MESA AIR GROUP INC
Form 10-Q
August 13, 2004

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**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**Form 10-Q**

[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period-ended June 30, 2004**

**or**

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

**Commission File Number 0-15495**

**Mesa Air Group, Inc.**

*(Exact name of registrant as specified in its charter)*

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

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

Indicate by checkmark 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 last 90 days. Yes [X] No [ ]

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [X] No [ ]

On August 4, 2004 the registrant had outstanding 31,577,955 shares of Common Stock.

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

MESA AIR GROUP, INC

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)
(in thousands, except per share amounts)

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | June 30, 2004 | June 30, 2003 | June 30, 2004 | June 30, 2003 |
| | | (As Restated, See note 19) | | (As Restated, See note 19) |
| Operating revenues: | | | | |
| Passenger | $232,519 | $148,869 | $616,391 | $408,200 |
| Freight and other | 7,067 | 5,206 | 20,412 | 16,281 |
| Total operating revenues | 239,586 | 154,075 | 636,803 | 424,481 |
| Operating expenses: | | | | |
| Flight operations | 77,440 | 56,906 | 216,118 | 152,957 |
| Fuel | 53,119 | 27,993 | 131,819 | 80,045 |
| Maintenance | 43,462 | 27,754 | 117,347 | 84,423 |
| Aircraft and traffic servicing | 17,898 | 11,209 | 47,751 | 37,981 |
| Promotion and sales | 1,454 | 2,105 | 4,545 | 6,154 |
| General and administrative | 15,031 | 10,153 | 47,047 | 28,355 |
| Depreciation and amortization | 7,337 | 3,625 | 18,709 | 11,305 |
| Impairment and restructuring charges (credits) | 1,060 | | 12,377 | (10,957) |
| Total operating expenses | 216,801 | 139,745 | 595,713 | 390,263 |
| Operating income | 22,785 | 14,330 | 41,090 | 34,218 |
| Other income (expense): | | | | |
| Interest expense | (6,941) | (2,002) | (17,647) | (7,435) |
| Interest income | 296 | 337 | 906 | 856 |
| Other income (expense) | 286 | (3,968) | 2,119 | (2,587) |

| | | | | |
|---|---|---|---|---|
| Total other expense | (6,359) | (5,633) | (14,622) | (9,166) |
| Income before income taxes and minority interest | 16,426 | 8,697 | 26,468 | 25,052 |
| Income taxes | 6,768 | 3,331 | 10,907 | 9,592 |
| Income before minority interest | 9,658 | 5,366 | 15,561 | 15,460 |
| Minority interest | | 1 | | (5) |
| Net income | $ 9,658 | $ 5,367 | $ 15,561 | $ 15,455 |
| Income per common share: | | | | |
| Basic | $ 0.31 | $ 0.17 | $ 0.49 | $ 0.49 |
| Diluted | $ 0.25 | $ 0.17 | $ 0.43 | $ 0.49 |

See accompanying notes to condensed consolidated financial statements.

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MESA AIR GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(in thousands, except share amounts)

| | June 30, 2004 | September 30, 2003 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 206,208 | $152,547 |
| Marketable securities | 174 | 13,558 |
| Restricted cash | 10,758 | |
| Receivables, primarily traffic, net | 37,307 | 25,493 |
| Income tax receivable | 2,729 | |
| Expendable parts and supplies, net | 33,800 | 25,044 |
| Aircraft held for sale | 600 | |
| Prepaid expenses and other current assets | 40,752 | 28,202 |
| Deferred income taxes | 17,237 | 28,436 |
| Total current assets | 349,565 | 273,280 |
| Property and equipment, net | 651,218 | 398,192 |
| Lease and equipment deposits | 25,916 | 27,352 |
| Deferred income taxes | 5,529 | 4,484 |
| Other assets | 18,345 | 13,628 |
| Investments in corporate bonds and US Treasury notes | 2,483 | |
| Total assets | $1,053,056 | $716,936 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | $ 22,012 | $ 8,519 |
| Short-term debt | 178,939 | 241,623 |
| Accounts payable | 57,671 | 39,315 |
| Air traffic liability | 2,668 | 3,490 |
| Accrued compensation | 5,415 | 6,581 |
| Income taxes payable | 567 | 896 |
| Other accrued expenses | 26,331 | 30,236 |
| Total current liabilities | 293,603 | 330,660 |
| Long-term debt, excluding current portion | 553,241 | 199,023 |

| | | |
|---|---|---|
| Deferred credits | 72,738 | 70,456 |
| Other noncurrent liabilities | 6,487 | 4,824 |
| Total liabilities | 926,069 | 604,963 |
| Stockholders equity: | | |
| Preferred stock, no par value, 2,000,000 shares authorized; no shares issued and outstanding | | |
| Common stock, no par value, 75,000,000 shares authorized; 31,554,447 and 31,704,625 shares issued and outstanding, respectively | 117,272 | 114,580 |
| Retained earnings (accumulated deficit) | 12,954 | (2,607) |
| Deferred stock compensation | (3,239) | |
| Total stockholders equity | 126,987 | 111,973 |
| Total liabilities and stockholders equity | $1,053,056 | $716,936 |

See accompanying notes to condensed consolidated financial statements.

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MESA AIR GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

| | Nine Months Ended | |
|---|---|---|
| | **June 30, 2004** | **June 30, 2003** |
| | | **(As restated, see Note 19)** |
| **Cash Flows from Operating Activities:** | | |
| Net income | $ 15,561 | $ 15,455 |
| Adjustments to reconcile net income to net cash flows provided by (used in) operating activities: | | |
| Depreciation and amortization | 18,709 | 11,305 |
| Impairment and restructuring charges (credits) | 12,377 | (10,957) |
| Gain on involuntary conversion of aircraft | | (1,283) |
| Deferred income taxes | 10,154 | 9,589 |
| Unrealized loss on investment securities | 14 | (1,358) |
| Amortization of deferred credits | (4,960) | (5,109) |
| Amortization of restricted stock awards | 295 | |
| Tax benefit-stock compensation | 137 | 21 |
| Provision for obsolete expendable parts and supplies | 948 | 900 |
| Provision for doubtful accounts | 1,900 | |
| DOT settlement | | 4,154 |
| Minority interest | | 5 |
| Changes in assets and liabilities: | | |
| Net sales of investment securities | 13,370 | 5,886 |
| Restricted cash | (10,758) | (40,019) |
| Receivables | (13,713) | 2,905 |
| Income tax receivables | (2,729) | |
| Expendable parts and supplies | (9,253) | (1,415) |
| Prepaid expenses and other current assets | (13,374) | 57 |
| Accounts payable | 16,854 | 3,361 |
| Income taxes payable | (329) | (524) |
| Cost to return aircraft held for sale | (2,320) | (2,097) |
| Other accrued liabilities | (7,049) | 5,589 |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | 25,834 | (3,535) |
| **Cash Flows from Investing Activities:** | | |
| Capital expenditures | (47,919) | (19,842) |

| | | |
|---|---|---|
| Acquisition of Midway assets, net | (9,160) | |
| Proceeds from sale of rotable and expendable inventory | 1,783 | 2,179 |
| Proceeds from aircraft insurance | | 3,218 |
| Change in other assets | (1,071) | 383 |
| Net returns (payments) of lease and equipment deposits | 36 | (11,646) |
| Purchase of held-to-maturity securities | (2,483) | |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | (58,814) | (25,708) |
| **Cash Flows from Financing Activities:** | | |
| Principal payments on long-term debt | (11,127) | (11,934) |
| Proceeds from senior convertible notes | 100,000 | 100,112 |
| Debt issue costs | (3,009) | (3,262) |
| Proceeds from issuance of common stock | 677 | 367 |
| Common stock purchased and retired | (1,656) | (2,245) |
| Proceeds from receipt of deferred credits | 1,756 | 10,515 |
| Distribution to minority interest shareholders | | (610) |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | 86,641 | 92,943 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 53,661 | 63,700 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 152,547 | 45,870 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $206,208 | $109,570 |

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MESA AIR GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

| | Nine Months Ended | |
|---|---|---|
| | **June 30, 2004** | **June 30, 2003** |
| | | **(As restated, see Note 19)** |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid for interest, net of amounts capitalized | $ 17,657 | $ 6,607 |
| Cash paid for income taxes, net | 3,638 | 700 |
| SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Aircraft delivered under interim financing | $405,673 | $304,692 |
| Aircraft and debt permanently financed as operating leases | 197,300 | 254,225 |
| Long-term debt assumed in Midway asset purchase | 24,109 | |
| Inventory and other credits received in conjunction with aircraft financing | 3,549 | 2,023 |
| Return of aircraft for reduction of long-term debt and accrued interest | | 8,164 |

(Concluded)

See accompanying notes to condensed consolidated financial statements.

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MESA AIR GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**1. Business and Basis of Presentation**

The accompanying unaudited, condensed consolidated financial statements of Mesa Air Group, Inc. ( Mesa or the Company ) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for a complete set of financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for the unaudited three and nine-month periods presented have been made. Operating results for the three and nine-month periods ended June 30, 2004, are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2004. These condensed consolidated financial statements should be read in conjunction with the Company s consolidated financial statements and notes thereto included in the Company s annual report on Form 10-K/A for the fiscal year ended September 30, 2003.

