,628 (2018) from related party)	38,480	40,523	42,331
Total operating revenues	545,070	723,357	681,595
Operating expenses:			
Flight operations	169,242	210,879	209,065
Fuel	672	588	498
Maintenance	192,123	196,514	193,164
Aircraft rent	48,802	52,206	68,892
Aircraft and traffic servicing	3,356	3,972	3,541
General and administrative	52,246	50,527	53,647
Depreciation and amortization	82,296	77,994	65,031
Lease termination	—	9,540	15,109
CARES Act grant recognition	(83,834)	—	—
Total operating expenses	464,903	602,220	608,947
Operating income	80,167	121,137	72,648
Other income (expenses), net:			
Interest expense	(44,120)	(55,717)	(56,867)
Interest income	105	1,501	114
Loss on extinguishment of debt	—	(3,616)	—
Other income (expense), net	843	(19)	(66)
Total other (expense), net	(43,172)	(57,851)	(56,819)
Income before taxes	36,995	63,286	15,829
Income tax expense (benefit)	9,531	15,706	(17,426)
Net income and comprehensive income	<u>\$ 27,464</u>	<u>\$ 47,580</u>	<u>\$ 33,255</u>
Net income per share			
Basic	<u>\$ 0.78</u>	<u>\$ 1.37</u>	<u>\$ 1.34</u>
Diluted	<u>\$ 0.78</u>	<u>\$ 1.36</u>	<u>\$ 1.32</u>
Weighted-average common shares outstanding			
Basic	<u>35,237</u>	<u>34,764</u>	<u>24,826</u>
Diluted	<u>35,308</u>	<u>35,064</u>	<u>25,257</u>

See accompanying notes to these consolidated financial statements.

MESA AIR GROUP, INC.
Consolidated Statement of Stockholders' Equity

(in thousands, except share amounts)

	Number of Shares	Number of Warrants	Common Stock and Additional Paid-In Capital	Retained Earnings	Total
Balance at September 30, 2017	11,294,083	12,230,625	\$ 114,456	\$ 107,768	\$ 222,224
Stock compensation expense	—	—	1,991	—	1,991
Repurchased shares and warrants	(438,541)	(250,000)	(7,709)	—	(7,709)
Warrants converted to common stock	1,365,643	(1,365,643)	—	—	—
Restricted shares issued	1,327,700	—	11,918	—	11,918
Conversion of unvested restricted shares	—	—	2,321	—	2,321
IPO issuance	10,354,018	8	111,706	—	111,706
Cumulative effect of change in accounting principle (See note 2 and 4)	—	—	—	(1,239)	(1,239)
Net income	—	—	—	33,255	33,255
Balance at September 30, 2018	<u>23,902,903</u>	<u>10,614,990</u>	<u>\$ 234,683</u>	<u>\$ 139,784</u>	<u>\$ 374,467</u>
Stock compensation expense	—	—	5,508	—	5,508
Stock issuance costs	—	—	185	—	185
Repurchased shares	(205,235)	—	(1,872)	—	(1,872)
Warrants converted to common stock	7,014,037	(7,014,037)	—	—	—
Restricted shares issued	701,582	—	—	—	—
Net income	—	—	—	47,580	47,580
Balance at September 30, 2019	<u>31,413,287</u>	<u>3,600,953</u>	<u>\$ 238,504</u>	<u>\$ 187,364</u>	<u>\$ 425,868</u>
Adoption ASU 2018-09 Stock compensation-income taxes	—	—	—	259	259
Stock compensation expense	—	—	4,414	—	4,414
Repurchased shares	(142,439)	—	(586)	—	(586)
Warrants converted to common stock	3,600,953	(3,600,953)	—	—	—
Restricted shares issued	555,473	—	—	—	—
Employee share purchases	99,644	—	440	—	440
Net income	—	—	—	27,464	27,464
Balance at September 30, 2020	<u>35,526,918</u>	<u>—</u>	<u>\$ 242,772</u>	<u>\$ 215,087</u>	<u>\$ 457,859</u>

See accompanying notes to these consolidated financial statements.

MESA AIR GROUP, INC.
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended September 30,		
	2020	2019	2018
Cash flows from operating activities:			
Net income	\$ 27,464	\$ 47,580	\$ 33,255
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation and amortization	82,296	77,994	65,031
Stock compensation expense	4,414	5,508	12,929
Deferred income taxes	9,234	15,503	(17,874)
Long-term deferred revenue	14,369	—	—
Amortization of deferred credits	(3,742)	(5,121)	(4,395)
Unfavorable lease liabilities	—	(5,718)	(6,640)
Amortization of debt financing costs and accretion of interest on non-interest-bearing subordinated notes	4,202	4,203	4,606
Loss on extinguishment of debt	—	3,616	—
Loss/(Gain) on disposal of assets	401	(5)	307
Provision for obsolete expendable parts and supplies	—	642	200
Loss on lease termination	—	9,540	15,109
Changes in assets and liabilities:			
Receivables	9,368	(9,275)	(5,437)
Expendable parts and supplies	(1,529)	(6,310)	(744)
Prepaid expenses and other current assets	(1,368)	(713)	7,584
Accounts payable	3,418	12,119	2,427
Accrued liabilities	30,190	2,113	12,581
Change in operating activity of ROU asset	(4,055)	—	—
Net cash provided by operating activities	<u>174,662</u>	<u>151,676</u>	<u>118,939</u>
Cash flows from investing activities:			
Capital expenditures	(26,667)	(125,350)	(117,989)
Purchases of investment securities	—	(14,884)	(19,921)
Sales of investment securities	—	34,961	—
Net returns (payments) on equipment & other deposits	—	431	(653)
Net cash used in investing activities	<u>(26,667)</u>	<u>(104,842)</u>	<u>(138,563)</u>
Cash flows from financing activities:			
Proceeds from long-term debt	23,000	171,658	187,703
Principal payments on long-term debt and finance leases	(138,289)	(244,087)	(222,153)
Debt financing costs	(1,780)	(5,680)	(5,852)
Debt prepayment costs	—	(1,672)	—
Proceeds from issuance of common stock	—	—	124,246
Stock issuance costs	—	185	(12,540)
Repurchase of stock	(586)	(1,871)	(4,993)
Net cash (used in) provided by financing activities	<u>(117,655)</u>	<u>(81,467)</u>	<u>66,411</u>
Net change in cash and cash equivalents	30,340	(34,633)	46,787
Cash and cash equivalents and restricted cash at beginning of period	72,501	107,134	60,347
Cash and cash equivalents and restricted cash at end of period	<u>\$ 102,841</u>	<u>\$ 72,501</u>	<u>\$ 107,134</u>
Supplemental cash flow information			
Cash paid for interest	<u>\$ 41,501</u>	<u>\$ 53,503</u>	<u>\$ 50,672</u>
Cash paid for income taxes - net	<u>\$ 398</u>	<u>\$ 419</u>	<u>\$ 385</u>
Operating lease payments in operating cash flows	<u>\$ 44,173</u>	<u>\$ —</u>	<u>\$ —</u>
Supplemental non-cash operating activities			
Right-of-use assets obtained in exchange of lease liabilities	<u>\$ 145,054</u>	<u>\$ —</u>	<u>\$ —</u>
Supplemental non-cash investing and financing activities			
Accrued capital expenditures	<u>\$ 61</u>	<u>\$ 179</u>	<u>\$ 16,677</u>
Acquisition of finance leases	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 10,473</u>

See accompanying notes to these consolidated financial statements.

MESA AIR GROUP, INC.
Notes to Consolidated Financial Statements

1. Organization and Operations

The Company

Mesa Air Group, Inc. ("**Mesa**" or the "**Company**") is a holding company whose principal subsidiary operates as a regional air carrier, providing scheduled passenger service. As of September 30, 2020, the Company served 102 cities in 39 states, the District of Columbia and Mexico, and operated a fleet of 146 aircraft with approximately 373 daily departures.

The Company's airline operations are conducted by its regional airline subsidiary, Mesa Airlines, Inc. ("**Mesa Airlines**"), providing services to major air carriers under capacity purchase agreements. Mesa Airlines operates as American Eagle under a capacity purchase agreement with American Airlines, Inc. ("**American**") and as United Express under a capacity purchase agreement with United Airlines, Inc. ("**United**"). All of the Company's consolidated contract revenues for years ended September 30, 2020, 2019 and 2018 were derived from operations associated with these two capacity purchase agreements.

The financial arrangements between the Company and its major airline partners involve a revenue-guarantee arrangement (i.e. a "**capacity purchase agreement**") whereby the major airline pays a monthly guaranteed amount for each aircraft under contract, a fixed fee for each block hour and flight flown and reimbursement of certain direct operating expenses in exchange for providing regional flying. The major airline partners also pay certain expenses directly to suppliers, such as fuel, ground operations and certain landing fees. Under the terms of these capacity purchase agreements, the major airline controls route selection, pricing and seat inventories, thereby reducing the Company's exposure to fluctuations in passenger traffic, fare levels, and fuel prices.

On August 8, 2018, the Company filed its Second Amended and Restated Articles of Incorporation, which, among other things: (i) effected a 2.5-for-1 stock split of its common stock; and (ii) increased the authorized number of shares of its common and preferred stock to 125,000,000 and 5,000,000, respectively. All references to share and per share amounts in the Company's consolidated financial statements have been retrospectively revised to reflect the stock split and increase in authorized shares.

On August 14, 2018, the Company completed an initial public offering ("**IPO**") of its common stock, in which it issued and sold 9,630,000 shares (the "**Firm Shares**") of common stock at a public offering price of \$12.00 per share, resulting in gross proceeds to the Company of approximately \$115.6 million. Additionally, in connection with the IPO, the Company granted the underwriters an option to purchase up to an additional 1,444,500 shares of common stock at the same price. On September 11, 2018, the Company closed the sale of 1,344,500 shares ("**Option Shares**") of its common stock, in connection with the partial exercise of the overallotment option granted to the underwriters in its IPO. Of the 1,344,500 Option Shares sold, 723,985 were purchased directly from the Company and the remaining 620,515 shares were purchased directly from the selling shareholders. The Firm Shares and Option Shares were sold to the public for a price of \$12.00 per share.

The sale of these shares raised gross proceeds of approximately \$124,247,820. The Company did not receive any proceeds from the sale of the Option Shares by the selling shareholders.

As part of the IPO, stock appreciation rights ("**SARs**") previously issued under the Mesa Air Group, Inc. Amended and Restated Stock Appreciation Rights Plan (the "**SAR Plan**"), which settled only in cash, were cancelled and exchanged for an aggregate of 1,266,034 shares of restricted common stock under the Company's 2018 Equity Incentive Plan (the "**2018 Plan**") (see note 13 "**Share-Based Compensation**"), of which 966,022 were fully vested upon issuance and are included in the number of shares of common stock outstanding after the IPO. Of the 966,022 fully vested shares, 314,198 shares were retained by the Company to satisfy tax withholding obligations, resulting in a net issuance of 651,824 shares. Additionally, 983,113 shares of restricted common stock were issued to certain of its employees and directors under its

2018 Plan in exchange for the cancellation of 491,915 shares of existing unvested restricted phantom stock units and 491,198 shares of restricted stock under the 2011 and 2017 Plans, respectively.

Impact of the COVID-19 Pandemic

The unprecedented and rapid spread of COVID-19 and the related travel restrictions and social distancing measures implemented throughout the world have significantly reduced demand for air travel. The length and severity of the reduction in demand due to the pandemic remains uncertain. This reduction in demand has had an unprecedented and materially adverse impact on our revenues and financial position. The exact timing and pace of a recovery in demand is uncertain given the significant impact of the pandemic on the overall U.S. and global economy. Our forecasted expense management and liquidity measures may be modified as we clarify the demand recovery timing. Since a portion of the consideration we receive under our capacity purchase agreements is fixed, the impact to Mesa will be partially mitigated or offset. In addition, we have limited exposure to fluctuations in passenger traffic, ticket and fuel prices. While the fixed contract consideration remains mostly unchanged, the variable revenue based on number of block hours was significantly reduced beginning in the last few weeks in March and in the June 2020 and September 2020 quarters. We may experience further reductions in subsequent quarters. The Company further reports that, beginning in March 2020, it experienced a material decline in demand in block hours from both of its major airline partners, American and United Airlines, Inc. ("United" and together with American, the "Partners") resulting from the spread of the COVID-19 virus. As a result of this decline in demand and the subsequent capacity reductions by the Company's Partners, the Company operated at significantly lower block hours in the second half of fiscal year 2020. While there has been a modest demand recovery, the Company anticipates similar schedule reductions may continue throughout the remainder of calendar year 2020 the foreseeable future.

Expense Management. With the reduction in revenue, we have, and will continue to implement cost saving initiatives, including:

- Instituting a company-wide hiring freeze.
- Delaying non-essential heavy maintenance expense and reducing or suspending other discretionary spending.

Balance Sheet, Cash Flow and Liquidity. As of September 30, 2020, our cash and cash equivalents balance was \$99.4 million. We have taken the following actions to increase liquidity and strengthen our financial position.

- Working with our major partners and original equipment manufacturers ("OEM") to delay the timing of our future aircraft and spare engine deliveries.
- Drew \$23.0 million from our previously undrawn revolving credit facility with CIT Bank, N.A.
- In April 2020, we were granted \$92.5 million in emergency relief through the Payroll Support Program of the CARES Act, which was received as of September 30, 2020. In September we were notified that, based on funding availability, recipients that were currently in compliance with signed payroll support program agreements would receive an approximate 2% increase in their award amount. As a result, we were granted an additional \$2.7 million for a total grant of \$95.2 million, which was received in October 2020. \$83.8 million has been utilized to offset the payroll expenses in the year ended September 30, 2020 and \$11.4 million has been deferred to offset future payroll costs which we expect to utilize in Q1 2021. In connection with the Payroll Support Program, we are required to comply with the relevant provisions of the CARES Act, including the requirement that funds provided pursuant to the agreement be used exclusively for the continuation of payment of employee wages, salaries and benefits, the requirement against involuntary furloughs and reductions in employee pay rates and benefits, which expired on September 30, 2020, the requirement that certain levels of commercial air service be maintained as well as those that restrict the payment of certain

executive compensation. The provisions also prohibit the repurchase of common stock, and the payment of common stock dividends through September 30, 2021.