The accompanying condensed consolidated financial statements include the accounts of Mesa Air Group, Inc. and its wholly-owned operating subsidiaries (collectively Mesa or the Company ): Mesa Airlines, Inc. ( Mesa Airlines ), a Nevada corporation and certificated air carrier; Freedom Airlines, Inc. ( Freedom ), a Nevada corporation and certificated air carrier; Air Midwest, Inc. ( Air Midwest ), a Kansas corporation and certificated air carrier; CCAir, Inc. ( CCAir ), a Delaware corporation; MPD, Inc., a Nevada corporation, doing business as Mesa Pilot Development; Regional Aircraft Services, Inc. ( RAS ) a Pennsylvania corporation; Mesa Leasing, Inc., a Nevada corporation; Mesa Air Group - Aircraft Inventory Management, LLC ( MAG-AIM ), an Arizona Limited Liability Company; Ritz Hotel Management Corp., a Nevada Corporation; UFLY, LLC. ( UFLY ), a Delaware Limited Liability Company; and MAGI Insurance, Ltd. ( MAGI ), a Barbados, West Indies based captive insurance company. MPD, Inc. provides pilot training in coordination with a community college in Farmington, New Mexico and with Arizona State University in Tempe, Arizona. RAS performs aircraft component repair and overhaul services. UFLY was established in fiscal 2002 to make strategic investments in US Airways common stock. MAGI is a captive insurance company established for the purpose of obtaining more favorable aircraft liability insurance rates. CCAir ceased operations on November 3, 2002 and was dissolved in the second quarter of fiscal 2003. All significant intercompany accounts and transactions have been eliminated in consolidation.

**2. Minority Interest**

In 2001, the Company entered into an agreement to form UFLY for the purpose of making strategic investments in US Airways, Inc. In 2002, UFLY was formally established and was capitalized with $5.0 million from the Company and $5.0 million from other members, which included Jonathan Ornstein, the Company s Chairman and Chief Executive Officer. UFLY distributed its assets in the fourth quarter of fiscal 2003 and was subsequently dissolved prior to September 30, 2003. The Company owned greater than 50% of UFLY in 2003 and therefore the financial results of UFLY were included in the consolidated financial results of the Company for that year. Amounts included in the consolidated statements of income as minority interest reflect the after-tax portion of earnings of UFLY that are applicable to the minority interest partners.

**3. Acquisitions**

In December 2003, the Company announced that it would not be moving forward with either its proposed consent solicitation or exchange offer for Atlantic Coast. Transaction related costs of $3.8 million are included in general and administrative expenses in the nine month period ended June 30, 2004.

In December 2003, the Company purchased the assets of Midway Airlines Corporation ( Midway ) for $9.2 million through Midway s Chapter 7 bankruptcy proceeding. The assets include six leased CRJ-200 aircraft, two owned CRJ-200 aircraft, all of Midway s CRJ spare parts and support equipment and all related acquisition materials associated with the operation of Midway s CRJ operations. The Company also assumed $24.1 million in debt related to the two CRJ-200 aircraft. The Company purchased the Midway assets in order to meet its 2004 growth plans. The purchase price has been allocated to the assets acquired (primarily aircraft and rotable parts) and liabilities assumed based upon preliminary estimates of fair values.

**4. Segment Reporting**

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, requires disclosures related to components of a company for which separate financial information is available that is evaluated regularly by a company s chief operating decision maker in deciding the allocation of resources and assessing performance. The Company has three airline operating subsidiaries, Mesa Airlines, Freedom Airlines and Air Midwest and various other subsidiaries organized to provide support for the Company s airline operations. The Company had a fourth operating subsidiary, CCAir, which ceased operations on November 3, 2002. The Company has aggregated these operating segments into four reportable segments. Mesa Airlines and Freedom primarily operate the Company s regional jets. Air Midwest operates the Company s Beech 1900 turboprop aircraft. Prior to ceasing operations, CCAir operated a mixed fleet of turboprop aircraft. The Other reportable segment includes Mesa Air Group, RAS, MPD, MAG-AIM, MAGI and UFLY, all of which support Mesa s operating subsidiaries. Operating revenues in the Other segment are primarily sales of rotable and expendable parts to the Company s operating subsidiaries.

Mesa Airlines and Freedom provide passenger service with regional jets under revenue-guarantee contracts with America West, United and US Airways. Mesa Airlines code-share agreement with Frontier terminated on December 31, 2003. Mesa Airlines also provides passenger service with Dash-8 aircraft under revenue-guarantee contracts with United and America West. As of June 30, 2004, Mesa Airlines and Freedom operated a fleet of 140 aircraft 88 CRJs, 36 ERJs and 16 Dash-8s.

Air Midwest provides passenger service with Beechcraft 1900D aircraft under pro-rate contracts with America West, US Airways and Midwest Airlines as well as independent operations as Mesa Airlines. As of June 30, 2004, Air Midwest operated a fleet of 35 Beechcraft 1900D turboprop aircraft.

CCAir provided passenger service with Dash-8 and Jetstream 31 turboprop aircraft under pro-rate revenue contracts with US Airways. CCAir ceased operations on November 3, 2002.

The Other category consists of Mesa Air Group (holding company), MPD, RAS, MAGI, UFLY, MAG-AIM and Ritz Hotel Management Corp. Mesa Air Group performs all administrative functions not directly attributable to any specific operating company. These administrative costs are allocated to the operating companies based upon specific criteria including headcount, ASM s and other operating statistics. MPD operates pilot training programs in conjunction with San Juan College in Farmington, New Mexico and Arizona State University in Tempe, Arizona. Graduates of these training programs are eligible to be hired by the Company s operating subsidiaries. RAS primarily provides repair services to the Company s operating subsidiaries. MAGI is a captive insurance company located in Barbados. MAG-AIM is the Company s inventory procurement company. UFLY was established for the purpose of making strategic investments in US Airways common stock.

| Three Months Ended June 30, 2004 (000 s) | Mesa / Freedom | Air Midwest | CCAir | Other | Eliminations | Total |
|---|---|---|---|---|---|---|
| Total operating revenues | $217,216 | $20,272 | $ | $111,610 | $(109,512) | $ 239,586 |
| Depreciation and amortization | 6,359 | 57 | | 921 | | 7,337 |
| Operating income (loss) | 26,299 | (1,541) | | 15,609 | (17,582) | 22,785 |

| | | | | | |
|---|---|---|---|---|---|
| Interest expense | (4,576) | (40) | (2,466) | 141 | (6,941) |
| Interest income | 290 | 1 | 146 | (141) | 296 |
| Income (loss) before income tax and minority interest | 22,129 | (1,612) | 13,491 | (17,582) | 16,426 |
| Income tax (benefit) | 9,118 | (665) | 5,557 | (7,242) | 6,768 |
| Total assets | 955,722 | 19,112 | 403,139 | (324,917) | 1,053,056 |
| Capital expenditures | 1,854 | 183 | 20,166 | | 22,203 |

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| Three Months Ended June 30, 2003 (000 s) (as restated see note 19) | Mesa / Freedom | Air Midwest | CCAir | Other | Eliminations | Total |
|---|---|---|---|---|---|---|
| Total operating revenues | $131,661 | $21,077 | $ | $ 62,558 | $ (61,221) | $154,075 |
| Depreciation and amortization | 2,742 | 195 | | 688 | | 3,625 |
| Operating income (loss) | 14,520 | (1,511) | 4 | 14,781 | (13,464) | 14,330 |
| Interest expense | (1,811) | | | (319) | 128 | (2,002) |
| Interest income | 230 | | | 273 | (166) | 337 |
| Income (loss) before income tax and minority interest | 8,220 | (983) | 4 | 14,958 | (13,502) | 8,697 |
| Income tax (benefit) | 3,446 | (377) | 2 | 5,431 | (5,171) | 3,331 |
| Total assets | 422,914 | 18,205 | 5,770 | 279,317 | (176,914) | 549,292 |
| Capital expenditures | 308 | 2,091 | | 3,792 | | 6,191 |

| Nine Months Ended June 30, 2004 (000 s) | Mesa / Freedom | Air Midwest | CCAir | Other | Eliminations | Total |
|---|---|---|---|---|---|---|
| Total operating revenues | $569,330 | $62,318 | $ | $267,972 | $(262,817) | $ 636,803 |
| Depreciation and amortization | 15,994 | 398 | | 2,317 | | 18,709 |
| Operating income (loss) | 59,576 | (8,226) | | 31,884 | (42,144) | 41,090 |
| Interest expense | (11,498) | (123) | | (6,168) | 142 | (17,647) |
| Interest income | 605 | 4 | | 439 | (142) | 906 |
| Income (loss) before income tax and minority interest | 50,426 | (8,364) | | 26,549 | (42,143) | 26,468 |
| Income tax (benefit) | 20,779 | (3,447) | | 10,938 | (17,363) | 10,907 |
| Total assets | 955,722 | 19,112 | | 403,139 | (324,917) | 1,053,056 |
| Capital expenditures | 12,309 | 228 | | 35,382 | | 47,919 |

| Nine Months ended June 30, 2003 (000 s) (as restated see note 19) | Mesa / Freedom | Air Midwest | CCAir | Other | Eliminations | Total |
|---|---|---|---|---|---|---|
| Total operating revenues | $355,396 | $63,961 | $ 1,254 | $ 98,427 | $ (94,557) | $424,481 |
| Depreciation and amortization | 8,735 | 536 | | 2,034 | | 11,305 |
| Operating income (loss) | 24,733 | (7,165) | 11,022 | 30,040 | (24,412) | 34,218 |
| Interest expense | (7,277) | | (174) | (221) | 237 | (7,435) |
| Interest income | 608 | 3 | 4 | 516 | (275) | 856 |
| Income (loss) before income tax and minority interest | 12,665 | (4,612) | 11,372 | 30,077 | (24,450) | 25,052 |
| Income tax (benefit) | 6,055 | (1,767) | 4,356 | 10,312 | (9,364) | 9,592 |
| Total assets | 422,914 | 18,205 | 5,770 | 279,317 | (176,914) | 549,292 |
| Capital expenditures | 5,541 | 4,019 | | 10,282 | | 19,842 |

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**5. Investments**

SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, requires that all applicable investments be classified as trading securities, available for sale securities or held-to-maturity securities. The Company s investments consist of US treasury notes and corporate bonds, which are classified as held-to-maturity, included in investments and carried at amortized cost. The remainder of investments, less than $0.2 million, relate to common equity securities of companies operating in the airline industry and are classified as trading securities during the periods presented and accordingly, are carried at market value with changes in value reflected in the current period operations.