- The CARES Act also provides for up to \$25 billion in secured loans to the airline industry. In October 2020, the Company entered into a five-year Loan and Guarantee with the U.S. Treasury Department which provides the Company with a secured loan facility to borrow up to \$200.0 million under the CARES Act. On October 30, 2020, the Company borrowed \$43.0 million under the facility and on November 13, 2020, the Company borrowed an additional \$152.0 million totaling \$195.0 million. No further borrowings are available under the Loan Agreement. All borrowings under the Loan Agreement will bear interest at an annual rate based on Adjusted LIBO (as defined in the Loan Agreement) plus 3.5%. Accrued interest on the loans is payable in arrears on the first business day following the 14th day of each March, June, September and December (beginning with December 15, 2020), and on the maturity date. Interest will be paid during the first twelve months by increasing the principal amount of the loan by the amount of such interest due on an interest payment date, unless Mesa Airlines elects to pay interest in cash at least 30 days prior to each applicable interest payment date. The borrower obligations are guaranteed by the Company and Mesa Air Group Inventory Management. The proceeds may be used for general corporate purposes and operating expenses, to the extent permitted by the CARES Act. All advances under the Loan Agreement will be in the form of term loans, all of which will mature and be due and payable in a single installment on the Maturity Date. Voluntary prepayments of loans under the Loan Agreement may be made, in whole or in part, by Mesa Airlines, without premium or penalty, at any time and from time to time. Amounts prepaid may not be reborrowed. Mandatory prepayments of loans under the Loan Agreement are required, without premium or penalty, to the extent necessary to comply with covenants, 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 Loan Agreement) occurs with respect to Mesa Airlines, Mesa Airlines will be required to repay the loans outstanding under the Loan Agreement.

American Capacity Purchase Agreement

As of September 30, 2020, the Company operated 54 CRJ-900 aircraft for American under a capacity purchase agreement. In exchange for providing flight services under our American Capacity Purchase Agreement, we receive a fixed monthly minimum amount per aircraft under contract plus certain additional amounts based upon the number of flights and block hours flown during each month. In addition, we may also receive incentives or incur penalties based upon our operational performance, including controllable on-time departures and controllable completion percentages. American also reimburses us for certain costs on an actual basis, including passenger liability and hull insurance and aircraft property taxes, all as set forth in our American Capacity Purchase Agreement. Other expenses, including fuel and certain landing fees, are directly paid to suppliers by American. In addition, American also provides, at no cost to us, certain ground handling and customer service functions, as well as airport-related facilities and gates at American hubs and cities where we operate.

Our American Capacity Purchase Agreement establishes utilization credits which are required to be paid if the Company does not operate at minimum levels of flight operations. In prior periods, the FAA Qualification Standards (as defined below) have negatively impacted our ability to hire pilots at a rate sufficient to support required utilization levels, and, as a result, we have issued credits to American pursuant to the terms of our American Capacity Purchase Agreement.

Our American Capacity Purchase Agreement will terminate with respect to different tranches of aircraft between 2021 and 2025, unless otherwise extended or amended. As of the date of this filing, we remain in discussions with American regarding the terms of extending the 31 aircraft that are due to expire in 2021, the 16 aircraft that are due to expire in 2022, and the 7 aircraft that expire in 2025. Our American Capacity Purchase Agreement is subject to termination prior to that date, subject to our right to cure, in various circumstances including:

- If either American or we become insolvent, file for bankruptcy or fail to pay our debts as they become due, the non-defaulting party may terminate the agreement;
- Failure by us or American to perform the covenants, conditions or provisions of our American Capacity Purchase Agreement, subject to 15 days' notice and cure rights;
- If we are required by the FAA or the DOT to suspend operations and we have not resumed operations within three business days, except as a result of an emergency airworthiness directive from the FAA affecting all similarly equipped aircraft, American may terminate the agreement;
- If our controllable flight completion factor falls below certain levels for a specified period of time, subject to our right to cure, or
- Upon a change in our ownership or control without the written approval of American.

In the event that American has the right to terminate our American Capacity Purchase Agreement, American may, in lieu of termination, withdraw up to an aggregate of 14 aircraft from service under our American Capacity Purchase Agreement. Upon any such withdrawal, American's payments to us would be correspondingly reduced by the number of withdrawn aircraft.

On January 31, 2019, the Company entered into an amendment to the American Capacity Purchase Agreement, the terms of which provide for new and revised operational performance metrics, the Company's right to earn additional incentive compensation based on the achievement of such metrics, and the right of American to permanently withdraw up to six (6) aircraft in the event the Company fails to meet such new/revised performance metrics. Under the terms of such amendment the Company agreed, effective April 2, 2019, to convert two (2) aircraft to be utilized by the Company as operational spares in the Company's sole discretion throughout its system. In July 2019, American exercised its right to permanently withdraw two (2) aircraft from the American Capacity Purchase Agreement due to the Company's failure to meet certain performance metrics. The aircraft were removed on November 2, 2019. On November 25, 2019, the Company amended its agreement with American Airlines. The Company did not meet certain performance metrics during the then most recent measurement period, which would have allowed American to remove two additional aircraft from the capacity purchase agreement. American had agreed to defer the right to remove these two aircraft but subsequently elected to remove one of the two previously deferred aircraft, effective January 2, 2020. As of January 2, 2020, American had removed three (3) of the six (6) aircraft under the January 31st amendment.

On April 3, 2020, the Company received a new withdrawal notice from American seeking to permanently withdraw three aircraft from the American Capacity Purchase Agreement. Two of the aircraft were withdrawn effective May 19, 2020 and the third aircraft was withdrawn effective June 1, 2020. The withdrawal of these three aircraft stems from withdrawal rights that American previously asserted were triggered in September 2019 and November 2019. At such time, American refrained from exercising such withdrawal rights, however, reserved the right to withdraw the three aircraft at a later date under certain circumstances. In light of the rapid grounding of aircraft caused by the COVID-19 virus, the overall reduction in demand for air travel, and the need to reduce capacity, American elected to remove such aircraft in early June.

On June 11, 2020, the Company entered into the Twenty-First Amendment to The American Capacity Purchase Agreement effective April 1, 2020. The amendments include (i) the permanent withdrawal of two (2) additional aircraft from the American Capacity Purchase Agreement, effective June 15, 2020, with such aircraft included in the tranche of aircraft American has the right to ratably remove commencing January 1, 2021 in exchange for American paying the full cost of the aircraft for the same period and (ii) the addition of utilization-based credits, entitling American to payment credits for the period April 1, 2020 through September 30, 2020, based upon the achievement of agreed upon aircraft utilization

thresholds, subject to Mesa's receipt of previously approved funds under the CARES Act. The impact of the contract modification was not material to the three or year ended September 30, 2020

American had a 0.0%, 7.1% and 7.2% ownership interest in the Company, calculated on a fully-diluted basis as of September 30, 2020, 2019 and 2018, respectively. The related party amounts presented on the consolidated balance sheets and statements of operations and comprehensive income pertain to American.

United Capacity Purchase Agreement

As of September 30, 2020, we operated 20 CRJ-700 and 60 E-175 aircraft for United under our United Capacity Purchase Agreement. In exchange for providing the flight services under our United Capacity Purchase Agreement, we receive a fixed monthly minimum amount per aircraft under contract plus certain additional amounts based upon the number of flights and block hours flown and the results of passenger satisfaction surveys. United also reimburses us for certain costs on an actual basis, including property tax per aircraft and passenger liability insurance. Other expenses, including fuel and certain landing fees, are directly paid to suppliers by United. Under our United Capacity Purchase Agreement, United owns 42 of the 60 E-175 aircraft and leases them to us at nominal amounts. United reimburses us on a pass-through basis for all costs related to heavy airframe and engine maintenance, landing gear, auxiliary power units ("APUs") and component maintenance for the 42 E-175 aircraft owned by United. Our United Capacity Purchase Agreement permits United, subject to certain conditions, including the payment of certain costs tied to aircraft type, to terminate the agreement in its discretion, or remove aircraft from service, by giving us notice of 90 days or more. If United elects to terminate our United Capacity Purchase Agreement in its entirety or permanently remove select aircraft from service, we are permitted to return any of the affected E-175 aircraft leased from United at no cost to us.

On November 26, 2019, we amended and restated our United Capacity Purchase Agreement to, among other things, incorporate the terms of the 14 prior amendments to that Agreement and to extend the term thereof through the addition of twenty (20) new Embraer E175LL aircraft to the scope of such Agreement. These new aircraft were to be financed and owned by us and operated for a period of twelve (12) years from the in-service date. Deliveries of the new E175LL aircraft were scheduled to begin in May 2020. In March 2020, the deliveries of the new E175LL aircraft were negotiated between United and Embraer to begin in September 2020 and be completed by the quarter ended June 30, 2021. Commencing five (5) years after the actual in-service date, United has the right to remove the E175LL aircraft from service by giving us notice of 90 days or more, subject to certain conditions, including the payment of certain wind-down expenses plus, if removed prior to the ten (10) year anniversary of the in-service date, certain accelerated margin payments.

In addition to adding the 20 new E175LL aircraft to the amended and restated United Capacity Purchase Agreement, we extended the term of our 42 E-175 aircraft leased from United for an additional five (5) years, which now expire between 2024 and 2028. In addition, we own 18 E-175 aircraft that expire in 2028. As part of the amended and restated United Capacity Purchase Agreement, we agreed to lease our CRJ-700 aircraft to another United Express service provider for a term of seven (7) years. We will continue to operate such aircraft until they are transitioned to the new service provider. United has a right to purchase the CRJ-700 aircraft at the then fair market value.

On November 4, 2020, we amended and restated our United Capacity Purchase Agreement to, among other things, amend the ownership by United, in lieu of Mesa Airlines, of 20 E175LL aircraft that will be leased to Mesa Airlines. Per the amendment, these new aircraft will be now financed by United Airlines and leased to the Company to operate for a period of twelve (12) years from the in-service date. We agreed to adjusted rates to account for the change in ownership of the E175LL aircraft, relief from certain provisions related to minimum utilization until December 31, 2021 and an additional right of United to remove one or more E175LL aircraft in the event that the Mesa Airlines fails to meet certain financial covenants. We also agreed to a one-time provision for United to prepay \$85.0 million under the United CPA for future performance by Mesa Airlines (the "Prepayment") and the application of certain discounts to certain payment obligations of United under the United CPA. Weekly payments under the United CPA will be discounted following the Prepayment until repaid. Until the Prepayment is fully expended, weekly amounts due from United under the United CPA will be applied toward the balance of the Prepayment. This period is estimated to continue for approximately 4 months following funding of the Prepayment. The terms of the Prepayment also include affirmative and negative covenants and events of default customary for

transactions of this type. Proceeds from the Prepayment will retire debt on certain airframes and engines that will serve as collateral under the term loan facility provided to Mesa Airlines by the U.S. Treasury.

Our United Capacity Purchase Agreement is subject to early termination under various circumstances noted above and including:

- By United if certain operational performance factors fall below a specified percentage for a specified time, subject to notice under certain circumstances;
- By United if we fail to perform the material covenants, agreements, terms or conditions of our United Capacity Purchase Agreement or similar agreements with United, subject to thirty (30) days' notice and cure rights;
- If either United or we become insolvent, file bankruptcy or fail to pay debts when due, the non-defaulting party may terminate the agreement; or
- By United 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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Reclassifications of certain immaterial prior period amounts have been made to conform to the current period presentation.

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

Use of Estimates

The preparation of the Company's 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 consolidated financial statements. Actual results could differ from those estimates.

Segment Reporting

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

While we operate under two separate capacity purchase agreements, we do not manage our business based on any performance measure at the individual contract level. Additionally, our chief operating decision maker 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. He 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.

All of our operating revenue in our 2020, 2019 and 2018 fiscal years was derived from operations associated with our American and United Capacity Purchase Agreements. It is currently impractical to provide certain information on our revenue from our customers for each of our services and geographic information on our revenues and long lived assets.

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash primarily includes deposits in trust accounts to collateralize letters of credit and to fund workers' compensation claims, landing fees, and other business needs. Restricted cash is stated at cost, which approximates fair value.

The Company has an agreement with a financial institution for a \$6.0 million letter of credit facility to issue letters of credit for landing fees, workers' compensation insurance, and other business needs. Pursuant to such agreement, \$3.4 million and \$3.6 million of outstanding letters of credit are required to be collateralized by amounts on deposit as of September 30, 2020 and 2019, respectively, which are classified as restricted cash.

Expendable Parts and Supplies

Expendable parts and supplies are stated at the lower of cost (using the first-in, first-out method) or market, and are charged to expense as they are used. The Company provides an allowance for obsolescence for such parts and supplies over the useful life of its aircraft after considering the useful life of each aircraft fleet, the estimated cost of expendable parts expected to be on hand at the end of the useful life, and the estimated salvage value of the parts. This allowance was \$2.8 million and \$2.4 million as of September 30, 2020 and 2019, respectively.

Property and Equipment

Property and equipment are stated at cost, net of manufacturer incentives, and depreciated over their estimated useful lives to their estimated salvage values, which are 20% for aircraft and rotatable spare parts, using the straight-line method.

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

Property and Equipment	Estimated Useful Life
Buildings	30 years
Aircraft	25 years from manufacture date
Flight equipment	7-20 years
Equipment	5-9 years
Furniture and fixtures	3-5 years
Vehicles	5 years
Rotable spare parts	Life of the aircraft or term of the lease, whichever is less
Leasehold improvements	Life of the aircraft or term of the lease, whichever is less

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may be impaired. The Company records an impairment loss if (i) the undiscounted future cash flows are found to be less than the carrying amount of the asset or asset group, and (ii) the carrying amount of the asset or asset group exceeds fair value. If an impairment loss has occurred, a charge is recorded to reduce the carrying amount of the asset to its estimated fair value. The Company recognized no impairment charges on property and equipment for the years ended September 30, 2020 and 2019.

Fair Value Measurements

The Company accounts for assets and liabilities in accordance with accounting standards that define fair value and establish a consistent framework for measuring fair value on either a recurring or a nonrecurring basis. 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;
- Level 2 – Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3 – Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Prepaid Maintenance Deposits

Prepaid maintenance deposits consist of payments made on a monthly basis to cover certain future maintenance events for leased flight equipment. The deposits are contractual obligations that are held in trust by the lessors. The deposits are only to be used to cover maintenance events, which include, among other things, C-checks, engine restoration events, engine life limited parts, landing gear repairs, and auxiliary power unit overhauls. The Company expenses the service as it is performed and receives reimbursement from the reserve trust account in accordance with our maintenance policy. Amounts on deposit that are not probable of being returned for qualifying maintenance events are recognized as supplemental rent expense in the period such costs are determined to not be refundable. The current portion of prepaid deposits is included in prepaid expenses and other current assets on the consolidated balance sheet.

Debt Financing Costs

Debt financing costs consist of payments made to issue debt related to the purchase of aircraft, flight equipment, and certain flight equipment maintenance costs. The Company defers the costs and amortizes them over the term of the debt agreement. Debt financing costs related to a recognized debt liability are presented as a direct deduction from the carrying amount of the related long-term debt on the consolidated balance sheet. Debt financing costs with no related recognized debt liability are presented as assets, with the current portion included in prepaid expenses and other current assets and the noncurrent portion included in other assets on the consolidated balance sheet.

Unutilized Manufacturer Credits

Manufacturer credits received in connection with aircraft purchases that can be used for the future purchase of certain goods and services are recorded as a prepaid asset based on the value of the credits expected to be utilized, and the Company reduces the asset as the credits are utilized to fund such

purchases. The current portion is included in prepaid expenses and other current assets and the noncurrent portion is included in other assets on the consolidated balance sheet.

Intangibles

Customer relationships are amortized using future discounted cash flows over the estimated life. In accordance with ASC 360, Property, Plant and Equipment, an intangible asset with a finite life that is being amortized is reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may be impaired. The Company records an impairment loss if the undiscounted future cash flows are found to be less than the carrying amount of the asset and if the carrying amount of the asset exceeds fair value. If an impairment loss has occurred, a charge is recorded to reduce the carrying amount of the asset to its estimated fair value.

Other Assets

Other long-term assets primarily consist of noncurrent deferred reimbursed costs, debt financing costs, and prepaid maintenance deposits.

Income Taxes

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

Other Noncurrent Liabilities

During each of the years ended September 30, 2019 and 2018, the Company recorded amortization of this unfavorable lease liability of \$5.7 million and \$6.6 million, respectively, as a reduction of lease expense. This disclosure is not applicable for the year ended September 30, 2020 due to the adoption of the new leasing standard ASC-842. During the year ended September 30, 2019 and 2018, the Company wrote off \$0.75 million and \$1.2 million of unfavorable lease liability related to the lease termination of its aircraft lease facility with Wells Fargo Bank Northwest, National Association, as owner trustee and lessor (the "**GECAS Lease Facility**"), which was accounted for as lease termination expense.

Revenue Recognition

The Company recognizes revenue when the service is provided under its capacity purchase agreements. Under these agreements, the major airline partners generally pay a fixed monthly minimum amount per aircraft, plus certain additional amounts based upon the number of flights and block hours flown. The contracts also include reimbursement of certain costs incurred by the Company in performing flight services. These costs, known as "**pass-through costs**," may include passenger and hull insurance as well as aircraft property taxes. Additionally, for the E-175 aircraft owned by United, the capacity purchase agreement provides that United will reimburse the Company for heavy airframe and engine maintenance, landing gear, APUs and component maintenance. The Company also receives compensation under its capacity purchase agreements for heavy maintenance expenses at a fixed hourly rate or per aircraft rate for all aircraft in scheduled service other than the E-175 aircraft owned by United. The contracts also include a profit margin on certain reimbursable costs, as well as a profit margin, incentives and penalties based on certain operational benchmarks. The Company is eligible to receive incentive compensation

upon the achievement of certain performance criteria defined in the capacity purchase agreements. At the end of each period during the term of an agreement, the Company calculates the incentives achieved during that period and recognizes revenue attributable to the agreement during the period accordingly, subject to the variable constraint guidance under ASC 606. All revenue recognized under these contracts is presented as the gross amount billed to the major airline partners. See note 3: "Contract revenue and Pass-through and other" for further information.

Under the capacity purchase agreements, the Company has committed to perform various activities that can be generally classified into in-flight services and maintenance services. When evaluating these services, the Company determined that the nature of its promise is to provide a single integrated service, flight services, because its contracts require integration and assumption of risk associated with both services to effectively deliver and provide the flights as scheduled over the contract term. Therefore, the in-flight services and maintenance services are inputs to that combined integrated flight service. Both the services occur over the term of the agreement and the performance of maintenance services significantly effects the utility of the in-flight services. The Company's individual flights flown under the capacity purchase agreements are deemed to be distinct and the flight service promised in the capacity purchase agreements represents a series of services that should be accounted for as a single performance obligation. This single performance obligation is satisfied over time as the flights are completed. Therefore, revenue is recognized when each flight is completed.

In allocating the transaction price, variable payments (i.e. billings based on flights and block hours flown, pass-through costs, etc.) that relate specifically to the Company's efforts in performing flight services are recognized in the period in which the individual flight is completed. The Company has concluded that allocating the variability directly to the individual flights results in an overall allocation meeting the objectives in ASC 606. This results in a pattern of revenue recognition that follows the variable amounts billed from the Company to their customers.

A portion of the Company's compensation under its capacity purchase agreements with American and United is designed to reimburse the Company for certain aircraft ownership costs. The Company has concluded that a component of its revenue under these agreements is deemed to be lease revenue, as such agreements identify the "**right of use**" of a specific type and number of aircraft over a stated period-of-time. The lease revenue associated with the Company's capacity purchase agreements is accounted for as an operating lease and is reflected as contract revenue on the Company's consolidated statements of operations.

The Company recognized \$208.9 million, \$219.0 million and \$217.0 million of lease revenue for the year ended September 30, 2020, 2019 and 2018, respectively. The Company has not separately stated aircraft rental income and aircraft rental expense in the consolidated statements of operations because the use of the aircraft is not a separate activity of the total service provided.

The Company's capacity purchase agreements are renewable periodically and contain provisions pursuant to which the parties could terminate their respective agreements, subject to certain conditions as described in Note 1. The capacity purchase agreements also contain terms with respect to covered aircraft, services provided and compensation as described in Note 1. The capacity purchase agreements are amended from time to time to change, add or delete terms of the agreements.

The Company's revenues could be impacted by a number of factors, including amendment or termination of its capacity purchase agreements, contract modifications resulting from contract renegotiations, its ability to earn incentive payments contemplated under applicable agreements, and settlement of reimbursement disputes with the Company's major airline partners. In the event contracted rates are not finalized at a quarterly or annual financial statement date, the Company evaluates the enforceability of its contractual terms and when it has an enforceable right, it estimates the amount the Company expects to be entitled to that is subject to the ASC 606 constraint.

The Company's capacity purchase agreements contain an option that allows its major airline partners to assume the contractual responsibility for procuring and providing the fuel necessary to operate the flights that it operates for them. Both of the Company's major airline partners have exercised this option. Accordingly, the Company does not record an expense or revenue for fuel and related fueling costs for flying under its capacity purchase agreements. In addition, the Company's major airline partners also provide, at no cost to the Company, certain ground handling and customer service functions, as well as airport-related facilities and gates at their hubs and other cities. Services and facilities provided by the Company's major airline partners at no cost are presented net in its consolidated financial statements; hence, no amounts are recorded for revenue or expense for these items.

Contract Liabilities

Contract liabilities consist of deferred credits representing upfront payments received from major airline partners related to aircraft modifications associated with capacity purchase agreements and pilot training. The deferred credits are recognized over time depicting the pattern of transfer of the related services over the term of the capacity purchase agreements.

Current and non-current deferred credits are recorded to other accrued expenses and non-current deferred credits in the consolidated balance sheets. The Company's total current and non-current deferred credit balances at September 30, 2020, September 30, 2019 and September 30, 2018 are \$8.5 million, \$12.1 million and \$15.4 million respectively. The Company recognized \$3.7 million, \$5.1 million and \$4.4 million of the deferred credits to revenue in the consolidated statements of operations during the year ended September 30, 2020, 2019 and 2018, respectively.

Contract Assets

The Company recognizes assets from the incremental costs incurred to obtain contracts with major partners including aircraft painting, aircraft reconfiguration and flight service personnel training costs. These costs are amortized based on the pattern of transfer of the services in relation to flight hours over the term of the contract. Contract assets are recorded as other assets in the consolidated balance sheets. The Company's contract assets balances at September 30, 2020, September 30, 2019 and September 30, 2018 are \$2.0 million, \$3.9 million and \$4.6 million, respectively. Contract cost amortization was \$1.9 million, \$2.4 million and \$1.9 million for the year ended September 30, 2020, 2019 and 2018, respectively.

Maintenance Expense

The Company operates under an FAA approved continuous inspection and maintenance program. The Company uses the direct expense method of accounting for its maintenance of regional jet engine overhauls, airframe, landing gear, and normal recurring maintenance wherein the expense is recognized when the maintenance work is completed, or over the period of repair, if materially different. Our maintenance policy is determined by fleet when major maintenance is incurred. For leased aircraft, the Company is subject to lease return provisions that require a minimum portion of the "*life*" of an overhaul be remaining on the engine at the lease return date. The Company estimates the cost of maintenance lease return obligations and accrues such costs over the remaining lease term when the expense is probable and can be reasonably estimated.

Under the Company's aircraft operating lease agreements and FAA operating regulations, it is obligated to perform all required maintenance activities on its fleet, including component repairs, scheduled air frame checks and major engine restoration events. The Company estimates the timing of the next major maintenance event based on assumptions including estimated usage, FAA-mandated maintenance intervals and average removal times as recommended by the manufacturer. The timing and the cost of maintenance are based on estimates, which can be impacted by changes in utilization of its aircraft, changes in government regulations and suggested manufacturer maintenance intervals. Major maintenance events consist of overhauls to major components.

Engine overhaul expense totaled \$40.5 million, \$30.0 million and \$51.2 million for the years ended September 30, 2020, 2019 and 2018, respectively, of which \$7.0 million, \$6.0 million and \$12.3 million was pass-through expense. Airframe check expense totaled \$23.5 million, \$17.2 million and \$21.5 million for the years ended September 30, 2020, 2019 and 2018, respectively, of which \$7.2 million, \$0.4 million and \$7.5 million was pass-through expense.

Pursuant to the United capacity purchase agreement, United reimburses the Company for heavy maintenance on certain E-175 aircraft. Those reimbursements are included in pass-through and other revenue. See Note 1: "**Organization and Operations**" for further information.

Aircraft Leases

In addition to the aircraft we receive from United under our Capacity Purchase Agreement, approximately 12% of our aircraft are leased from third parties. All of our aircraft leases have been classified as operating leases, which results in rental payments being charged to expense over the term of the related leases. In the event that we or one of our major airline 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 will be written off.

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

Change in Accounting Policy

Stock Appreciation Rights ("**SARs**") and Phantom Stock historically were accounted for as liability compensatory awards under ASC 710, Compensation – General, valued using the intrinsic value method, as permitted by ASC 718, Compensation – Stock Compensation, for nonpublic entities. Upon becoming a public company, as defined in ASC 718, in the third quarter of fiscal 2018, the Company was required to change its methodology for valuing the SARs and Phantom Stock. The SARs and Phantom Stock were re-measured at each quarterly reporting date and were accounted for prospectively at fair value using a Black-Scholes fair value pricing model until they were converted to restricted stock awards upon completion of the Company's IPO. The Company recorded the impact of the change in valuation methods as a cumulative effect of a change in accounting principle, as permitted by ASC 250, Accounting Changes and Error Corrections. The effect of the change increased the SARs and Phantom Stock liability by \$2.4 million which was the difference in compensation cost measured using the intrinsic value method and the fair value method. An equal and offsetting change to retained earnings in the consolidated balance sheet was recorded with the revaluation. Any future changes in fair value were recorded as compensation expense in the consolidated statement of operations. Upon completion of the Company's IPO the SARs and Phantom Stock were cancelled and exchanged for shares of restricted stock under our 2018 Plan.

3. Contract revenue and Pass-through and other

The Company recognizes contract revenue when the service is provided under its capacity purchase agreements. Under the capacity purchase agreements, our airline partners generally pay for each departure, flight hour (measured from takeoff to landing, excluding taxi time) or block hour (measured from takeoff to landing, including taxi time) incurred, and an amount per aircraft in service each month with additional incentives based on flight completion and on-time performance. The major airline partners also directly pay for or reimburses the Company for certain direct expenses incurred under the capacity purchase agreement, such as fuel and airport landing fees. The Company's performance obligation is met when each flight is completed and revenue is recognized and reflected in contract revenue. The directly reimbursed expenses, earned as flights are completed over the agreement term, are recognized and reflected in pass-through revenue.

During the year ended September 30, 2020, the Company completed a significantly lower than normal number of flights due to the impact of COVID-19. Since the revenue recognition is based on the number of flights completed, the fixed amount of cash received exceeded the revenue recognized based on the number of flights completed during the quarter. Under US GAAP, the fixed monthly payments are recognized as revenue ratably based on completed flights over the contract term. The Company deferred \$23.8 million of revenue in the year ended September 30, 2020. The current portion of \$9.4 million of deferred revenue is recorded as a part of other accrued expenses and long-term portion of \$14.4 million is recorded as deferred revenue on the balance sheet. This deferred revenue will be recognized when flights are completed over the remaining contract term.

The deferred revenue balance as of September 30, 2020 represents our aggregate remaining performance obligations that will be recognized as revenue over the period in which the performance obligations are satisfied, and is expected to be recognized as revenue as follows (In thousands):

	Periods Ending September 30,	Total Revenue
2021		\$ 8,177
2022		8,969
2023		3,883
2024		2,730
Total		<u>\$ 23,759</u>

A portion of the Company's compensation under its capacity purchase agreements with American and United is designed to reimburse the Company for certain aircraft ownership costs. The Company has concluded that a component of its revenue under these agreements is deemed to be lease revenue, as such agreements identify the "right of use" of a specific type and number of aircraft over a stated period-of-time.