In the past, the Company has entered into short positions on common equity securities when management believed that the Company could capitalize on downward moves in particular securities and as a hedge against its investment in common stocks of other airlines. Furthermore, by taking a short position in other airline s common stock, the Company effectively hedged against downturns in the airline industry. Unlike traditional investing where the investor s risk is limited to the amount of their investment, when stocks are sold short, there is no limit to the potential price appreciation of the stock thus there is no limit to the investor s loss. The Company marks short positions to market at each reporting period with the associated gain or loss in value reflected in other income (expense) in the statement of operations. Included in marketable securities are liabilities related to short positions on common equity securities of $13.2 million at September 30, 2003. As of June 30, 2004, the Company had no liabilities related to short positions. Unrealized losses that related to trading securities (including short positions) held at June 30, 2004 and September 30, 2003, were $0.7 million and $2.5 million, respectively.

Investments in held-to-maturity securities were as follows at June 30, 2004:

| | June 30, 2004 (in thousands) | | |
|---|---|---|---|
| | Cost | Gross Unrealized Gains (Losses) | Estimated Fair Value |
| Held-to-maturity securities (carried at amortized cost): | | | |
| US treasury note | $2,008 | $ | $ 2,008 |
| Corporate bond | 475 | | 475 |
| Total | $2,483 | $ | $ 2,483 |

**6. Restricted Cash**

The Company has $10.8 million in restricted cash on deposit that collateralizes various letters of credit outstanding as of June 30, 2004. The Company has signed a letter of intent with a financial institution for a $9 million letter of credit facility, of which $4 million must be secured, and expects to finalize the documentation in the fourth quarter of fiscal 2004.

**7. Accounts Receivable from Code-Share Partners**

The Company has code-share agreements with America West, US Airways, United and Midwest Airlines. The Company s code-share agreement with Frontier expired December 31, 2003. Approximately 99% of the Company s consolidated passenger revenue for the three and nine months ended June 30, 2004 and 2003, respectively, were derived from these agreements. Accounts receivable from the Company s code-share partners were 62% and 57% of total gross accounts receivable at June 30, 2004 and September 30, 2003, respectively.

**8. Deferred Credits**

Deferred credits consist of aircraft purchase incentives provided by the aircraft manufacturers and deferred gains on the sale and leaseback of interim financed aircraft. These incentives include credits that may be used to purchase spare parts, pay for training expenses or reduce other aircraft operating costs. These deferred credits and gains are amortized on a straight-line basis as a reduction of lease expense over the term of the respective leases.

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**9. Notes Payable and Long-Term Debt**

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

The notes are convertible into shares of the Company s common stock at a conversion rate of 40.3737 shares per $1,000 in principal amount at maturity of the notes. This conversion rate is subject to adjustment in certain circumstances. Holders of the notes may convert their notes only if: (i) the sale price of the Company s common stock exceeds 110% of the accreted conversion price for at least 20 trading days in the 30 consecutive days ending on the last trading day of the preceding quarter; (ii) on or prior to February 10, 2019, the trading price for the notes falls below certain thresholds; (iii) the notes have been called for redemption; or (iv) specified corporate transactions occur. The Company may redeem the notes, in whole or in part, beginning on February 10, 2009, at a redemption price equal to the sum of the issue price, plus accrued original issue discount, plus any accrued and unpaid cash interest. The holders of the notes may require the Company to repurchase the notes on February 10, 2009 at a price of $583.40 per note plus accrued and unpaid cash interest, if any, on February 10, 2014 at a price of $698.20 per note plus accrued and unpaid cash interest, if any, and on February 10, 2019 at a price of $835.58 per note plus accrued and unpaid cash interest, if any. It is the Company s intent to settle the notes in cash if the holders require repurchase in 2009, 2014 and 2019. The Company has filed a shelf registration statement with the U.S. Securities and Exchange Commission covering the resale of the notes and the shares of common stock issuable upon conversion thereof. During fiscal 2003, the Company issued similar senior convertible notes to those described above. The balance of these notes was $100.0 million at June 30, 2004. The Company plans to use the net proceeds from the sale of the notes for working capital and to fund its obligations with respect to regional jet deliveries.

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

In January 2004, the Company permanently financed five CRJ-700 and four CRJ-900 aircraft with $207.5 million in debt. In March, two additional CRJ-900 aircraft were also financed with $47.2 million in debt. The debt bears interest at the monthly LIBOR plus three percent and requires monthly principal and interest payments. The manufacturer, through the purchase of certain interest rate derivatives, has guaranteed the Company s ownership costs with respect to these aircraft. These aircraft were on interim financing.

Also at June 30, 2004, we had $178.9 million in notes payable to an aircraft manufacturer for aircraft on interim financing. Under interim financing arrangements, the Company takes delivery and title to the aircraft prior to securing permanent financing and the acquisition of the aircraft is accounted for as a purchase with debt financing. Accordingly, the Company reflects the aircraft and debt under interim financing on the balance sheet during the interim financing period. After taking delivery of the aircraft, the Company expects to subsequently enter into a sale-leaseback transaction with an independent third-party lessor. Upon permanent financing, the proceeds from the sale- leaseback transaction are used to retire the notes payable to the manufacturer. Any gain recognized on the sale-leaseback transaction is deferred and amortized over the life of the lease. Occasionally the Company will permanently finance aircraft with long-term debt, but it is the Company s current intention to permanently finance aircraft as operating leases rather than debt. The Company currently has seven aircraft on interim financing with the

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manufacturer. These interim financings agreements are six months in length and provide for monthly interest only payments at LIBOR plus three percent. The current interim financing agreement with the manufacturer provides for the Company to have a maximum of 15 aircraft on interim financing at a given time.

Long-term debt consists of the following:

| | June 30, 2004 | September 30, 2003 |
|---|---|---|
| | (In thousands) | |
| Notes payable to bank, collateralized by the underlying aircraft | $250,795 | $ |
| Senior convertible notes | 200,112 | 100,112 |
| Notes payable to manufacturer, collateralized by the underlying aircraft | 95,954 | 100,601 |
| Notes payable to bank, collateralized by the underlying aircraft | 23,400 | |
| Other | 4,992 | 6,829 |
| Total debt | 575,253 | 207,542 |
| Less current portion | (22,012) | (8,519) |
| Long-term debt | $553,241 | $199,023 |
| Short-term debt consists of the following: | | |
| Notes payable to manufacturer for interim financed aircraft | $178,939 | $241,623 |

**10. Earnings Per Share**

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

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| | (in thousands) | | (in thousands) | |
| Share calculation: | | | | |

| | | | | |
|---|---|---|---|---|
| Weighted average shares basic | 31,610 | 31,457 | 31,691 | 31,557 |
| Effect of dilutive outstanding stock options and warrants | 814 | 413 | 1,383 | 163 |
| Effect of dilutive outstanding convertible debt | 10,011 | | 10,011 | |
| Weighted average shares diluted | 42,435 | 31,870 | 43,085 | 31,720 |
| Adjustments to net income: | | | | |
| Net income | $ 9,658 | $ 5,367 | $15,561 | $15,455 |
| Interest expense on convertible debt, net of tax | 920 | | 2,800 | |
| Adjusted net income | $10,578 | $ 5,367 | $18,361 | $15,455 |

At June 30, 2004, the conversion features of the Company s senior convertible notes due 2024 had not been met, therefore, the dilutive effect of the notes was not included in the determination of earnings per common share. Diluted income per share would have been $0.23 and $0.38 for the three and nine months ended June 30, 2004, respectively, if the dilutive effect of the notes were to be included in the computation of income per common share. The Emerging Issues Task Force ( EITF ) of the Financial Accounting Standards Board ( FASB ) recently made a tentative decision proposing that issuers of convertible securities with contingent conversion features use the *if-converted* method to calculate reported EPS irrespective of the contingent conversion trigger being met. The EITF

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is expected to reach a final conclusion at its meeting in September 2004.

**11. Stock Repurchase Program**

On December 23, 1999 the Board of Directors authorized the repurchase of 10%, or 3.4 million shares, of the Company s outstanding shares of common stock at the time. On January 4, 2001 and October 24, 2002 the Board of Directors amended the original plan and authorized the repurchase of one million and two million additional shares of common stock, respectively. As of June 30, 2004, the Company has acquired and retired 4.8 million shares of our outstanding common stock at an aggregate cost of approximately $27.3 million, leaving 1.6 million shares available for repurchase under the existing Board authorizations. The Company repurchased the following shares for $1.3 million during the three months ended June 30, 2004:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans | Maximum Number of Shares that May Yet Be Purchased Under the Plan |
|---|---|---|---|---|
| April 2004 | | | | |
| May 2004 | 193,778 | $ 6.74 | 193,778 | 1,616,334 |
| June 2004 | | $ | | |
| Total | 193,778 | $ 6.74 | 193,778 | 1,616,334 |

**12. Beechcraft 1900D Cost Reductions**

On February 7, 2002, the Company entered into an agreement with Raytheon Aircraft Credit Company (the Raytheon Agreement ) to reduce the operating costs of its Beechcraft 1900D fleet. In connection with the Raytheon Agreement and subject to the terms and conditions contained therein, Raytheon agreed to provide up to $5.5 million in annual operating subsidy payments to the Company contingent upon satisfying certain spending requirements and, among other things, the Company remaining current on its payment obligations to Raytheon. The amount was subsequently reduced to $5.3 million as a result of a reduction in the Company s fleet of B1900D aircraft. Approximately $1.3 million and $4.0 million was recorded as a reduction to expense during each of the three and nine months ended June 30, 2004 and June 30, 2003, respectively.