The lease revenue associated with the Company's capacity purchase agreements is accounted for as an operating lease and is reflected as contract revenue on the Company's consolidated statements of operations. The Company recognized \$208.9 million and \$219.0 million of lease revenue for the year ended September 30, 2020 and 2019, respectively. The Company has not separately stated aircraft rental income and aircraft rental expense in the consolidated statements of operations because the use of the aircraft is not a separate activity of the total service provided under our capacity purchase agreements.

4. Recent Accounting Pronouncements

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848) ("ASU2020-04"). 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. Optional expedients can be applied from March 12, 2020 through December 31, 2022. We are currently evaluating the impact that the new guidance will have on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). This ASU introduces a new accounting model known as Credit Expected Credit Losses ("CECL"). CECL requires earlier recognition of credit losses, while also providing additional transparency about credit risk. The CECL model utilizes a lifetime expected credit loss measurement objective for the recognition of credit losses for receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. This model replaces the multiple existing impairment models in current GAAP, which generally require that a loss be incurred before it is recognized. The new standard will also apply to receivables arising from revenue transactions such as contract assets and accounts receivables. There are other provisions within the standard affecting how impairments of other financial assets may be recorded and presented, as well as expanded disclosures. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"), which provides guidance requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for substantially all leases, with the exception of short-term leases. Leases will be classified as either financing or operating, with classification affecting the pattern of expense recognition in the statement of income. The Company adopted Topic 842 effective October 1, 2019 and elected the package of transition practical expedients for expired or existing contracts, which does not require reassessment of: (1) whether any of the Company's contracts are or contain leases, (2) lease classification and (3) initial direct costs. In July 2018, the FASB issued ASU No. 2018-11, "Targeted Improvements - Leases (Topic 842)." The Company did not elect the hindsight practical expedient. This update provides an optional transition method that allows entities to elect to apply the standard using the modified retrospective approach at its effective date, versus recasting the prior years presented. If this adoption method is elected, an entity would recognize a cumulative-effect adjustment to the opening balance of retained earnings in the year of adoption. The Company elected this adoption method on October 1, 2019. There was no adjustment to retained earnings.

Additionally, the Company's adoption of Topic 842 did not have a significant impact on the recognition, measurement or presentation of lease revenue and lease expenses within the consolidated statements of operations or the consolidated statements of cash flows. The Company's adoption of Topic 842 did not have a material impact on the timing or amount of the Company's lease revenue as a lessor. The Company's prepaid aircraft rents, accrued aircraft rents and deferred rent credits that were separately stated in the Company's September 30, 2019 balance sheet have been classified as a component of the Company's right-of-use assets effective October 1, 2019. The consolidated financial statements for the year ended September 30, 2020 are presented under the new standard, while comparative years presented are not adjusted and continue to be reported in accordance with the Company's historical accounting policy. See Note 16, "Leases, Commitments and Contingencies," for more information.

We determine if an arrangement is a lease at inception. Our current lease activities are recorded in operating lease right-of-use ("ROU") assets, current maturities of operating lease and noncurrent operating lease liabilities in the consolidated balance sheets. Finance leases are included in property and equipment, net, current portion of long-term debt and financing leases, long-term debt and financing leases, excluding current portion.

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. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. 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. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

As a lessee, we elected a short-term lease exception policy on all classes of underlying assets, permitting us to not apply the recognition requirements of this standard to short-term leases (i.e. leases with terms of 12 months or less).

As a lessor, our capacity purchase agreements identify the "right of use" of a specific type and number of aircraft over a stated period-of-time. A portion of the compensation in the capacity purchase agreements are designed to reimburse the Company for certain aircraft ownership costs of these aircraft. 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.

In July 2018, the FASB issued ASU 2018-09, Codification Improvements, which contains amendments that affect a wide variety of Topics in the Codification, including amendment to Subtopic 718-40, Compensation-Stock Compensation-Income Taxes, that clarifies the timing of when an entity should recognize excess tax benefits. We adopted this standard on October 1, 2019 and it did not have a material impact on our consolidated financial statements.

5. Concentrations

At September 30, 2020, the Company had capacity purchase agreements with American and United. All of the Company's consolidated revenue for the years ended September 30, 2020, 2019 and 2018 and accounts receivable at the end of September 30, 2020 and 2019 was derived from these agreements. The terms of both the American and United capacity purchase agreements are not aligned with the lease obligations on the aircraft performing services under such agreements.

Amounts billed by the Company under capacity purchase agreements are subject to the Company's interpretation of the applicable capacity purchase agreement and are subject to audit by the Company's major airline partners. Periodically, the Company's major airline 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 airline partner. As such, the Company periodically reviews amounts past due and records a reserve for amounts estimated to be uncollectible. The allowance for doubtful accounts was \$0.8 million and \$1.0 million at September 30, 2020 and 2019, respectively. If the Company's ability to collect these receivables and the financial viability of our partners is materially different than estimated, the Company's estimate of the allowance could be materially impacted.

American accounted for approximately 52%, 53% and 54% of the Company's total revenue for the years ended September 30, 2020, 2019 and 2018, respectively. United accounted for approximately 48%, 47% and 46% of the Company's total revenue for the years ended September 30, 2020, 2019 and 2018, respectively. A termination of either the American or the United capacity purchase agreement would have a material adverse effect on the Company's business prospects, financial condition, results of operations, and cash flows.

6. Intangible Assets

The Company monitors for any indicators of impairment of the intangible assets. When certain conditions or changes in the economic situation such as the current environment brought by COVID-19 exist, the assets may be impaired and the carrying amount of the assets exceed its fair value.

We determined that our reduced flying schedules and cash flow projections as a result of the COVID-19 pandemic indicate that an impairment loss may have been incurred. Therefore, we quantitatively assessed whether it was more likely than not that the intangible assets we hold have been impaired as of September 30, 2020. We reviewed our previous forecasts and assumptions based on our current projections that are subject to various risks and uncertainties, including: (1) forecasted revenues, expenses and cash flows, including the duration and extent of impact to our business from the COVID-19 pandemic, (2) current discount rates, (3) changes to the regulatory environment and (4) the nature and amount of government support that will be provided.

Based on our carrying amount recoverability test, we have concluded that our finite-lived intangible assets are not impaired as of September 30, 2020. Given the uncertain future amid COVID-19, we will conduct additional tests in the first quarter of 2021.

Information about the intangible assets of the Company at September 30, 2020 and 2019, were as follows (in thousands):

	<u>September 30,</u> <u>2020</u>	<u>September 30,</u> <u>2019</u>
Customer relationship	\$ 43,800	\$ 43,800
Accumulated amortization	(35,768)	(34,268)
	<u>\$ 8,032</u>	<u>\$ 9,532</u>

Total amortization expense recognized was approximately \$1.5 million, \$1.8 million and \$0.4 million for the fiscal years ended September 30, 2020, 2019 and 2018. The Company expects to record amortization expense of \$1.2 million, \$1.0 million, \$0.9 million, \$0.8 million and \$0.7 million for fiscal years 2021, 2022, 2023, 2024, 2025 respectively.

7. Balance Sheet Information

Certain significant amounts included in the Company's consolidated balance sheet as of September 30, 2020 and 2019, consisted of the following (in thousands):

	September 30, 2020	September 30, 2019
Expendable parts and supplies, net		
Expendable parts and supplies	\$ 27,431	\$ 25,336
Less obsolescence and other	(4,460)	(3,999)
	<u>\$ 22,971</u>	<u>\$ 21,337</u>
Prepaid expenses and other current assets		
Prepaid aircraft rent	\$ —	\$ 35,786
Deferred offering and reimbursed costs	1,261	2,092
Other	14,806	3,045
	<u>\$ 16,067</u>	<u>\$ 40,923</u>
Property and equipment—net		
Aircraft and other flight equipment substantially pledged	\$ 1,596,174	\$ 1,582,199
Other equipment	5,147	5,122
Leasehold improvements	2,763	2,797
Vehicles	1,032	924
Building	699	699
Furniture and fixtures	302	302
Total property and equipment	1,606,117	1,592,043
Less accumulated depreciation	(393,702)	(318,458)
	<u>\$ 1,212,415</u>	<u>\$ 1,273,585</u>
Other accrued expenses		
Accrued property taxes	\$ 11,354	\$ 9,186
Accrued interest	3,268	4,497
Accrued vacation	5,975	6,128
Deferred revenue- current portion	9,389	1,513
Other	24,881	7,564
	<u>\$ 54,867</u>	<u>\$ 28,888</u>

The Company monitors for any indicators of impairment of the long-lived fixed assets. When certain conditions or changes in the economic situation such as the current environment brought by COVID-19 exist, the assets may be impaired and the carrying amount of the assets exceed its fair value. The assets need to be tested for recoverability of carrying amount.

To determine whether impairments exist, we group assets at the Capacity Purchase Agreement and fleet-type level (i.e., the lowest level for which there are identifiable cash flows) and then estimate future cash flows based on projections of capacity purchase arrangements, block hours, maintenance events, labor costs and other relevant factors. Due to our reduced flying schedules and projections of future cash flows, we evaluated each of our fleets to determine if any of the fleets are impaired.

Based on our carrying amount recoverability test, we have concluded that no fleet was impaired as of September 30, 2020 as the future cash flows exceeded the carrying value of our long-lived fixed assets. Given the uncertain future amid COVID-19, we will conduct additional tests in first quarter of 2021.

Depreciation expense totaled \$80.8 million, \$76.2 million and \$64.6 million for the years ended September 30, 2020, 2019 and 2018, respectively.

Prior to the Company's adoption of Topic 842 on October 1, 2019, the Company recorded amortization of the unfavorable lease liability amounting to \$5.7 million and \$6.6 million for the years ended 2019 and 2018, respectively, as a reduction to lease expense. Upon the Company's adoption of Topic 842, the unfavorable lease liability is now included in its ROU asset balance and amortized therein. During the year ended 2019 and 2018 the Company wrote off \$0.8 million and \$1.2 million of unfavorable lease liability related to the lease termination of its aircraft lease facility with Wells Fargo Bank Northwest, National Association, as owner trustee and lessor (the "GECAS Lease Facility"), which was accounted for as lease termination expense.

8. Fair Value Measurements

The Company did not measure any of its assets or liabilities at fair value on a recurring or nonrecurring basis as of September 30, 2020 and 2019.

The carrying values of cash and cash equivalents, accounts receivable, and accounts payable included on the consolidated balance sheets approximated fair value at September 30, 2020 and 2019.

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

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

	September 30, 2020		September 30, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current maturities ⁽¹⁾	\$ 743.3	\$ 768.7	\$ 858.1	\$ 882.7

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

9. Long-Term Debt and Other Borrowings

Long-term debt as of September 30, 2020 and 2019, consisted of the following (in thousands):

	<u>September 30,</u> <u>2020</u>	<u>September 30,</u> <u>2019</u>
Notes payable to financial institution, collateralized by the underlying aircraft, due 2022 ⁽¹⁾⁽²⁾	\$ 41,472	\$ 49,795
Notes payable to financial institution, collateralized by the underlying aircraft, due 2024 ⁽³⁾	55,674	60,761
Senior and subordinated notes payable to secured parties, collateralized by the underlying aircraft, due 2027 ⁽⁴⁾	105,887	110,912
Notes payable to secured parties, collateralized by the underlying aircraft, due 2028 ⁽⁵⁾	172,137	191,168
Senior and subordinated notes payable to secured parties, collateralized by the underlying aircraft, due 2028 ⁽⁶⁾	138,114	152,945
Senior and subordinated notes payable to secured parties, collateralized by the underlying aircraft, due 2022 ⁽⁷⁾	47,319	71,998
Senior and subordinated notes payable to secured parties, collateralized by the underlying aircraft, due 2022 ⁽⁸⁾	29,682	47,309
Notes payable to financial institution, collateralized by the underlying equipment, due 2020 ⁽⁹⁾	—	1,659
Notes payable to financial institution due 2020 ⁽¹⁰⁾	1,523	2,329
Notes payable to financial institution, collateralized by the underlying equipment, due 2020 ⁽¹¹⁾	4,182	6,962
Other obligations due to financial institution, collateralized by the underlying equipment, due 2023 ⁽¹²⁾	6,864	8,530
Notes payable to financial institution, collateralized by the underlying equipment, due 2024 ⁽¹³⁾	63,341	80,153
Notes payable to financial institution, collateralized by the underlying aircraft, due 2023 ⁽¹⁴⁾	48,125	65,625
Notes payable to financial institution, collateralized by the underlying due 2023 ⁽¹⁵⁾	6,000	8,000
Working capital draw loan, used to cover operational needs ⁽¹⁶⁾	22,930	—
Gross long-term debt, including current maturities	743,250	858,145
Less unamortized debt issuance costs	(11,526)	(14,822)
Net long-term debt, including current maturities	731,724	843,323
Less current portion	(189,268)	(165,900)
Net long-term debt	<u>\$ 542,456</u>	<u>\$ 677,423</u>

(1) In fiscal 2007, the Company financed three CRJ-900 and three CRJ-700 aircraft for \$120.3 million. The debt bears interest at the monthly LIBOR plus 2.25% (2.40% at September 30, 2020) and requires monthly principal and interest payments.

(2) In fiscal 2014, the Company financed ten CRJ-900 aircraft for \$88.4 million. The debt bears interest at the monthly LIBOR plus 1.95% (2.10% at September 30, 2020) and requires monthly principal and interest payments. In fiscal 2018, the Company repaid \$40.0 million related to four CRJ-900 aircraft.

(3) In fiscal 2014, the Company financed eight CRJ-900 aircraft with \$114.5 million in debt. The debt bears interest at 5.00% and requires monthly principal and interest payments.

(4) In fiscal 2015, the Company financed seven CRJ-900 aircraft with \$170.2 million in debt. The senior notes payable of \$151.0 million bear interest at monthly LIBOR plus 2.71% (2.86% at September 30, 2020) and require monthly principal and interest payments. The subordinated notes payable is noninterest-bearing and become payable in full on the last day of the term of the notes. The Company has imputed an interest rate of 6.25% on the subordinated notes payable and recorded a related discount of \$8.1 million, which is being accreted to interest expense over the term of the notes.

(5) In fiscal 2016, the Company financed ten E-175 aircraft with \$246.0 million in debt under an EETC financing arrangement (see discussion below). The debt bears interest ranging from 4.75% to 6.25% and requires semi-annual principal and interest payments.