In return, the Company granted Raytheon an option to purchase up to 233,068 warrants at a purchase price of $1.50 per warrant. Each warrant entitles the holder to purchase one share of common stock at an exercise price of $10.00 per share. Each of the warrants is exercisable at any time over a three-year period following its date of purchase. Absent an event of default by the Company in which case vesting is accelerated, options to purchase the warrants vest according to the following schedule: 13,401 warrants for fiscal year 2001; 116,534 warrants for fiscal year 2002; 58,267 warrants for fiscal year 2003 and 44,866 warrants for fiscal year 2004. As of June 30, 2004, Raytheon has exercised its option to purchase the 2001, 2002, and 2003 warrants.

**13. Impairment of Long-Lived Assets**

***CCAir Impairment and Restructuring***

As a result of the inability of CCAir to reduce its operating costs and its continued history of operating losses, as well as receiving a notification by US Airways of their intent to cancel CCAir s pro-rate contract effective November 3, 2002, management at CCAir elected to cease operations as of that date. As a result, the Company took a pretax restructuring and impairment charge of $19.8 million in fiscal 2002, including $7.8 million for future aircraft lease payments, $4.6 million in aircraft related return costs, $4.1 million to reduce the value of rotable and expendable inventory to fair market value less costs to sell, $1.7 million to reduce maintenance deposits held by a lessor to net realizable value, $0.9 million to write off the value of equipment and leasehold improvements and $0.7 million of severance and other employee related liabilities. Once operations ceased, CCAir stopped making lease payments on its fleet of Dash 8-100 aircraft. CCAir subsequently returned the aircraft to the lessors. At the time of the shutdown, it was the Company s intention to maintain the legal entity of CCAir as well as its operating certificate with the possibility of either restructuring the airline and operating it under amended labor agreements in the future or affecting a sale of CCAir.

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In fiscal 2003, CCAir surrendered its operating certificate to the FAA and filed articles of dissolution with the State of Delaware. As a result of these events and CCAir s lack of liquidity, it became clear that CCAir would be unable to pay any of its obligations. In fiscal 2003, in light of CCAir s inability to pay its obligations and the resulting dissolution, the Company reversed the restructuring charges recorded in fiscal 2002 by approximately $12 million. The reversal of these charges was precipitated by the dissolution of CCAir and the Company s subsequent determination, after consultation with counsel, that the Company should not be held legally responsible for the obligations incurred solely by CCAir and not guaranteed by the Company.

At June 30, 2004, $0.3 million of accrued severance and other remains with respect to this impairment and restructuring.

***Shorts 360 Impairment***

The Company took a charge for $3.6 million in fiscal 2002 to accrue for the remaining lease payments of two Shorts 360 aircraft and the future costs of returning these aircraft to the lessor. These leases expire in March 2005.

At June 30, 2004, $2.2 million of accrued aircraft return costs and $0.7 million of accrued aircraft lease payments remain with respect to this impairment.

***Beechcraft 1900D Impairment***

In the second quarter of fiscal 2004, the Company recognized an impairment charge of $11.3 million related to the planned early return of seven leased B1900D aircraft with lease expirations between December 2004 and September 2005. The Company has negotiated the terms of the early return with the majority of the aircraft lessors and took a charge that included $2.4 million for the present value of future lease payments, $2.4 million for the negotiated settlement of return conditions, $1.2 million for the cancellation of maintenance agreements, $0.8 million to reduce maintenance deposits to net realizable value, and $4.5 million to reduce the value of rotable and expendable inventory to fair value less costs to sell.

In the third quarter of fiscal 2004 the Company recognized an impairment charge of $1.1 million due to finalizing agreements to return two of the seven leased B1900D aircraft impaired in the second quarter of fiscal 2004.

In the second quarter of fiscal 2003, the Company returned one of the remaining three B1900D aircraft permitted under its agreement with Raytheon. The two remaining aircraft were returned prior to the end of fiscal 2003. As a result of unanticipated increases in the cost of meeting the return conditions of these and previous aircraft, the Company recorded an additional impairment charge of $1.1 million.

As of June 30, 2004, $0.1 million of accrued aircraft return costs remained with respect to this impairment.

The changes in the impairment and restructuring charges for the period ended June 30, 2004 and 2003 are as follows:

| Description of Charge | Reserve Sept. 30, 2002 | Non-Cash Utilized | Cash Utilized | Reserve Dec. 31, 2002 | Provision | Reversal of Charges | Non-Cash Utilized | Cash Utilized | Reserve Mar. 31, 2003 |
|---|---|---|---|---|---|---|---|---|---|
| Restructuring: | | | | | | | | | |
| | $ (658) | $ | $ 56 | $ (602) | $ | $ | $ | $ | $ (602) |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Severance and other | | | | | | | | | |
| Costs to return aircraft | (8,107) | | 701 | (7,406) | (1,050) | 4,593 | 250 | 1,099 | (2,514) |
| Aircraft lease payments | (9,238) | 129 | | (9,109) | | 7,414 | 129 | 48 | (1,518) |
| Total | $(18,003) | $129 | $757 | $(17,117) | $(1,050) | $12,007 | $379 | $1,147 | $(4,634) |

[Additional columns below]

[Continued from above table, first column below repeated]

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| Description of Charge | Reserve Mar. 31, 2003 | Non-Cash Utilized | Cash Utilized | Reserve Jun. 30, 2003 |
|---|---|---|---|---|
| Restructuring: | | | | |
| Severance and other | $ (602) | $ | $ | $ (602) |
| Costs to return aircraft | (2,514) | | 296 | (2,218) |
| Aircraft lease payments | (1,518) | 129 | 36 | (1,353) |
| Total | $(4,634) | $ 129 | $ 332 | $(4,173) |

| Description of Charge | Reserve Sept. 30, 2003 | Non-Cash Utilized | Cash Utilized | Reserve Dec. 31, 2003 | Provision | Non-Cash Utilized | Cash Utilized | Reserve Mar. 31, 2004 |
|---|---|---|---|---|---|---|---|---|
| Restructuring: | | | | | | | | |
| Severance and other | $ (548) | $ | $ 44 | $ (504) | $ | $ | $ 64 | $ (440) |
| Costs to return aircraft | (2,217) | | | (2,217) | (2,400) | | 8 | (4,609) |
| Aircraft lease payments | (1,188) | 129 | 36 | (1,023) | (2,398) | 129 | 36 | (3,256) |
| Cancellation of maintenance agreement | | | | | (1,179) | | | (1,179) |
| Impairment: | | | | | | | | |
| Impairment of maintenance deposits | | | | | (823) | 823 | | |
| Impairment of surplus inventory | | | | | (4,517) | 4,517 | | |
| Total | $(3,953) | $ 129 | $ 80 | $(3,744) | $(11,317) | $5,469 | $ 108 | $(9,484) |

[Additional columns below]

[Continued from above table, first column below repeated]

| Description of Charge | Reserve Mar. 31, 2004 | Provision | Non-Cash Utilized | Cash Utilized | Reserve Jun. 30, 2004 |
|---|---|---|---|---|---|
| Restructuring: | | | | | |
| Severance and other | $ (440) | $ | $ | $ 91 | $ (349) |
| Costs to return aircraft | (4,609) | | | 2,320 | (2,289) |
| Aircraft lease payments | (3,256) | | 129 | 2,434 | (693) |

| | | | | | |
|---|---|---|---|---|---|
| Cancellation of maintenance agreement | (1,179) | | | 1,179 | |
| Impairment: | | | | | |
| Impairment of maintenance deposits | | | | | |
| Impairment of surplus inventory | | (1,060) | 1,060 | | |
| Total | $(9,484) | $(1,060) | $1,189 | $6,024 | $(3,331) |

The reserve balance of $3.3 million above is included in accrued expenses, other non-current liabilities and deferred credits on the accompanying consolidated balance sheets.

**14. Other Income (Expense)**

Other income represents investment income for the three and nine months ended June 30, 2004. Other expense for the nine months ended June 30, 2003 includes a gain on the involuntary conversion of an aircraft for $1.3 million related to the crash of Flight 5481 in January 2003. The gain in 2003 was offset by $4.1 million in expense related to the Company s settlement of amounts received under the Air Transportation Safety and System Stabilization Act. The Company s investment

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gains and losses for the nine months ended June 30, 2003 include 100% of the investment gains and losses of UFLY; the minority interest is deducted out of the Company s operations after income taxes.