- (6) In fiscal 2016, the Company financed eight E-175 aircraft with \$195.3 million in debt. The senior notes payable of \$172.0 million bear interest at the three-month LIBOR plus a spread ranging from 2.20% to 2.32% (2.43% to 2.55% at September 30, 2020) and require quarterly principal and interest payments. The subordinated notes payable bear interest at 4.50% and require quarterly principal and interest payments.
- (7) In June 2018, the Company refinanced six CRJ-900 aircraft with \$27.5 million in debt and financed nine CRJ-900 aircraft, which were previously leased, with \$69.6 million in debt. The senior notes payable of \$65.8 million bear interest at the three-month LIBOR plus 3.50% (3.73% at September 30, 2020) and require quarterly principal and interest payments. The subordinated notes payable of \$29.8 million bear interest at three month LIBOR plus 7.50% (7.73% at September 30, 2020) and require quarterly principal and interest payments.
- (8) In December 2017, the Company refinanced nine CRJ-900 aircraft with \$74.9 million in debt. The senior notes payable of \$46.9 million bear interest at the three-month LIBOR plus 3.50% (3.73% at September 30, 2020) and require quarterly principal and interest payments. The subordinated notes payable bear interest at the three-month LIBOR plus 4.50% (4.73% at September 30, 2020) and require quarterly principal and interest payments.
- (9) In fiscal 2015, the Company financed certain flight equipment with \$8.3 million in debt. The debt bears interest at 5.163% and was paid off in August 2020.
- (10) In fiscal 2015 and 2016, the Company financed certain flight equipment maintenance costs with \$10.2 million in debt. The debt bears interest at the three-month LIBOR plus 3.07% (3.30% at September 30, 2020) and requires quarterly principal and interest payments.
- (11) In fiscal 2016-2019, the Company financed certain flight equipment. The debt bears interest at the three-month LIBOR plus a spread ranging from 2.93% to 3.21% (3.16% to 3.44% at September 30, 2020) and requires quarterly principal and interest payments. The debt is subject to a fixed charge ratio covenant. As of September 30, 2020, the Company was in compliance with this covenant.
- (12) In February 2018, the Company leased two spare engines. The leases were determined to be capital as the leases contain a bargain purchase option at the end of the term. Imputed interest is 9.128% and the leases requires monthly payments.
- (13) In January 2019, the Company financed certain flight equipment with \$91.2 million in debt. The debt bears interest at the monthly LIBOR plus 3.10% (3.25% at September 30, 2020) and requires monthly principal and interest payments.
- (14) In June 2019, the Company financed ten CRJ-700 aircraft with \$70.0 million in debt, which were previously leased. The debt bears interest at the monthly LIBOR plus 5.00% (5.15% at September 30, 2020) and requires monthly principal and interest payments. The interest rate reduced from 5.25% to 5.00% in 1st quarter, 2020 due to United Airlines extension of CRJ-700.
- (15) On September 27, 2019, the Company financed certain flight equipment for \$8.0 million. The debt bears interest at the monthly LIBOR plus 5.00% (5.15% at September 30, 2020) and requires monthly principal and interest payments. The interest rate reduced from 5.25% to 5.00% in 1st quarter, 2020 due to United Airlines extension of CRJ-700.
- (16) On September 25, 2019, the company extended the term on their \$35.0 million working capital draw loan by three years, which now terminates in September 2022. Interest is assessed on drawn amounts at one-month LIBOR plus 3.75%. As of September 30, 2020, \$23.0 million was drawn to cover operational needs.

Principal maturities of long-term debt as of September 30, 2020, and for each of the next five years are as follows (in thousands):

Periods Ending September 30,	Total Principal Amount
2021	\$ 189,268
2022	152,517
2023	126,095
2024	71,033
2025	56,526
Thereafter	147,811
	<u>\$ 743,250</u>

The net book value of collateralized aircraft and equipment as of September 30, 2020 was \$1,093.0 million.

In December 2015, an Enhanced Equipment Trust Certificate ("*EETC*") pass-through trust was created to issue pass-through certificates to obtain financing for new E-175 aircraft. At September 30, 2020, Mesa has \$172.1 million of equipment notes outstanding issued under the EETC financing included in long-term debt on the consolidated balance sheets. The structure of the EETC financing consists of a pass-through trust created by Mesa to issue pass-through certificates, which represent fractional undivided interests in the pass-through trust and are not obligations of Mesa.

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

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

On January 28, 2019, the Company entered into a Term Loan Agreement (the "*Term Loan*") pursuant to which the lenders thereunder lent the Company term loans in the aggregate principal amount of \$91.2 million. Borrowings under the Term Loan bear interest at LIBOR plus 3.10%. This interest rate is significantly lower than the interest rate under the Company's Spare Engine Facility (defined above), which the Term Loan refinanced and replaced. The Spare Engine Facility accrued interest at LIBOR plus 7.25%. The Term Loan has a term of five years, with principal and interest payments due monthly over the term of the loan in accordance with an amortization schedule. The Company recorded a loss on extinguishment of debt of \$3.6 million, due to a \$1.9 million write-off of financing fees and \$1.7 million in prepayment penalties, in connection with the repayment of the Spare Engine Facility.

On June 14, 2019, the Company completed the purchase of ten CRJ-700 aircraft, which were previously leased under the GECAS Lease Facility, for \$70.0 million. The Company financed the aircraft purchase with \$70.0 million in new debt. The notes payable of \$70.0 million require monthly payments of principal and interest through fiscal 2023 bearing interest at LIBOR plus 5.00%. The Company recorded non-cash lease termination expense of \$9.5 million in connection with the lease buyout.

On September 25, 2019, the Company extended the term on their \$35 million working capital draw loan by three years, which now terminates in September 2022. Interest is assessed on drawn amounts at one-month LIBOR plus 3.75%. In the 2nd quarter 2020, \$23.0 million was drawn to cover operational needs.

On September 27, 2019, the Company financed certain flight equipment for \$8.0 million in new debt. The debt of \$8.0 million require monthly payments of principal and interest through fiscal 2023 bearing interest at Libor plus 5.0%.

On April 9, 2020, the Company entered into a letter amendment with lender, Export Development Canada (“EDC”), which provided for the deferral of scheduled principle payments beginning on March 19, 2020 through September 30, 2020. As of September 30, 2020, the Company had deferred 28.0 million of scheduled principal payments. On October 29, 2020 and November 12, 2020, the Company entered into subsequent letter amendments with EDC extending the principal deferrals through and including August 2, 2020. Amounts deferred are due in lump sum payment on August 2, 2020, there were no other amendments to the terms of the debt agreement with EDC resulting from the letter amendments. As further discussed in Note 18 to the consolidated financial statements, the Company repaid \$145 million of existing aircraft debt subsequent to year end, which included repayment of \$19.9 million of the previously deferred principal payments owed to EDC as of September 30, 2020.

In June 2020, the Company amended their RASPRO aircraft lease agreement to defer \$4.0 million of a lease payment otherwise due in June 2020. Per the amended agreement dated June 5, 2020, the Company is to pay this amount over the period of September 2021 through March 2024. The company made the accounting election available for COVID-19 related concession provided by a lessor. This event is not a lease modification and requires no changes to current accounting treatment.

10. Earnings Per Share

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

	Year Ended September 30,		
	2020	2019	2018
Net income	\$ 27,464	\$ 47,580	\$ 33,255
Basic weighted average common shares outstanding	35,237	34,764	24,826
Add: Incremental shares for:			
Dilutive effect of warrants	—	—	116
Dilutive effect of restricted stock	71	300	315
Diluted weighted average common shares outstanding	35,308	35,064	25,257
Net income per common share			
Basic	\$ 0.78	\$ 1.37	\$ 1.34
Diluted	\$ 0.78	\$ 1.36	\$ 1.32

Basic income per common share is computed by dividing net income attributable to Mesa Air Group by the weighted average number of common shares outstanding during the period, including warrants with the nominal conversion price.

The number of incremental shares from the assumed issuance of shares relating to restricted stock and exercise of warrants (excluding warrants with a nominal conversion price) is calculated by applying the treasury stock method. Share-based awards and warrants whose impact is considered to be anti-dilutive under the treasury stock method were 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. There were no anti-dilutive shares relating to restricted stock and exercise of warrants that were excluded from the calculation of diluted loss per share for the years ended September 30, 2020, 2019 and 2018.

11. Common Stock

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

On June 28, 2018, the Company agreed with GE Capital Aviation Services LLC ("*GE Capital*") to terminate a warrant to purchase 250,000 shares of common stock held by GE Capital.

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

On August 8, 2018, the Company filed its Second Amended and Restated Articles of Incorporation, which, among other things: (i) effected a 2.5-for-1 stock split of its common stock; and (ii) increased the authorized number of shares of its common and preferred stock to 125,000,000 and 5,000,000, respectively. All references to share and per share amounts in the Company's consolidated financial statements have been retrospectively revised to reflect the stock split and increase in authorized shares.

On August 14, 2018, the Company completed its IPO, in which it issued and sold 9,630,000 shares of common stock, no par value, at a public offering price of \$12.00 per share (the "*Firm Shares*"). Additionally, in connection with the IPO, the Company granted the underwriters an option to purchase up to an additional 1,444,500 shares of common stock at the same price. On September 11, 2018, the Company closed the sale of 1,344,500 shares ("*Option Shares*") of its common stock, in connection with the partial exercise of the overallotment option granted to the underwriters in its IPO. Of the 1,344,500 Option Shares sold, 723,985 were purchased directly from the Company and the remaining 620,515 shares were purchased directly from the selling shareholders. The Firm Shares and Option Shares were sold to the public for a price of \$12.00 per share. The aggregate gross proceeds to us from the IPO were approximately \$124.2 million. We received \$111.7 million in net proceeds after deducting \$8.7 million of underwriting discounts and commissions and \$3.6 million in offering costs.

On April 9, 2019, and pursuant to Section 4.4 of the 2018 Plan, the board of directors approved an increase in the number of shares authorized for issuance under the 2018 Plan by 1,000,000 shares of common stock resulting in a total of 3,500,000 authorized shares.

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

12. Income Taxes

The provision (benefit) for income taxes consists of the following:

	Years Ended September 30,		
	2020	2019	2018
	(in thousands)		
Current			
Federal	\$ —	\$ (138)	\$ —
State	297	341	465
	<u>\$ 297</u>	<u>\$ 203</u>	<u>\$ 465</u>
Deferred			
Federal	8,404	13,238	(17,308)
State	830	2,265	(583)
	<u>\$ 9,234</u>	<u>\$ 15,503</u>	<u>\$ (17,891)</u>
Provision (Benefit) for income taxes	<u>\$ 9,531</u>	<u>\$ 15,706</u>	<u>\$ (17,426)</u>

Reconciliation between the effective tax rate on income from continuing operations and the statutory tax rate is as follows:

	Years Ended September 30,		
	2020	2019	2018
	(in thousands)		
Income tax expense at federal statutory rate	\$ 7,769	\$ 13,290	\$ 3,878
Increase (reduction) in income taxes resulting from:			
State taxes, net of federal tax benefit	968	1,785	660
Nondeductible stock compensation expenses	524	(21)	—
Permanent items	314	261	63
Change in valuation allowances	1,173	(50)	(646)
US Tax Cuts and Jobs Act Impact	—	—	(22,015)
162(m) Limitation	14	119	—
Impact of changing rates on deferred tax assets	(2,313)	484	(773)
Expired tax attributes	633	111	1,088
Other	449	(273)	319
Income tax expense (benefit)	<u>\$ 9,531</u>	<u>\$ 15,706</u>	<u>\$ (17,426)</u>

The Company's deferred tax assets as of September 30, 2020 and 2019 are as follows:

	Years Ended September 30,	
	2020	2019
	(in thousands)	
Net operating carry forwards	\$ 113,402	\$ 106,645
Deferred credits	1,485	1,882
Other accrued expenses	2,842	2,329
Prepays and other	1,632	2,576
State alternative minimum tax	1	1
Other reserves and estimated losses	641	947
Operating lease	24,263	4,928
Subtotal	\$ 144,266	\$ 119,308
Less: valuation allowance	(3,063)	(1,890)
Total net deferred tax assets	\$ 141,203	\$ 117,418
Intangibles	(1,830)	(2,204)
ROU Lease	(19,210)	—
Property and equipment	(184,438)	(170,517)
Total deferred tax liabilities	\$ (205,478)	\$ (172,721)
Net deferred tax liability	\$ (64,275)	\$ (55,303)

The Company has federal and state income tax NOL carryforwards of \$512.4 million and \$223.9 million, which expire in fiscal years 2027-2038 and 2021-2040, respectively. Approximately, \$94.0 million of our federal NOL carryforwards are not subject to expiration. These NOL carryovers, if not utilized prior to fiscal 2022, are only available to offset 80% of taxable income in years in which they are utilized due to tax law changes as a result of the Tax Cuts and Jobs Act. As a result of the CARES Act, the Company is able to offset one hundred percent of taxable income with available net operating losses generated after fiscal 2018, but only if these net operating losses are utilized prior to fiscal 2022.

The Company believes that it is more likely than not that the benefit from certain state NOL carryforwards will not be realized. In recognition of this risk, the Company has provided a valuation allowance of \$3.1 million in fiscal year 2020 and \$1.9 million in fiscal year 2019 on the deferred tax assets related to these state NOL carryforwards. If or when recognized, the tax benefits related to any reversal of the valuation allowance on deferred tax assets will be recognized as a reduction of income tax expense.

The federal and state NOL carryforwards in the income tax returns filed included unrecognized tax benefits. The deferred tax assets recognized for those NOLs are presented net of these unrecognized tax benefits.

Because of the change of ownership provisions of the Tax Reform Act of 1986, use of a portion of our NOL and tax credit carryforwards may be limited in future periods. Further, a portion of the carryforwards may expire before being applied to reduce future income tax liabilities. The Company determined it had an ownership change in February of 2009. Based on the study conducted at that time, a portion of the federal NOLs were determined to be limited by IRC Section 382, resulting in the Company writing off a portion of its NOLs at that time. Additionally, the Company's initial public offering in August of 2018 resulted in a change in ownership under Section 382 of the Internal Revenue Code. Based on the value of the Company's stock valuation as of the initial public offering date, the Company does not believe any further limitation on the utilization of the Company's current net operating losses would be applicable as of September 30, 2020.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits:

	Years Ended September 30,		
	2020	2019	2018
	(in thousands)		
Unrecognized tax benefits — October 1	\$ 4,688	\$ 4,688	\$ 7,547
Gross decreases — tax positions in prior period	—	—	(2,859)
Gross increases — tax positions in prior period	178	—	—
Unrecognized tax benefits — September 30	\$ 4,866	\$ 4,688	\$ 4,688

The Company's unrecognized tax benefits of \$4.9 million, \$4.7 million and \$4.7 million as of September 30, 2020, 2019 and 2018, respectively, is included the net deferred tax assets. If recognized, the balance of the uncertain tax benefit would affect the effective tax rate.