**15. Stockholders Equity**

The Company applies the provision of APB Opinion No. 25 and related interpretations in accounting for its stock-based compensation plans. Accordingly, no compensation cost has been recognized for awards made pursuant to its fixed stock option plans. Had the compensation cost for the Company s four fixed stock-based compensation plans been determined consistent with the measurement provision of SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, the Company s net income (loss) and income (loss) per share would have been as indicated by the pro forma amounts indicated below:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | June 30, 2004 | June 30, 2003 | June 30, 2004 | June 30, 2003 |
| | (in thousands) | | (in thousands) | |
| Net income as reported | $9,658 | $5,367 | $15,561 | $15,455 |
| Stock option compensation expense determined under fair value based method, net of tax | (418) | (531) | (862) | (1,275) |
| Pro forma net income | $9,240 | $4,836 | $14,699 | $14,180 |
| Income per share basic: | | | | |
| As reported | $ 0.31 | $ 0.17 | $ 0.49 | $ 0.49 |
| Pro forma | $ 0.29 | $ 0.15 | $ 0.46 | $ 0.45 |
| Income per share diluted: | | | | |
| As reported | $ 0.25 | $ 0.17 | $ 0.43 | $ 0.49 |
| Pro forma | $ 0.24 | $ 0.15 | $ 0.41 | $ 0.45 |

**16. Commitments and Contingencies**

In May 2001, the Company entered into an agreement with Bombardier Regional Aircraft Division ( BRAD ) to purchase a total of 15 CRJ-700s and 25 CRJ-900s. The transaction includes standard product support provisions, including training, preferred pricing on initial inventory provisioning, maintenance and technical publications. As of June 30, 2004, the Company has taken delivery of 15 CRJ-700 aircraft and 22 CRJ-900 aircraft and anticipates taking delivery of the remaining 3 CRJ-900 aircraft in fiscal 2004 and 2005. In addition to the firm orders, Mesa has an option to acquire an additional 80 CRJ-700 and CRJ-900 regional jets. In January 2004, the Company exercised options to acquire 20 CRJ-700 and CRJ-900 aircraft (exact mix to be determined at a later date) for delivery through 2005. In conjunction with this purchase agreement, Mesa has $15.0 million on deposit with BRAD, which is included in lease and equipment deposits at June 30, 2004. The remaining deposits are expected to be returned in equal amounts upon completion of permanent financing on each of the last five aircraft ($3.0 million per aircraft).

On January 8, 2003, US Airways Express Flight 5481, operated by Air Midwest, crashed shortly after takeoff from Charlotte Douglas International Airport en route to Greenville/Spartanburg, S.C. The Company has cooperated fully with all federal, state and local regulatory and investigatory agencies to ascertain the cause of the accident. The Company is unable to predict the amount of claims, if any, which may ultimately be made against it and how those claims might be resolved. The Company maintains substantial insurance coverage and, at this time, management has no reason to believe that such insurance coverage will not be sufficient to cover any claims arising from the crash. Therefore, the Company believes that the resolution of any claims will not have a material adverse effect on its financial position, results of operations or cash flows. The Company is unable to predict the extent of any adverse effect on its revenues, yields or results of operations which may result from the public perception of the accident of Flight 5481.

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

**17. Deferred Stock Compensation**

In March 2004, the Company issued restricted stock grants of 428,297 shares to the Company s Chief Executive Officer and the Company s President and Chief Operating Officer. The restricted stock shares vest in one-third increments over a three-year period beginning on March 31, 2005. The Company recorded $3.5 million in stockholders equity for deferred compensation. The deferred compensation is amortized on a straight-line basis over the vesting period of the grants.

**18. Reclassifications**

Certain 2003 amounts previously reported have been reclassified to conform with the 2004 presentation.

**19. Restatement of Financial Statements**

The Company has periodically entered into agreements with manufacturers for the acquisition of aircraft. Under these agreements, it is common for the Company to take delivery of aircraft prior to having permanent financing in place under short-term interim financing arrangements. These short-term interim financing arrangements are typically six months or less, are provided by the manufacturer and are described as short-term leases in the aircraft purchase agreements. After taking delivery of aircraft, the Company pursues permanent financing for the aircraft in the form of a long-term operating lease through sale-leaseback transactions or through long-term debt. The Company previously accounted for the interim financing as a short-term operating lease, with payments to the manufacturer recorded as lease expense.

In April 2004, the Company s management determined that certain of the interim aircraft financing arrangements consisted of borrowings that should have been recorded as debt financing and the interim financed aircraft should have been reflected on the Company s balance sheet. Accordingly, the Company has restated its financial statements to reflect aircraft, debt and the related depreciation expense of the aircraft in its financial statements during the interim financing period. In addition, the payments recorded as lease expense were reflected as interest expense. As a result of the restatement, the Company has recognized a deferred gain on those aircraft permanently financed through subsequent sale-leaseback transactions. The deferred gain, equal to the difference between the aircraft s purchase price and depreciated value, was recorded as a deferred credit and will be amortized over the life of the lease.

As a result, the accompanying condensed consolidated financial statements for the three and nine months ended June 30, 2003 have been restated from the amounts previously reported to correct the accounting for these transactions. A summary of the significant effects of the restatement on the accompanying condensed consolidated financial statements is presented below.

**For the three months and nine months ended June 30, 2003**
**(In thousands, except per share amounts)**
**(Unaudited)**

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | June 30, 2003 | June 30, 2003 | June 30, 2003 | June 30, 2003 |

| | (As Restated) | (As Previously Reported) | (As Restated) | (As Previously Reported) |
|---|---|---|---|---|
| Flight operations | $56,906 | $ 57,952 | $152,957 | $157,203 |
| Depreciation and amortization | 3,625 | 2,798 | 11,305 | 8,026 |
| Operating income | 14,330 | 14,109 | 34,218 | 33,251 |
| Interest expense | (2,002) | (1,092) | (7,435) | (3,509) |

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| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | June 30, 2003 | June 30, 2003 | June 30, 2003 | June 30, 2003 |
| | (As Restated) | (As Previously Reported) | (As Restated) | (As Previously Reported) |
| Income taxes | 3,331 | 3,595 | 9,592 | 10,728 |
| Net income | 5,367 | 5,792 | 15,455 | 17,278 |
| Income per common share: | | | | |
| Basic | $ 0.17 | $ 0.18 | $ 0.49 | $ 0.55 |
| Diluted | $ 0.17 | $ 0.18 | $ 0.49 | $ 0.54 |

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

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of our results of operations and financial condition. The discussion should be read in conjunction with the Consolidated Financial Statements and the related notes thereto, and the Selected Financial Data and Operating Data contained elsewhere herein.

The accompanying management s discussion and analysis of financial condition and results of operations gives effect to the restatement of the condensed consolidated financial statements for the three and nine months ended June 30, 2003 as described in Note 20 to the condensed consolidated financial statements.

***Forward-Looking Statements***

**This Form 10-Q Report contains certain statements regarding Mesa s future performance and financial results including, but not limited to, information regarding the replacement, deployment, and acquisition of certain numbers and types of aircraft, and projected expenses associated therewith; costs of compliance with Federal Aviation Administration regulations and other rules and acts of Congress; the passing of taxes, fuel costs, inflation, and various expenses to the consumer; the relocation of certain operations of Mesa; the resolution of litigation in a favorable manner and certain projected financial obligations. These statements, in addition to statements made in conjunction with the words expect, anticipate, intend, plan, believe, seek, estimate, and similar expressions, are forward-looking statements within the meaning of the Safe Harbor provision of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These and other statements relate to future events or the future financial performance of Mesa and only reflect management s expectations and estimates. The following is a list of factors, among others, that could cause actual results to differ materially from the forward-looking statements: changing business conditions in certain market segments and industries; changes in Mesa s code-sharing relationships; the inability of America West, US Airways or United Airlines to pay their obligations under the code-share agreements; the inability of United Airlines to successfully restructure and emerge from bankruptcy; the ability of our other code-share partners to avoid bankruptcy; an increase in competition along the routes Mesa operates or plans to operate; material delays in completion by the manufacturer of the ordered and yet-to-be delivered aircraft; availability and cost of funds for financing new aircraft; changes in general economic conditions; changes in fuel price; changes in regional economic conditions; Mesa s relationship with employees and the terms of future collective bargaining agreements; the impact of current and future laws, additional terrorist attacks; Congressional investigations, and governmental regulations affecting the airline industry and Mesa s operations; bureaucratic delays; amendments to existing legislation; consumers unwillingness to incur greater costs for flights; unfavorable resolution of negotiations with municipalities for the leasing of facilities; and risks associated with litigation outcomes. One or more of these or other factors may cause Mesa s actual results to differ materially from any forward-looking statement. Mesa is not undertaking any obligation to update any forward-looking statements contained in this Form 10-Q.**

**Investors should read the risks identified under Risk Factors below for a more detailed discussion of these and other factors.**

**GENERAL**

Mesa Air Group, Inc. and its subsidiaries (collectively referred to herein as Mesa or the Company ) is an independently owned regional airline serving 181 cities in 43 states, Canada, Mexico and the Bahamas. At June 30, 2004, Mesa operated a fleet of 175 aircraft with over 1,000 daily departures.

Mesa s airline operations during fiscal year 2004 were conducted by three regional airline subsidiaries primarily utilizing hub-and-spoke systems. Mesa Airlines, a wholly owned subsidiary of Mesa, operates as America West Express under a code-share and revenue sharing agreement with America West Airlines, Inc. ( America West ), as United Express under a code-share and revenue guarantee agreement with United Airlines, Inc. ( United Airlines or United ) and as US Airways Express under a code-share and revenue guarantee agreement with US Airways,

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Inc. ( US Airways ). Air Midwest, Inc. ( Air Midwest ), a wholly owned subsidiary of Mesa, operates as US Airways Express under a code-share agreement with US Airways, as America West Express under a code-share agreement with America West, and also operates an independent division, doing business as Mesa Airlines, from Albuquerque, New Mexico and Dallas, Texas. Air Midwest also has a code-share agreement with Midwest Airlines ( Midwest ) in Kansas City on flights operated as US Airways Express. In addition, Freedom Airlines, Inc., a wholly owned subsidiary of the Company, began operating as America West Express pursuant to the code-share and revenue sharing agreement with America West in October 2002. Prior to it ceasing operations on November 3, 2002, CCAir, a wholly owned subsidiary of Mesa, operated under a code-share agreement with US Airways as US Airways Express.

Approximately 99% of our consolidated passenger revenues for the nine months ended June 30, 2004 were derived from operations associated with code-share agreements. Our subsidiaries have code-share agreements with America West, Midwest Airlines, United Airlines and US Airways. These code-share agreements allow use of the code-share partner s reservation system and flight designator code to identify flights and fares in computer reservation systems, permit use of logos, service marks, and aircraft paint schemes and uniforms similar to the code-share partners and provide coordinated schedules and joint advertising.

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

Unless the context indicates otherwise, the terms Mesa, the Company, we, us, or our, refer to Mesa Air Grou and its subsidiaries.

In June, the Company finalized an agreement with LogisTechs, Inc., an affiliate of GE Capital Aviation Services (GECAS) for the sale, management and repair of its CRJ 200 aircraft rotable spare parts inventory. Under the agreement, LogisTechs will purchase approximately $25 million in existing and future spare parts inventory to support Mesa s CRJ 200 fleet. The initial funding of the transaction occurred on August 4, 2004. As part of the transaction, Mesa received $10.5 million in cash, a note receivable of $6 million and placed $4.5 million on deposit with LogisTechs. The final closing is expected to take place within 60 days. The Company has also agreed with LogisTechs to negotiate similar agreements for up to $43 million of spare parts for Mesa s current and to be delivered fleet of Bombardier CRJ 700/900 and current fleet of Embraer 145s.

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The following tables set forth quarterly comparisons for the periods indicated below:

**OPERATING DATA**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | June 30, 2004 | June 30, 2003 | June 30, 2004 | June 30, 2003 |
| Passengers | 2,826,633 | 1,728,879 | 7,097,863 | 4,504,782 |
| Available seat miles (000 s) | 1,929,847 | 1,183,722 | 4,984,240 | 3,137,997 |
| Revenue passenger miles (000 s) | 1,419,466 | 773,693 | 3,470,825 | 1,942,842 |
| Load factor | 73.6% | 65.4% | 69.6% | 61.9% |
| Yield per revenue passenger mile (cents) | 16.9 | 19.9 | 18.3 | 21.8 |
| Revenue per available seat mile (cents) | 12.4 | 13.0 | 12.8 | 13.5 |
| Operating cost per available seat mile (cents) * | 11.2 | 11.8 | 12.0 | 12.8 |
| Average stage length (miles) | 402 | 345 | 387 | 330 |
| Number of operating aircraft in fleet | 175 | 141 | 175 | 141 |
| Gallons of fuel consumed | 45,516,906 | 30,251,021 | 121,290,235 | 81,795,535 |
| Block hours flown | 135,262 | 100,685 | 370,554 | 283,212 |
| Departures | 91,208 | 75,607 | 255,200 | 216,436 |

* Excluding the reversal of restructuring charges in fiscal 2003

**CONSOLIDATED FINANCIAL DATA**

| | Three Months Ended | | | | Nine Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2004 | | June 30, 2003 | | June 30, 2004 | | June 30, 2003 | |
| | Costs per ASM (cents) | % of total Revenues | Costs per ASM (cents) | % of total Revenues | Costs per ASM (cents) | % of total Revenues | Costs per ASM (cents) | % of total Revenues |
| Flight operations | 4.0 | 32.3% | 4.8 | 36.9% | 4.3 | 33.9% | 4.9 | 36.0% |
| Fuel | 2.8 | 22.2% | 2.4 | 18.2% | 2.6 | 20.7% | 2.6 | 18.9% |
| Maintenance | 2.3 | 18.1% | 2.3 | 18.0% | 2.4 | 18.4% | 2.7 | 19.9% |
| Aircraft and traffic servicing | 0.9 | 7.5% | 0.9 | 7.3% | 1.0 | 7.5% | 1.2 | 8.9% |
| Promotion and sales | 0.1 | 0.6% | 0.2 | 1.4% | 0.1 | 0.7% | 0.2 | 1.4% |
| General and administrative | 0.8 | 6.3% | 0.9 | 6.6% | 0.9 | 7.4% | 0.9 | 6.7% |
| Depreciation and amortization | 0.4 | 3.1% | 0.3 | 2.4% | 0.4 | 2.9% | 0.4 | 2.7% |
| Impairment and restructuring charges (credits) | 0.1 | 0.4% | | | 0.2 | 1.9% | (0.3) | (2.6)% |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total operating expenses | 11.2 | 90.5% | 11.8 | 90.7% | 12.0 | 93.5% | 12.4 | 91.9% |
| Interest expense | 0.4 | 2.9% | 0.2 | 1.3% | 0.4 | 2.8% | 0.2 | 1.8% |

Note: numbers in table may not recalculate due to rounding

**FINANCIAL DATA BY OPERATING SEGMENT**

| | Three Months Ended June 30, 2004 (000 s) | | | | | |
|---|---|---|---|---|---|---|
| | Mesa/Freedom | Air Midwest | CCAir | Other | Elimination | Total |
| Total operating revenues | $217,216 | $20,272 | $ | $111,610 | $(109,512) | $239,586 |
| Total operating expenses | 190,917 | 21,813 | | 96,001 | (91,930) | 216,801 |
| Operating income (loss) | 26,299 | (1,541) | | 15,609 | (17,582) | 22,785 |

| | Three Months Ended June 30, 2003 (000 s) | | | | | |
|---|---|---|---|---|---|---|
| | Mesa/Freedom | Air Midwest | CCAir | Other | Elimination | Total |
| Total operating revenues | $131,661 | $21,077 | $ | $62,558 | $(61,221) | $154,075 |
| Total operating expenses | 117,141 | 22,588 | (4) | 47,777 | (47,757) | 139,745 |
| Operating income (loss) | 14,520 | (1,511) | 4 | 14,781 | (13,464) | 14,330 |

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| | Nine Months Ended June 30, 2004 (000 s) | | | | | |
|---|---|---|---|---|---|---|
| | Mesa/Freedom | Air Midwest | CCAir | Other | Elimination | Total |
| Total operating revenues | $569,330 | $62,318 | $ | $267,972 | $(262,817) | $636,803 |
| Total operating expenses | 509,754 | 70,544 | | 236,088 | (220,673) | 595,713 |
| Operating income (loss) | 59,576 | (8,226) | | 31,884 | (42,144) | 41,090 |

| | Nine Months Ended June 30, 2003 (000 s) | | | | | |
|---|---|---|---|---|---|---|
| | Mesa/Freedom | Air Midwest | CCAir | Other | Elimination | Total |
| Total operating revenues | $355,396 | $63,961 | $ 1,254 | $98,427 | $(94,557) | $424,481 |
| Total operating expenses | 330,663 | 71,126 | (9,768) | 68,387 | (70,145) | 390,263 |
| Operating income (loss) | 24,733 | (7,165) | 11,022 | 30,040 | (24,412) | 34,218 |

## RESULTS OF OPERATIONS

***For the three months ended June 30, 2004 versus the three months ended June 30, 2003***

*Operating Revenues:*

In the quarter ended June 30, 2004, operating revenue increased by $85.5 million, or 55.5%, from $154.1 million to $239.6 million. The increase in revenue is primarily attributable to the addition of 37 additional regional jets flown by Mesa and Freedom compared to the same period in 2003.

*Operating Expenses*

*Flight Operations*

In the quarter ended June 30, 2004, flight operations expense increased $20.5 million or 36.1%, to $77.4 million (4.0 cents per ASM) from $56.9 million (4.8 cents per ASM) for the comparable period in fiscal 2003. The increase is consistent with the 37 additional regional jets added at Mesa and Freedom. The decrease on an ASM basis is due to the economies of scale realized by operating the larger CRJ-700 and CRJ-900 regional jets.

*Fuel*

In the quarter ended June 30, 2004, fuel expense increased $25.1 million or 89.7%, to $53.1 million (2.8 cents per ASM) from $28.0 million (2.4 cents per ASM) for the comparable period in fiscal 2003. Into-plane fuel cost increased 26% per gallon, resulting in a $10.9 million unfavorable price variance and consumption increased 50% resulting in a $14.2 million unfavorable volume variance. The increase in volume was due to the additional regional jets added to the fleet. In the quarter ended June 30, 2004 approximately 93% of our fuel costs were reimbursed by our code-share partners.

*Maintenance Expense*

In the quarter ended June 30, 2004, maintenance expense increased $15.7 million or 56.6%, to $43.5 million (2.3 cents per ASM) from $27.8 million (2.3 cents per ASM) for the comparable period in fiscal 2003. Mesa and Freedom s maintenance expense increased $15.1 million primarily as a result of increases in the number of aircraft in their fleet, repair costs on certain rotable parts, headcount and engine overhaul expenses. Air Midwest s maintenance expense increased $0.6 million due to the addition of employees as a result of transitioning outsourced mechanic labor to in-house and the associated delays in the transition.