We recognize interest accrued related to unrecognized tax benefits and penalties as income tax expense. We have not recorded accrued penalties or interest related to the unrecognized tax benefits noted above as the amounts would result in an adjustment to NOL carry forwards.

We are subject to taxation in the United States and various states. As of September 30, 2020, the Company is no longer subject to U.S. federal or state examinations by taxing authorities for fiscal years prior to 2000.

13. Share-Based Compensation

Restricted Stock

In July 2018, the Company's Board of Directors and Compensation Committee approved the issuance of shares of restricted common stock under its 2018 Plan immediately following the IPO to certain of its employees and directors in exchange for the cancellation of existing restricted phantom stock units, unvested restricted shares and SARs. The shares of restricted common stock issued under the 2018 Plan in exchange for the cancellation of restricted phantom stock units, unvested restricted shares and SARs are subject to vesting on the same terms set forth in the prior vesting schedules and are not subject to acceleration in connection with the 2018 Plan issuances. There were 966,022 vested SARs which were cancelled, exchanged for shares of restricted common stock and issued as restricted stock upon completion of the IPO. Immediately following the IPO, 2,249,147 shares were issued to certain of its employees and directors under the 2018 Plan in exchange for the cancellation of 491,915 unvested restricted phantom stock units, 491,198 unvested restricted shares issued under the 2011 and 2017 Plans and 1,266,034 SARs (966,022 vested and 300,012 unvested). The Company has the right to withhold shares to satisfy tax withholding obligations and the withheld shares become available for future grants. The shares are valued at grant date based upon recent share transactions. From inception of the 2011 Plan through IPO, 2,448,905 shares have been granted, 1,978,550 shares have vested and 470,355 shares have been cancelled. From inception of the 2017 Plan, 31,255 shares have been granted, 10,412 have vested and 20,843 shares have been cancelled. In April 2019, the Company's Board of Directors increased the number of authorized shares of common stock to management under the 2018 Plan from 2,500,000 to 3,500,000. From inception of the 2018 Plan, 3,481,370 shares have been awarded, 2,255,577 shares have vested and 30,245 shares have been cancelled.

The restricted stock activity for our years ended September 30, 2020, 2019 and 2018 is summarized as follows:

	Number of Shares	Weighted- Average Grant Date Fair Value
2011 and 2017 Plans		
Restricted shares unvested at September 30, 2017	775,753	\$ 5.22
Granted	—	—
Vested	(284,555)	5.26
Cancelled	(491,198)	5.20
Restricted shares unvested at September 30, 2018	—	\$ —
2018 Plan		
Restricted shares unvested at September 30, 2017	—	\$ —
Exchanged Restricted Shares	491,198	5.20
Exchanged Phantom Stock	491,915	12.00
Exchanged SARs	1,266,034	12.00
Exchanged SARs vested prior to exchange	(966,022)	12.00
Vested	(32,500)	2.00
Cancelled	—	—
Restricted shares unvested at September 30, 2018	1,250,625	\$ 9.59
Granted	321,926	8.94
Vested	(701,582)	9.25
Cancelled	(22,995)	12.00
Restricted shares unvested at September 30, 2019	847,974	\$ 9.56
Granted	910,297	3.97
Vested	(555,473)	9.21
Cancelled	(7,250)	7.89
Restricted shares unvested at September 30, 2020	1,195,548	\$ 5.47

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

Stock Appreciation Rights

In 2014, the Company implemented a share-based payment plan under which certain executives and directors are eligible to receive grants of SARs (the "SARs Plan"). The SARs provide a participant with the right to receive the aggregate appreciation in stock price over the market price of the Company's common stock at the date of grant, payable in cash. The participant may exercise his or her SARs quarterly after the grant is vested but no later than 10 years after the date of grant. The SARs awards vest ratably

over a three year period from the date of grant. The Company had authorized 5,000,000 shares under this plan and had granted 4,204,993 since inception of the plan. Since inception of the plan, 3,687,218 of SARs have vested and 2,088,333 of SARs have been exercised. In August 2018, upon IPO, 517,775 unvested SARs and 1,598,885 vested SARs were cancelled in exchange for 300,012 and 966,022 shares of restricted stock under the 2018 Plan, respectively.

The SARs activity for the years ended September 30, 2018 is summarized as follows:

	Number of Shares	Weighted- Average Fair Value
SARs unvested at September 30, 2017	1,140,013	\$ —
Granted	—	—
Vested	(622,238)	—
Cancelled	(517,775)	8.69
Forfeited	—	—
SARs unvested at September 30, 2018	<u>—</u>	<u>\$ —</u>

Phantom Stock

On October 17, 2017, the Company implemented a share-based payment plan under which employees, officers, directors and other individuals providing services to the Company are eligible to receive grants of restricted phantom stock units ("*Phantom Stock Plan*"). The restricted phantom stock units ("*restricted stock units*" or "*RSUs*") provide a participant with the right to receive a cash or stock bonus based on the fair market value of a stated number of RSUs that are vested. The shares of Common Stock that may be subject to RSUs granted under the Plan shall not exceed an aggregate of 1,250,000 shares. All of the RSUs are non-vested and forfeitable as of the grant date and vest over a three-year period. Any vested RSU will be settled by the Company upon vesting but no later than March 15 of the calendar year after the date that the RSUs become vested. The Company had authorized 1,250,000 shares under this plan and had granted 536,538 since inception of the plan. Since inception of the plan, 44,623 RSUs have vested or settled. In August 2018, upon completion of our IPO, 491,915 unvested RSUs were cancelled in exchange for shares of restricted stock under the 2018 Plan.

The phantom stock activity for the year ended September 30, 2018 is summarized as follows:

	Number of Shares	Weighted- Average Fair Value
Phantom stock unvested at September 30, 2017	—	\$ —
Granted	536,538	6.14
Vested	(44,623)	7.30
Cancelled	(491,915)	12.00
Phantom stock unvested at September 30, 2018	<u>—</u>	<u>\$ —</u>

Following the IPO there will be no further grants under the Stock Appreciation Rights and Phantom Stock plans. Immediately following the IPO, shares of restricted common stock were issued to certain of its employees and directors under its 2018 Plan in exchange for the cancellation of existing restricted phantom stock units, unvested restricted shares and SARs. The shares of restricted common stock issued under the 2018 Plan in exchange for the cancellation of restricted phantom stock units, unvested restricted shares and SARs are subject to vesting on the same terms set forth in the prior vesting schedules and are not subject to acceleration in connection with the 2018 Plan issuances.

As of September 30, 2020, there was \$5.1 million, of total unrecognized compensation cost related to unvested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 1.8 years.

Compensation cost for share-based awards are recognized on a straight-line basis over the vesting period. Share-based compensation expense for the years ended September 30, 2020, 2019 and 2018 was \$4.4 million, \$5.5 million and \$12.9 million, respectively. Share-based compensation expenses are recorded in general and administrative expenses in the consolidated statements of operations.

The Company repurchased 142,439 shares of its common stock for \$0.6 million to cover the income tax obligation on vested employee equity awards and warrant conversions during the fiscal year ended September 30, 2020. During the fiscal year ended September 30, 2019, the Company repurchased 205,235 shares of its common stock for \$1.9 million to cover the income tax obligation on vested employee equity awards.

14. Employee Stock Purchase Plan

2019 ESPP

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

A maximum of 500,000 Mesa Air Group, Inc. ordinary shares may be issued under the 2019 ESPP. As of September 30, 2020, eligible employees purchased and the Company issued 99,644 Mesa Air Group, Inc. ordinary shares under the 2019 ESPP.

15. Leases and Commitments

Effective October 1, 2019, the Company adopted Topic 842 and recorded ROU assets and lease liabilities of \$154.6 million and \$141.9 million, respectively. As part of the adoption, prepaid aircraft rent, deferred rent credits and accrued aircraft rents of \$35.8 million, \$21.3 million and \$1.8 million, respectively, were classified as a component of the Company's ROU assets.

At September 30, 2020, the Company leased 18 aircraft, airport facilities, office space, and other property and equipment under non-cancelable operating leases. The leases require the Company to pay all taxes, maintenance, insurance, and other operating expenses. Rental expense is recognized on a straight-line basis over the lease term, net of lessor rebates and other incentives. The Company expects that, in the normal course of business, such operating leases that expire will be renewed or replaced by other leases, or the property may be purchased rather than leased. Aggregate rental expense under all operating aircraft, equipment and facility leases totaled approximately \$64.7 million and \$72.8 million for the year ended September 30, 2020 and 2019, respectively.

As of September 30, 2020, the Company's operating lease right-of-use assets were \$123.3 million, the Company's current maturities of operating lease liabilities were \$43.9 million, and the Company's noncurrent lease liabilities were \$62.5 million.

As of September 30, 2020, the Company's operating lease payments in operating cash flows for the year ended September 30, 2020 is \$44.2 million. The disclosure is not applicable for the year ended September 30, 2019 due to the method of adoption of the new leasing Standard ASC-842.

The Table below presents lease related terms and discount rates as of September 30, 2020:

As of September 30, 2020

Weighted average remaining lease term Operating leases	3.6 years
Weighted average discount rate Operating leases	4.2%

The following table summarizes future minimum rental payments primarily related to leased aircraft required under operating leases that had initial or remaining non-cancelable lease terms as of September 30, 2020 (in thousands):

	Periods Ending September 30,	Total Maturities
2021		\$ 47,377
2022		33,216
2023		15,947
2024		14,682
2025		1,654
Less: Interest		\$ (6,413)
Amounts recorded in the Consolidated Balance Sheet		<u>\$ 106,463</u>

The following represents future minimum lease obligations under non-cancelable operating leases as of September 30, 2019 (in thousands):

	Periods Ending September 30,	Total Payments
2020		\$ 47,814
2021		46,007
2022		31,090
2023		13,726
2024		13,185
2025		1,368
Total		<u>\$ 153,190</u>

16. Contingencies

The Company is involved in various legal proceedings (including, but not limited to, insured claims) and FAA civil action proceedings that the Company does not believe will have a material adverse effect upon its business, financial condition, or results of operations, although no assurance can be given to the ultimate outcome of any such proceedings. See item 3 "Legal Proceedings".

17. Selected Consolidated Quarterly Financial Data (unaudited)

The following table sets forth certain unaudited selected consolidated financial information for each of the four quarters in the years ended September 30, 2020, 2019 and 2018. In management's opinion, this unaudited consolidated quarterly selected information has been prepared on the same basis as the audited consolidated financial statements and includes all necessary adjustments, consisting only of normal recurring adjustments, which management considers necessary for a fair presentation when read in conjunction with the Consolidated Financial Statements and notes. We believe these comparisons of consolidated quarterly selected financial data are not necessarily indicative of future performance.

Quarterly EPS may not total to the fiscal year EPS due to the weighted average number of shares outstanding at the end of each period reported and rounding.

	12/31/2019 First Quarter	3/31/2020 Second Quarter	6/30/2020 Third Quarter	9/30/2020 Fourth Quarter
(in thousands, except per share data)				
2020				
Contract revenue	\$ 171,800	\$ 165,781	\$ 71,648	\$ 97,361
Total operating revenues	184,036	179,896	73,099	108,039
Operating income	27,187	13,892	15,224	23,864
Net income	10,785	1,885	3,419	11,375
Net income per share attributable to common shareholders				
Basic	0.31	0.05	0.10	0.32
Diluted	0.31	0.05	0.10	0.32
	12/31/2018 First Quarter	3/31/2019 Second Quarter	6/30/2019 Third Quarter	9/30/2019 Fourth Quarter
(in thousands, except per share data)				
2019				
Contract revenue	\$ 170,449	\$ 169,771	\$ 170,366	\$ 172,248
Total operating revenues	178,156	177,147	180,224	187,830
Operating income	39,230	34,377	17,077	30,453
Net income	19,081	13,249	3,007	12,243
Net income per share attributable to common shareholders				
Basic	0.55	0.38	0.09	0.35
Diluted	0.54	0.38	0.09	0.35
	12/31/2017 First Quarter	3/31/2018 Second Quarter	6/30/2018 Third Quarter	9/30/2018 Fourth Quarter
(in thousands, except per share data)				
2018				
Contract revenue	\$ 154,389	\$ 156,515	\$ 159,916	\$ 168,444
Total operating revenues	164,684	167,640	171,739	177,532
Operating income	15,023	16,349	(508)	41,784
Net income	22,624	2,372	(11,135)	19,394
Net income per share attributable to common shareholders				
Basic	0.97	0.10	(0.48)	0.66
Diluted	0.96	0.10	(0.48)	0.65

18. Subsequent Events

On October 8, 2020, Mesa Air Group, Inc. and General Electric Company, acting through its GE-Aviation business unit, entered into Amended and Restated Letter Agreement No. 13, which deferred the initial delivery and initial payment dates. Under the terms of this amendment, the Company agreed to purchase and take delivery of 20 new spare CF34-8C5 engines commencing in May 2021, with the final spare engine being delivered in December 2021. Payments are now due in five (5) separate tranches commencing in December 2020, and in February, April, May, and June 2021.

On October 30, 2020 (the “Closing Date”), the Company entered into a Loan and Guarantee Agreement, dated as of the Closing Date (the “Loan Agreement”), by and among the Company, as a guarantor, its subsidiaries Mesa Airlines, Inc., as borrower (“Mesa Airlines”), and Mesa Air Group Inventory Management, L.L.C., as a guarantor (“Mesa Air Group Inventory Management”), the other guarantors party thereto from time to time, the United States Department of the Treasury (“Treasury”), and the Bank of New York Mellon as Administrative and Collateral Agent under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”).

The Loan Agreement provides for a secured term loan facility of up to \$200.0 million that matures on October 30, 2025. On the Closing Date, the Company borrowed \$43.0 million of this commitment and on November 13, 2020, the Company borrowed an additional \$152.0 million. No further borrowings are available under the Loan Agreement. The obligations of under the Loan Agreement are secured by certain aircraft, aircraft engines, accounts receivable, ground service equipment and tooling (collectively, the “Collateral”). All borrowings under the Loan Agreement will bear interest at an annual rate based on Adjusted LIBO (as defined in the Loan Agreement) plus 3.5%. The obligations are guaranteed by the Company and Mesa Air Group Inventory Management. The proceeds may be used for general corporate purposes and operating expenses, to the extent permitted by the CARES Act.

The Loan Agreement requires the Company, under certain circumstances, including within ten (10) business days prior to the last business day of March and September of each year, beginning March 2021, to appraise the value of the Collateral and recalculate the collateral coverage ratio. If the calculated collateral coverage ratio is less than 1.6 to 1.0, Mesa Airlines will be required either to provide additional Collateral (which may include cash collateral) to secure its obligations under the Loan Agreement or repay the term loans under the Loan Agreement, 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 Loan Agreement contains two financial covenants, a minimum collateral coverage ratio and a minimum liquidity level. The Loan Agreement also contains customary negative and affirmative covenants for credit facilities of this type, including, among others: (a) limitations on dividends and distributions; (b) limitations on the creation of certain liens; (c) restrictions on certain dispositions, investments and acquisitions; (d) limitations on transactions with affiliates; (e) restrictions on fundamental changes to the business, and (f) restrictions on lobbying activities. Additionally, the Company is required to comply with the relevant provisions of the CARES Act, including limits on employment level reductions after September 30, 2020, restrictions on dividends and stock buybacks, limitations on executive compensation, and requirements to maintain certain levels of scheduled service.

In connection with the Loan Agreement and as partial compensation to Treasury for the provision of financial assistance under the Loan Agreement, the Company issued to Treasury warrants to purchase an aggregate of 4,899,497 shares of the Company’s common stock at an exercise price of \$3.98 per share, which was the closing price of the Common Stock on The Nasdaq Stock Market on April 9, 2020. The exercise price and number of shares of common stock issuable under the Warrants are subject to adjustment as a result of anti-dilution provisions contained in the Warrants for certain stock issuances, dividends, and other corporate actions. The warrants expire on the fifth anniversary of the date of issuance and are exercisable either through net share settlement or net cash settlement, at the Company’s option. The warrants will be accounted for within equity at a grant date fair value determined under the Black Scholes Option Pricing Model.

On November 4, 2020, Mesa Airlines entered into the Second Amended and Restated Capacity Purchase Agreement with United Airlines, Inc., which amended and restated the prior agreement between the parties dated November 26, 2019. The amendments included the following: (a) United’s ownership, in lieu of Mesa Airlines, of 20 E75LL aircraft, which will be leased to Mesa Airlines; (b) adjusted rates to account for the ownership of such aircraft by United; (c) relief from certain provisions related to minimum utilization until December 31, 2020; (d) United’s right to remove one or more E175LL aircraft if Mesa Airlines fails to meet certain financial covenants; and (e) a one-time provision for United to prepay \$85.0 million under the future performance by Mesa Airlines and the application of certain discounts to certain payment

obligations of United under the United CPA. Weekly amounts due from United under the United CPA will be applied toward the balance of the \$85.0 million prepayment until such prepayment is fully expended.

Prior to November 13, 2020 funding under the Loan Agreement, the Company repaid approximately \$164.1 million in existing aircraft debt covering 44 aircraft, including indebtedness under its (a) Senior Loan Agreements, dated June 27, 2018, (b) Junior Loan Agreements, also dated June 27, 2018, (c) Credit Agreements, dated January 31, 2007, April 16, 2014, and May 23, 2014, (d) Senior Loan Agreements, dated December 27, 2017, and (e) Junior Loan Agreements, also dated December 27, 2017, as further defined in Note 9, notations (1),(3),(7) and (8). The Company used approximately \$82.8 million of existing cash and \$81.3 million of cash proceeds received from the United prepayment described above to fund this debt pay down. The company will treat this transaction as early extinguishment of debt. The company will treat this transaction as early extinguishment of debt and expects to recognize an immaterial gain from the extinguishment.

On November 19, 2020, Mesa Airlines entered into the Amended and Restated Capacity Purchase Agreement with American Airlines, Inc., which is effective as of January 1, 2021 and amends and restates the existing Code Share and Revenue Sharing Agreement, dated as of March 20, 2001 (as theretofore amended), between Mesa and American. The amendments include the following: (a) a five-year term, commencing January 1, 2021 – December 31, 2025, covering 40 aircraft; (b) new compensation payable to Mesa Airlines during the term; (c) American's right to withdraw aircraft under certain circumstances during the new five-year term; and (d) additional termination rights granted to American, subject to specified cure periods.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The term “disclosure controls and procedures” is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Under the supervision and with the participation of our management, including our Chief Executive Officer “CEO” and Chief Financial Officer “CFO”, performed an evaluation of our disclosure controls and procedures, which have been designed to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported accurately and within the time periods specified in the SEC rules and forms. Our management, including CEO and CFO, concluded that, as of September 30, 2020, those controls and procedures were, in design and operations, effective at the reasonable assurance level to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during our most recently completed fiscal quarter. Based on that evaluation, our CEO and CFO concluded that there has not been any change in our internal control over financial reporting during that quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable 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 management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs

Management's Annual Report on Internal Control Over Financial Reporting

As required by SEC rules and regulations implementing Section 404 of the Sarbanes-Oxley Act, our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with GAAP. Our internal control over financial reporting includes those policies and procedures that:

- (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of our company,
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and
- (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect errors or misstatements in our financial statements. Also, 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 or compliance with the policies or procedures may deteriorate. Management assessed the effectiveness of our internal control over financial reporting at September 30, 2020. In making these assessments, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework (2013). Based on our assessments and those criteria, management determined that we maintained effective internal control over financial reporting as of September 30, 2020.

Attestation Report of the Registered Public Accounting Firm

This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm on our internal control over financial reporting due to an exemption established by the JOBS Act for "emerging growth companies. "

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required to be disclosed by this item is incorporated herein by reference to our 2021 Proxy Statement, which we expect to file with the SEC within 120 days after the end of our fiscal year ended September 30, 2020.

We have a code of conduct and ethics that applies to all employees, including our principal executive officer and principal financial officer, as well as to the members of our Board of Directors. The code is available at investor.mesa-air.com/corporate-governance/governance-overview. We intend to disclose any changes in, or waivers from, this code by posting such information on the same website or by filing a Current Report on Form 8-K, in each case to the extent such disclosure is required by rules of the SEC or The Nasdaq Global Select Market.

ITEM 11. EXECUTIVE COMPENSATION

The information required to be disclosed by this item is incorporated herein by reference to our 2021 Proxy Statement which we expect to file with the SEC within 120 days after the end of our fiscal year ended September 30, 2020.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required to be disclosed by this item is incorporated herein by reference to our 2021 Proxy Statement which we expect to file with the SEC within 120 days after the end of our fiscal year ended September 30, 2020.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required to be disclosed by this item is incorporated herein by reference to our 2021 Proxy Statement which we expect to file with the SEC within 120 days after the end of our fiscal year ended September 30, 2020.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required to be disclosed by this item is incorporated herein by reference to our 2021 Proxy Statement which we expect to file with the SEC within 120 days after the end of our fiscal year ended September 30, 2020.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. Consolidated Financial Statements

The financial statements filed as part of this Annual Report on Form 10-K are listed in the "*Index to Consolidated Financial Statements*" under Part II, Item 8 of this Annual Report on Form 10-K.

2. Financial Statement Schedules

All schedules are omitted as the required information is inapplicable or the information is presented in the consolidated financial statements or notes to the consolidated financial statements under Part II, Item 8 of this Annual Report on Form 10-K.

3. Exhibits

The exhibits listed below are filed as part of this Annual Report. References under the caption "*Incorporated by Reference*" to exhibits or other filings indicate that the exhibit or other filing has been filed, that the indexed exhibit and the exhibit referred to are the same and that the exhibit referred to is incorporated by reference. 92.5

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
3.1	Second Amended and Restated Articles of Incorporation of the Registrant	8-K	August 14, 2018	3.1	
3.2	Amended and Restated Bylaws of the Registrant	8-K	August 14, 2018	3.2	
3.3	Second Amended and Restated Bylaws of the Registrant	8-K	December 10, 2020	3.1	
4.1	Form of Common Stock Certificate	S-1/A	August 6, 2018	4.1	
4.2	Description of Capital Stock				X
4.3	Warrant Agreement, date October 30, 2020, between Mesa Air Group, Inc. and the United States Department of the Treasury				X
4.4	Form of Warrant (incorporated by reference to Annex B to Exhibit 4.3)				X
10.5#	Mesa Air Group, Inc. 2018 Equity Incentive Plan and related forms of agreement	S-8	August 16, 2019	99.1	
10.6	Form of Indemnification Agreement between the Registrant and each of its directors and executive officers	S-1	July 13, 2018	10.5	
10.7	Amended and Restated Employment Agreement between the Registrant and Jonathan G. Ornstein, dated July 26, 2018	S-1/A	July 30, 2018	10.7	
10.8	Amended and Restated Employment Agreement between the Registrant and Michael J. Lotz, dated July 26, 2018	S-1/A	July 30, 2018	10.8	
10.9	Amended and Restated Employment Agreement between the Registrant and Brian S. Gillman, dated July 26, 2018	S-1/A	July 30, 2018	10.9	
10.10.1†	Capacity Purchase Agreement among the Registrant, Mesa Airlines, Inc. and United Airlines, Inc., dated August 29, 2013	S-1/A	July 30, 2018	10.10.1	
10.10.2†	First Amendment to the Capacity Purchase Agreement among the Registrant, Mesa Airlines, Inc. and United Airlines, Inc., dated August 29, 2013, effective as of September 12, 2014	S-1/A	July 30, 2018	10.10.2	
10.10.3†	Second Amendment to the Capacity Purchase Agreement among the Registrant, Mesa Airlines, Inc. and United Airlines, Inc., dated August 29, 2013, effective as of October 2, 2015	S-1/A	July 30, 2018	10.10.3	

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
10.10.4	Third Amendment to the Capacity Purchase Agreement among the Registrant, Mesa Airlines, Inc. and United Airlines, Inc., dated January 1, 2015	S-1	July 13, 2018	10.9.4	
10.10.5†	Fourth Amendment to the Capacity Purchase Agreement among the Registrant, Mesa Airlines, Inc. and United Airlines, Inc., dated August 29, 2013, effective as of November 13, 2015	S-1/A	July 30, 2018	10.10.5	
10.10.6†	Fifth Amendment to the Capacity Purchase Agreement among the Registrant, Mesa Airlines, Inc. and United Airlines, Inc., dated August 29, 2013, effective as of December 14, 2015	S-1/A	July 30, 2018	10.10.6	
10.10.7†	Sixth Amendment to the Capacity Purchase Agreement among the Registrant, Mesa Airlines, Inc. and United Airlines, Inc., dated August 29, 2013, effective as of December 1, 2015	S-1/A	July 30, 2018	10.10.7	
10.10.8	Seventh Amendment to the Capacity Purchase Agreement among the Registrant, Mesa Airlines, Inc. and United Airlines, Inc., dated August 29, 2013, effective as of August 1, 2016	S-1	July 13, 2018	10.9.8	
10.10.9†	Eighth Amendment to the Capacity Purchase Agreement among the Registrant, Mesa Airlines, Inc. and United Airlines, Inc., dated August 29, 2013, effective as of June 6, 2016	S-1/A	July 30, 2018	10.10.9	
10.10.10†	Ninth Amendment to the Capacity Purchase Agreement among the Registrant, Mesa Airlines, Inc. and United Airlines, Inc., dated January 2017, effective as of 2017	S-1/A	July 30, 2018	10.10.10	
10.10.11†	Tenth Amendment to the Capacity Purchase Agreement among the Registrant, Mesa Airlines, Inc. and United Airlines, Inc., dated May 3, 2017, effective as of January 1, 2017	S-1/A	July 30, 2018	10.10.11	
10.10.12†	Eleventh Amendment to the Capacity Purchase Agreement among the Registrant, Mesa Airlines, Inc. and United Airlines, Inc., dated 2018, effective as of 2018	S-1/A	July 30, 2018	10.10.12	
10.10.13††	Amended and Restated United Capacity Purchase Agreement between United Airlines, Inc. and Mesa Airlines, Inc., dated as of November 25, 2019	10-Q	February 10, 2020	10.1	
10.10.14††	First Amendment to the Amended and Restated United Capacity Purchase Agreement between United Airlines, Inc., and Mesa				X

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
	Airlines, Inc. dated September 10, 2020, effective as of April 1, 2020				
10.10.15††	Second Amended and Restated United Capacity Purchase Agreement between United Airlines, Inc. and Mesa Airlines, Inc. dates as of November 4, 2020				X
10.11.1†	Code Share and Revenue Sharing Agreement between America West Airlines, Inc. and Mesa Airlines, Inc., dated March 20, 2001, effective as of February 1, 2001	S-1/A	August 6, 2018	10.11.1	
10.11.2	First Amendment to Code Share and Revenue Sharing Agreement between America West Airlines, Inc. and Mesa Airlines, Inc., dated April 27, 2001	S-1	July 13, 2018	10.10.2	
10.11.3	Second Amendment to Code Share and Revenue Sharing Agreement among America West Airlines, Inc., Mesa Airlines, Inc., Freedom Airlines, Inc. and Air Midwest, Inc., dated October 24, 2002	S-1	July 13, 2018	10.10.3	
10.11.4	Third Amendment to Code Share and Revenue Sharing Agreement among America West Airlines, Inc., Mesa Airlines, Inc. and Freedom Airlines, Inc., dated January 29, 2003	S-1	July 13, 2018	10.10.4	
10.11.5†	Fourth Amendment to Code Share and Revenue Sharing Agreement and Release among America West Airlines, Inc., Mesa Airlines, Inc., Air Midwest, Inc. and Freedom Airlines, Inc., dated September 5, 2003	S-1/A	July 30, 2018	10.11.5	
10.11.6	Fifth Amendment to Code Share and Revenue Sharing Agreement among America West Airlines, Inc., Mesa Airlines, Inc., Air Midwest, Inc. and Freedom Airlines, Inc., dated January 28, 2005	S-1	July 13, 2018	10.10.6	
10.11.7†	Sixth Amendment to Code Share and Revenue Sharing Agreement and Settlement Agreement among America West Airlines, Inc., Mesa Airlines, Inc., Air Midwest, Inc. and Freedom Airlines, Inc., dated July 27, 2005	S-1/A	July 30, 2018	10.11.7	
10.11.8†	Seventh Amendment to Code Share and Revenue Sharing Agreement and Settlement, Assignment and Assumption Agreement among America West Airlines, Inc., US Airways, Inc., Mesa Airlines, Inc., Air Midwest, Inc. and Freedom Airlines, Inc., dated September 10, 2007	S-1/A	July 30, 2018	10.11.8	