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*Aircraft and Traffic Servicing*

In the quarter ended June 30, 2004, aircraft and traffic servicing expense increased by $6.7 million or 59.7%, to $17.9 million (0.9 cents per ASM) from $11.2 million (0.9 cents per ASM) for the comparable period in fiscal 2003. The increase is primarily related to an increase of 20% in regional jet departures.

*Promotion and Sales*

In the quarter ended June 30, 2004, promotion and sales expense decreased $0.6 million or 30.9%, to $1.5 million (0.1 cents per ASM) from $2.1 million (0.2 cents per ASM) for the comparable period in fiscal 2003. The decrease is due to a decline in booking and franchise fees paid by Air Midwest under the Company s prorate agreements with its code-share partners, caused by a decline in passengers carried under these agreements. The Company does not pay these fees under its regional jet revenue-guarantee contracts.

*General and Administrative*

In the quarter ended June 30, 2004, general and administrative expense increased $4.9 million or 48.0%, to $15.0 million (0.8 cents per ASM) from $10.2 million (0.9 cents per ASM). A portion of the increase is related to an increase of $1.0 in passenger liability insurance, which is based upon the number of passengers carried and an increase of $0.8 million related to health benefits expenses due to an increase in employees and the nature and volume of claims. Bad debt expense also increased $1.1 million due to a reserve for certain accounts receivables. The remainder of the increase consisted of increased wages and other benefits related to increased headcount consistent with the Company s growth.

*Depreciation and Amortization*

In the quarter ended June 30, 2004, depreciation and amortization expense increased $3.7 million or 102.4%, to $7.3 million (0.4 cents per ASM) from $3.6 million (0.3 cents per ASM) for the comparable quarter in the prior year. The increase is related to the purchase of 11 CRJ-700 and CRJ-900 aircraft that were permanently financed with debt as well as rotable provisioning for the additional regional jets at Mesa and Freedom.

*Impairment and Restructuring Charges*

In the third quarter of fiscal 2004 the Company recognized an impairment charge of $1.1 million due to finalizing agreements to return the last two of the seven leased B1900D aircraft impaired in the second quarter of fiscal 2004.

*Interest Expense*

Interest expense increased $4.9 million or 246.9%, to $6.9 million for the three months ended June 30, 2004 from $2.0 million for the three months ended June 30, 2003. The increase in interest expense is comprised of $2.7 million in interest on the senior convertible notes and $2.2 million in interest on the permanently financed aircraft debt.

*Other Income (Expense)*

Other income (expense) increased $4.3 million from an expense of $4.0 million for the quarter ended June 30, 2003 to income of $0.3 million for the quarter ended June 30, 2004. Other expense for the quarter ended June 30, 2003 is primarily attributable to a settlement with the DOT of $4.1 million.

*Minority Interest*

Amounts included in minority interest reflect the after-tax portion of earnings of UFLY, LLC that are applicable to the minority interest partners. UFLY was dissolved in the fourth quarter of fiscal 2003.

***For the nine months ended June 30, 2004 versus the nine months ended June 30, 2003***

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*Operating Revenues:*

In the nine months ended June 30, 2004, operating revenue increased by $212.3 million, or 50.0%, from $424.5 million to $636.8 million. The increase in revenue is primarily attributable to a $213.9 million increase in revenue associated with the operation of 37 additional regional jets flown by Mesa and Freedom compared to the same period in 2003. This increase was partially offset by a net decrease of approximately $1.6 million at Air Midwest. The decrease at Air Midwest was primarily due to a decline in passengers carried as a result of parking seven leased aircraft in the second quarter resulting in a decrease of $4.3 million; however, this decrease was offset by increased Essential Air Service subsidies of $2.5 million received as a result of additional markets served and higher subsidy rates on existing markets.

*Operating Expenses*

*Flight Operations*

In the nine months ended June 30, 2004, flight operations expense increased $63.2 million or 41.3%, to $216.1 million (4.3 cents per ASM) from $153.0 million (4.9 cents per ASM) for the comparable period in fiscal 2003. The increase is consistent with the increased capacity from the additional regional jets added to Mesa and Freedom s fleet. The decrease on an ASM basis is due to the additional regional jets added at Mesa and Freedom and the reduction in turboprop aircraft at Air Midwest.

*Fuel*

In the nine months ended June 30, 2004, fuel expense increased $51.8 million or 64.7%, to $131.8 million (2.6 cents per ASM) from $80.0 million (2.6 cents per ASM) for the comparable period in fiscal 2003. Into-plane fuel cost increased 11% per gallon, resulting in a $13.2 million unfavorable price variance and consumption increased 48% resulting in a $38.6 million unfavorable volume variance. The increase in volume was due to the additional regional jets added to the fleet. In the nine months ended June 30, 2004 approximately 91% of our fuel costs were reimbursed by our code-share partners.

*Maintenance Expense*

In the nine months ended June 30, 2004, maintenance expense increased $32.9 million or 39.0%, to $117.3 million (2.4 cents per ASM) from $84.4 million (2.7 cents per ASM) for the comparable period in fiscal 2003. Mesa and Freedom s maintenance expense increased $25.5 million primarily as a result of increases in the number of aircraft in their fleet, repair costs on certain rotable parts, headcount and engine overhaul expenses. Air Midwest s maintenance expense increased $3.3 million due to the addition of employees as a result of transitioning outsourced mechanic labor to in-house and the associated delays in the transition. The decrease on an ASM basis is due to the lower maintenance costs associated with adding new jets into the Company s fleet.

*Aircraft and Traffic Servicing*

In the nine months ended June 30, 2004, aircraft and traffic servicing expense increased by $9.8 million or 25.7%, to $47.8 million (1.0 cents per ASM) from $38.0 million (1.2 cents per ASM) for the comparable period in fiscal 2003. The increase is primarily related to an increase of 18% in regional jet departures. The decrease on an ASM basis is due to the efficiencies attained by adding additional regional jets at Mesa and Freedom and the reduction in turboprop aircraft at Air Midwest and CCAir.

*Promotion and Sales*

In the nine months ended June 30, 2004, promotion and sales expense decreased $1.6 million or 26.1%, to $4.5 million (0.1 cents per ASM) from $6.2 million (0.2 cents per ASM) for the comparable period in fiscal 2003. The decrease is due to a decline in booking and franchise fees paid by Air Midwest and CCAir under the Company s prorate agreements with its code-share partners, caused by a decline in passengers carried under these agreements. The Company does not pay these fees under its regional jet revenue-guarantee contracts.

*General and Administrative*

In the nine months ended June 30, 2004, general and administrative expense increased $18.7 million or 65.9%, to $47.0 million (0.9 cents per ASM) from $28.4 million (0.9 cents per ASM). The increase is primarily related to $3.8 million in costs associated with the attempted merger with Atlantic Coast Airlines, Inc. and $3.5 million in executive compensation as a result of the restructuring of employment contracts of top executives. The remainder of the increase is related to rising healthcare costs associated with increased headcount of $2.0 million, an increase in passenger liability insurance of $2.6 million, which is based upon the number of passengers carried, an increase in bad debt expense of $1.9 million, an increase in property taxes of $1.7 million due to the increase in the number of aircraft operating at the end of calendar 2003 versus 2002, an increase in wages and other employee related expenses of $2.6 million due to increased headcount, and an increase of $0.6 million for rent expense due to the expansion of the corporate office.

*Depreciation and Amortization*

In the nine months ended June 30, 2004, depreciation and amortization expense increased $7.4 million or 65.5%, to $18.7 million (0.4 cents per ASM) from $11.3 million (0.4 cents per ASM) for the comparable quarter in the prior year. The increase is primarily due to the purchase of 11 regional jets as well as an increase in the number of aircraft on interim financing and an increase in rotable aircraft inventory at Mesa and Freedom.

*Impairment and Restructuring Charges*

In the second quarter of fiscal 2004, the Company recognized an impairment charge of $11.3 million related to the planned early return of seven leased B1900D aircraft with lease expirations between December 2004 and September 2005. The Company has negotiated the terms of the early return with the majority of the aircraft lessors and took a charge that included $2.4 million for the present value of future lease payments, $2.4 million for the negotiated settlement of return conditions, $1.2 million for the cancellation of maintenance agreements, $0.8 million to reduce maintenance deposits to net realizable value, and $4.5 million to reduce the value of rotable and expendable inventory to fair value less costs to sell.

In the third quarter of fiscal 2004 the Company recognized an impairment charge of $1.1 million due to additional costs for two of the seven leased B1900D aircraft impaired in the second quarter of fiscal 2004.

In the nine months ended June 30, 2003, the Company recognized an additional impairment charge of $1.1 million related to the costs of returning Beechcraft 1900D aircraft to the manufacturer. The Company also reversed $7.4 million in restructuring charges for future aircraft leases related to CCAir aircraft that were returned to the lessor and $4.6 million in aircraft related return costs for these same aircraft. The reversal of these charges was precipitated by the dissolution of CCAir and the Company s subsequent determination, after consultation with counsel, that the Company should not be held legally responsible for the aircraft lease obligations and aircraft related return costs incurred solely by CCAir and not guaranteed by the Company.

*Interest Expense*

Interest expense increased $10.2 million or 137.4%, to $17.6 million for the nine months ended June 30, 2004 from $7.4 million for the nine months ended June 30, 2003. The increase in interest expense is primarily comprised of $6.2 million in interest on the senior convertible notes and $3.9 million in interest on the permanently financed aircraft debt.