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
10.11.9†	Eighth Amendment to Code Share and Revenue Sharing Agreement and Settlement Agreement among US Airways, Inc., Mesa Airlines, Inc., Air Midwest, Inc. and Freedom Airlines, Inc., dated May 12, 2008	S-1/A	July 30, 2018	10.11.9	
10.11.10†	Ninth Amendment to Code Share and Revenue Sharing Agreement among US Airways, Inc., Mesa Airlines, Inc., Air Midwest, Inc. and Freedom Airlines, Inc., dated March 30, 2009	S-1/A	July 30, 2018	10.11.10	
10.11.11†	Tenth Amendment to Code Share and Revenue Sharing Agreement between US Airways, Inc. and Mesa Airlines, Inc., dated November 18, 2010	S-1/A	July 30, 2018	10.11.11	
10.11.12†	Eleventh Amendment to Code Share and Revenue Sharing Agreement between US Airways, Inc. and Mesa Airlines, Inc., dated July 1, 2012	S-1/A	July 30, 2018	10.11.12	
10.11.13†	Twelfth Amendment to Code Share and Revenue Sharing Agreement between US Airways, Inc. and Mesa Airlines, Inc., dated February 14, 2013	S-1/A	July 30, 2018	10.11.13	
10.11.14†	Thirteenth Amendment to Code Share and Revenue Sharing Agreement between US Airways, Inc. and Mesa Airlines, Inc., dated December 24, 2013	S-1/A	July 30, 2018	10.11.14	
10.11.15†	Fourteenth Amendment to Code Share and Revenue Sharing Agreement between US Airways, Inc. and Mesa Airlines, Inc., dated April 10, 2014	S-1/A	July 30, 2018	10.11.15	
10.11.16†	Fifteenth Amendment to Code Share and Revenue Sharing Agreement between US Airways, Inc. and Mesa Airlines, Inc., dated November 26, 2014	S-1/A	July 30, 2018	10.11.16	
10.11.17†	Sixteenth Amendment to Code Share and Revenue Sharing Agreement between US Airways, Inc. and Mesa Airlines, Inc., dated January 26, 2015	S-1/A	July 30, 2018	10.11.17	
10.11.18†	Seventeenth Amendment to Code Share and Revenue Sharing Agreement between US Airways, Inc. and Mesa Airlines, Inc., dated December 28, 2015	S-1/A	July 30, 2018	10.11.18	
10.11.19†	Eighteenth Amendment to Code Share and Revenue Sharing Agreement between American Airlines, Inc. and Mesa Airlines, Inc., dated March 1, 2017	S-1/A	July 30, 2018	10.11.19	

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
10.11.20†	Nineteenth Amendment to Code Share and Revenue Sharing Agreement between American Airlines, Inc. and Mesa Airlines, Inc., effective as of January 22, 2019	10-K	December 17, 2019	10.11.20	
10.11.21††	Twenty-First Amendment to Code Share and Revenue Sharing Agreement between American Airlines, Inc. and Mesa Airlines, Inc. dated June 10, 2020 and effective April 1, 2020	10-Q	August 10, 2020	10.1	
10.12.1	Credit and Guaranty Agreement among the Registrant, Mesa Airlines, Inc., Mesa Air Group Airline Inventory Management, L.L.C., the other guarantors party thereto from time to time, CIT Bank, N.A. and the other lenders party thereto, dated August 12, 2016	S-1/A	July 30, 2018	10.12.1	
10.12.2	Amendment No. 1 to Credit Agreement among the Registrant, Mesa Airlines, Inc., Mesa Air Group Airline Inventory Management, L.L.C. and CIT Bank, N.A., dated June 5, 2017	S-1/A	July 30, 2018	10.12.2	
10.12.3	Amendment No. 2 to Credit Agreement among the Registrant, Mesa Airlines, Inc., Mesa Air Group Airline Inventory Management, L.L.C. and CIT Bank, N.A., dated June 27, 2017	S-1/A	July 30, 2018	10.12.3	
10.12.4	Amendment No. 3 to Credit Agreement among the Registrant, Mesa Airlines, Inc., Mesa Air Group Airline Inventory Management, L.L.C. and CIT Bank, N.A., dated September 19, 2017	S-1/A	July 30, 2018	10.12.4	
10.12.5	Amendment No. 4 to Credit Agreement among the Registrant, Mesa Airlines, Inc., Mesa Air Group Airline Inventory Management, L.L.C. and CIT Bank, N.A., dated April 27, 2018.	S-1/A	July 30, 2018	10.12.5	
10.13.1	Mortgage and Security Agreement among Mesa Airlines, Inc., Mesa Air Group Airline Inventory Management, L.L.C., the other grantors referred to therein and CIT Bank, N.A., dated August 12, 2016	S-1/A	July 30, 2018	10.13.1	
10.13.2	Mortgage and Security Agreement Supplement No. 1 between Mesa Airlines, Inc. and CIT Bank, N.A., dated August 12, 2016	S-1/A	July 30, 2018	10.13.2	
10.13.3	Mortgage and Security Agreement Supplement No. 2 between Mesa Air Group Airline Inventory Management, L.L.C. and CIT Bank, N.A., dated August 12, 2016	S-1/A	July 30, 2018	10.13.3	
10.13.4	Mortgage and Security Agreement Supplement No. 3 between Mesa Airlines, Inc. and CIT Bank, N.A., dated November 23, 2016	S-1/A	July 30, 2018	10.13.4	

Exhibit Number	Exhibit Description	Incorporated by Reference		
		Form	Date	Filed Herewith
10.14.1	Credit Agreement among Mesa Airlines, Inc., the lenders named therein, Obsidian Agency Services, Inc. and Cortland Capital Markets Services LLC, dated December 14, 2016	DRS	May 7, 2018	10.14.1
10.14.2	Amendment No. 1 to Credit Agreement among Mesa Airlines, Inc., the lenders named therein, Obsidian Agency Services, Inc. and Cortland Capital Markets Services LLC, dated February 26, 2018	DRS	May 7, 2018	10.14.2
10.15.1	Mortgage and Security Agreement between Mesa Airlines, Inc. and Obsidian Agency Services, Inc., dated December 14, 2016	DRS	May 7, 2018	10.15.1
10.15.2	Mortgage Supplement No. 1 between Mesa Airlines, Inc. and Obsidian Agency Services, Inc., dated December 14, 2016	DRS	May 7, 2018	10.15.2
10.15.3	Mortgage Supplement No. 2 between Mesa Airlines, Inc. and Obsidian Agency Services, Inc., dated February 2, 2017	DRS	May 7, 2018	10.15.3
10.15.4	Mortgage Supplement No. 3 between Mesa Airlines, Inc. and Obsidian Agency Services, Inc., dated July 5, 2017	DRS	May 7, 2018	10.15.4
10.15.5	Mortgage Supplement No. 4 between Mesa Airlines, Inc. and Obsidian Agency Services, Inc., dated September 29, 2017	DRS	May 7, 2018	10.15.5
10.15.6	Mortgage Supplement No. 5 between Mesa Airlines, Inc. and Obsidian Agency Services, Inc., dated March 1, 2018	DRS	May 7, 2018	10.15.6
10.16	Credit Agreement between Mesa Airlines, Inc. and Export Development Canada, dated August 12, 2015	S-1/A	July 30, 2018	10.16
10.17.1	Credit Agreement between Mesa Airlines, Inc. and Export Development Canada, dated January 18, 2016	S-1/A	July 30, 2018	10.17.1
10.17.2	Amendment No. 1 to Credit Agreement between Mesa Airlines, Inc. and Export Development Canada, dated March 30, 2017	S-1/A	July 30, 2018	10.17.2
10.17.3	Omnibus Amendment Agreement among the Registrant, Mesa Airlines, Inc. and Export Development Canada, dated April 30, 2018	S-1/A	July 30, 2018	10.17.3
10.18	Credit Agreement between Mesa Airlines, Inc. and Export Development Canada, dated June 27, 2016	S-1/A	July 30, 2018	10.18
10.19.1	Office Lease Agreement between the Registrant and DMB Property Ventures Limited Partnership, dated October 16, 1998	DRS	May 7, 2018	10.20.1

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
10.19.2	First Amendment to Lease between the Registrant and DMB Property Ventures Limited Partnership, dated March 9, 1999	DRS	May 7, 2018	10.20.2	
10.19.3	Second Amendment to Lease between the Registrant and DMB Property Ventures Limited Partnership, dated November 8, 1999	DRS	May 7, 2018	10.20.3	
10.19.4	Lease Amendment Three between the Registrant and CMD Realty Investment Fund IV, L.P., dated November 7, 2000	DRS	May 7, 2018	10.20.4	
10.19.5	Lease Amendment Four between the Registrant and CMD Realty Investment Fund IV, L.P., dated May 15, 2001	DRS	May 7, 2018	10.20.5	
10.19.6	Lease Amendment Five between the Registrant and CMD Realty Investment Fund IV, L.P., dated October 11, 2002	DRS	May 7, 2018	10.20.6	
10.19.7	Lease Amendment Six between the Registrant and CMD Realty Investment Fund IV, L.P., dated April 1, 2003	DRS	May 7, 2018	10.20.7	
10.19.8	Amended and Restated Lease Amendment Seven between the Registrant and CMD Realty Investment Fund IV, L.P., dated April 15, 2005	DRS	May 7, 2018	10.20.8	
10.19.9	Lease Amendment Eight between the Registrant and CMD Realty Investment Fund IV, L.P., dated October 12, 2005	DRS	May 7, 2018	10.20.9	
10.19.10	Lease Amendment Nine between the Registrant and Transwestern Phoenix Gateway, L.L.C., dated November 4, 2010	DRS	May 7, 2018	10.20.10	
10.19.11	Lease Amendment Eleven between the Registrant and Phoenix Office Grand Avenue Partners, LLC, dated July 31, 2014	DRS	May 7, 2018	10.20.11	
10.19.12	Lease Amendment Twelve between the Registrant and Phoenix Office Grand Avenue Partners, LLC, dated November 20, 2014	DRS	May 7, 2018	10.20.12	
10.20.1††	Letter Agreement No. 12 between the Registrant and General Electric Company, acting through its GE-Aviation business unit, dated October 22, 2019, and effective as of October 9, 2019				X
10.20.2††	Letter Agreement No. 13 between the Registrant and General Electric Company, acting through its GE-Aviation business unit, dated December 11, 2019, and effective as of December 13, 2019				X

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
10.20.3††	Letter Agreement No. 13-1 between the Registrant and General Electric Company, acting through its GE-Aviation business unit, dated March 26, 2020	8-K	March 31, 2020	10.1	
10.20.4††	Letter Agreement No. 12-1 between the Registrant and General Electric Company, acting through its GE-Aviation business unit, dated March 26, 2020	8-K	March 31, 2020	10.2	
10.20.5††	Amended and Restated Letter Agreement No. 13-2 between the Registrant and General Electric Company, acting through its GE-Aviation business unit, dated October 8, 2020				X
10.21.1	Payroll Support Program Agreement between The Department of the Treasury and Mesa Airlines, Inc., dated as of April 16, 2020	10-Q	May 11, 2020	10.1	
10.22.1	Loan and Guarantee Agreement, dated as of October 30, 2020, among Mesa Airlines, Inc., as Borrower, the Guarantors party hereto from time to time, the United States Department of the Treasury, and The Bank of New York Mellon, as Administrative Agent and Collateral Agent.				X
21.1	List of subsidiaries of the Registrant				X
23.1	Consent of Ernst and Young LLP				X
23.2	Consent of Deloitte LLP.				X
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				X
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				X
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				X
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				X

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
101.INS	Inline XBRL Instance Document				X
101.SCH	Inline XBRL Taxonomy Extension Schema Document				X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				X
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)				

* This certification will not be deemed "**filed**" for purposes of Section 18 of 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 or the Exchange Act, except to the extent specifically incorporated by reference into such filing.

** The exhibits and schedules to this Exhibit have been omitted in accordance with Regulation S-K Item 601(b)(2). The Registrant agrees to furnish supplementally a copy of any omitted exhibit or schedule to the SEC upon its request.

Management contract or compensatory plan.

† Confidential treatment has been granted with respect to certain portions of this agreement.

†† 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: December 14, 2020

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on December 14, 2020 by the following persons on behalf of the registrant and in the capacities indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/Jonathan G. Ornstein</u> Jonathan G. Ornstein	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	December 14, 2020
<u>/s/Michael J. Lotz</u> Michael J. Lotz	President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	December 14, 2020
<u>/s/Ellen N. Artist</u> Ellen N. Artist	Director	December 14, 2020
<u>/s/Mitchell Gordon</u> Mitchell Gordon	Director	December 14, 2020
<u>/s/Dana J. Lockhart</u> Dana J. Lockhart	Director	December 14, 2020
<u>/s/Daniel McHugh</u> Daniel McHugh	Director	December 14, 2020
<u>/s/Harvey W. Schiller</u> Harvey W. Schiller	Director	December 14, 2020
<u>/s/Spyridon Skiados</u> Spyridon Skiados	Director	December 14, 2020



Andy Hughes 1960 - 2020

37 years of service at Mesa
CRJ Captain, ALPA MEC Chairman

In memory and dedication to Captain Andy Hughes, a loving father, tireless leader, dedicated aviator, and a true friend. A life well lived!



410 N 44th St Suite 700 Phoenix, AZ 85008

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