*Other Income (Expense)*

Other income (expense) increased $4.7 million from expense of $2.6 million for the nine months ended June 30, 2003 to income of $2.1 million for the nine months ended June 30, 2004. Other income for the nine months ended June 30, 2004 is primarily attributable to investment income of $1.7 million related to the Company s portfolio of aviation related securities. In fiscal 2003, other expense is primarily comprised of the settlement with the DOT of $4.1 million. This expense was offset by the gain on involuntary conversion of an aircraft of $1.3 million related to the crash of Flight 5481 in January of 2003.

*Minority Interest*

Amounts included in minority interest reflect the after-tax portion of earnings of UFLY, LLC that are applicable to the minority interest partners. UFLY was dissolved in the fourth quarter of fiscal 2003.

## LIQUIDITY AND CAPITAL RESOURCES

We had cash, cash equivalents, and marketable securities (including restricted cash and held-to-maturity securities) of $219.6 million at June 30, 2004, compared to $166.1 million at September 30, 2003. We improved our cash position by issuing convertible notes in February, raising $97.0 million in capital (after expenses). Uses of cash included capital expenditures of $47.9 million due to the expansion of our regional jet fleet and related provisioning of rotable inventory to support the additional jets. The Company also purchased the assets of bankrupt Midway airlines for $9.2 million to further our regional jet expansion. Our cash and cash equivalents and marketable securities are intended to be used for working capital, capital expenditures, acquisitions, and to fund our obligations with respect to regional jet deliveries.

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

The notes are convertible into shares of our common stock at a conversion rate of 40.3737 shares per $1,000 in principal amount at maturity of the notes. This conversion rate is subject to adjustment in certain circumstances. Holders of the notes may convert their notes only if: (i) after March 31, 2004, the sale price of our common stock exceeds 110% of the accreted conversion price for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding quarter; (ii) on or prior to February 10, 2019, the trading price for the notes falls below certain thresholds; (iii) the notes have been called for redemption; or (iv) specified corporate transactions occur. We may redeem the notes, in whole or in part, beginning on February 10, 2009, at a redemption price equal to the issue price, plus accrued original issue discount, plus any accrued and unpaid cash interest. The holders of the notes may require us to repurchase the notes on February 10, 2009 at a price of $583.40 per note plus accrued and unpaid cash interest, if any, on February 10, 2014 at a price of $698.20 per note plus accrued and unpaid cash interest, if any, and on February 10, 2019 at a price of $835.58 per note plus accrued and unpaid cash interest, if any. It is our intent to settle the notes in cash if the holders require repurchase in 2009, 2014 or 2019. We have filed a shelf registration statement with the U.S. Securities and Exchange Commission covering the resale of the notes and the underlying common stock. We plan to use the net proceeds from the sale of the notes for working capital and to fund our obligations with respect to regional jet deliveries.

In January 2004, we permanently financed five CRJ-700 and four CRJ-900 aircraft with $207.5 million in debt. In March 2004, two additional CRJ-900 aircraft were also financed with $47.2 million in debt. The debt bears interest at the monthly LIBOR plus three percent and requires monthly principal and interest payments. These aircraft were on interim financing.

In December 2003, we purchased the assets of Midway Airlines Corporation ( Midway ) for $9.2 million through Midway s Chapter 7 bankruptcy proceeding. As part of the purchase, we assumed $24.1 million in debt related to the two CRJ-200 aircraft.

Also at June 30, 2004, we had $178.9 million in notes payable to an aircraft manufacturer for aircraft on interim financing. Under interim financing arrangements, the Company takes delivery and title of the aircraft prior to securing permanent financing and the acquisition of the aircraft is accounted for as a purchase with debt financing. Accordingly, we reflect the aircraft and debt under interim financing on our balance sheet during the interim financing period. After taking delivery of the aircraft, it is the Company s intention to subsequently enter into a sale-leaseback transaction with an independent third-party lessor. Upon permanent financing, the proceeds from the sale and leaseback transaction are used to retire the notes payable to the manufacturer. Any gain recognized on the sale-leaseback transaction is deferred and amortized over the life of the lease. Occasionally the Company will permanently finance aircraft with long-term debt, but it is our current intention to permanently finance aircraft as operating leases rather than debt. The Company currently has seven aircraft on interim financing with the manufacturer. These interim financings agreements are six months in length and provide for monthly interest only payments at LIBOR plus three percent. The current interim financing agreement with the manufacturer provides for the Company to have a maximum of 15 aircraft on interim financing at a given time.

As of June 30, 2004, we had receivables of approximately $37.3 million (net of an allowance for doubtful accounts of $5.1 million). The amounts due consist primarily of receivables due from our code-share partners and passenger ticket receivables due through the Airline Clearing House.

During the first nine months of fiscal 2004, we had code-share agreements with America West, US Airways, United and Midwest Airlines. Approximately 99% of our consolidated passenger revenue for the quarter ended June 30, 2004 was derived from these agreements. Accounts receivable from our code-share partners was 62% of total gross accounts receivable at June 30, 2004.

The termination of the America West, United or US Airways code-share agreements (specifically the jet contracts) would have a material adverse effect on our business prospects, financial position, results of operations and cash flows. If termination without renewal should occur, management believes they would be able to reduce costs quickly through reductions in headcount or parking aircraft. Additionally management believes they could continue flying certain routes or transfer certain aircraft, particularly the regional jets, to new markets and new code-share arrangements with other carriers.

In June, the Company finalized an agreement with LogisTechs, Inc., an affiliate of GE Capital Aviation Services (GECAS) for the sale, management, and repair of its CRJ 200 aircraft rotable spare parts inventory. Under the agreement, LogisTechs will purchase approximately $25 million in existing and future spare parts inventory to support Mesa s CRJ 200 fleet. The initial funding of the transaction occurred on August 4, 2004. As part of the transaction, the Company received $10.5 million in cash, a note receivable of $6 million and placed $4.5 million on deposit with LogisTechs. The final closing is expected to take place within 60 days. The Company has also agreed with LogisTechs to negotiate similar agreements for up to $43 million of spare parts for Mesa s current and to be delivered fleet of Bombardier CRJ 700/900 and current fleet of Embraer 145.

Since 1999, our Board of Directors authorized us to repurchase up to 6.4 million shares of our outstanding common stock. As of June 30, 2004, we had acquired and retired approximately 4.8 million shares (approximately 15%) of our outstanding common stock at an aggregate cost of approximately $27.3 million, leaving approximately 1.6 million shares available for repurchase under the existing Board authorizations. Purchases are made at management s discretion based on market conditions and our financial resources.

We have $10.8 million in restricted cash on deposit collateralizing various letters of credit outstanding as of June 30, 2004. The restricted cash on deposit is required due to the expiration of our line of credit with Fleet Capital on December 7, 2003. We have signed a letter of intent with a financial institution for a $9 million letter of credit facility, of which $4 million must be secured, and we expect to finalize the documentation in the fourth quarter. This facility will replace the expired facility with Fleet Capital.

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As of June 30, 2004, we had 23 aircraft remaining on order under our May 2001 aircraft purchase agreement with BRAD. In conjunction with this purchase agreement, we had $15.0 million remaining on deposit with BRAD, which was included with lease and equipment deposits at June 30, 2004. The remaining deposits will be returned on upon completion of permanent financing on each of the last five aircraft under firm order with Bombardier ($3.0 million per aircraft).

As of June 30, 2004, we had permanently financed 30 of the 37 CRJ-700 and CRJ-900 aircraft delivered under the 2001 BRAD agreement; the remaining aircraft are subject to interim financing. We may utilize interim financing provided by the manufacturer and to fund up to 15 aircraft at any one time under this facility. Our ability to obtain additional interim financing is contingent upon obtaining permanent financing for the aircraft already delivered. There are no assurances that we will be able to obtain permanent financing for future aircraft deliveries.

We have significant long-term lease obligations primarily relating to our aircraft fleet. The leases are classified as operating leases and are therefore excluded from our consolidated balance sheets. At June 30, 2004, we leased 126 aircraft with remaining lease terms ranging from 1 to 17 years. Future minimum lease payments due under all long-term operating leases were approximately $2.1 billion at June 30, 2004.

As of August 4, 2004, we had cash and marketable securities in excess of $208.2 million, including restricted cash of $10.7 million. We believe that we will have adequate cash flow to meet our operating needs.

**Commitments**

As of June 30, 2004, we had $575.3 million in long-term debt (including current maturities). This amount consisted primarily of $250.8 million in notes payable related to the acquisition of 11 regional jets, $100.1 million related to the issuance of the senior convertible notes at 6.25%, $100.0 million related to the issuance of senior convertible notes at 3.625%, $96.0 million in notes payable related to the Company s fleet of Beechcraft 1900D turboprop aircraft, $23.4 million related to the two CRJ 200 aircraft acquired from Midway, $3.8 million related to the settlement of past contractual claims of an aircraft manufacturer, and $1.0 million related to a mortgage note payable on one of our real estate properties. As of June 30, 2004, we had $178.9 million in short-term notes payable to the manufacturer for interim financed aircraft.

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The following table sets forth our cash obligations as of June 30, 2004.

| In thousands: | 2004 | 2005 | 2006 | 2007 | 2008 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Long-term debt: | | | | | | | |
| Senior convertible debt notes 2.4829% (assuming no conversions) | $ | $ | $ | $ | $ | $ 100,112 | $ 100,112 |
| Senior convertible debt notes 2.115% (assuming no conversions) | | | | | | 100,000 | 100,000 |
| Notes payable related to B1900Ds | 1,552 | 6,218 | 6,431 | 6,652 | 6,880 | 68,221 | 95,954 |
| Notes payable related to CRJ-700s and 900s | 3,097 | 12,802 | 13,344 | 13,909 | 14,475 | 193,168 | 250,795 |
| Notes payable related to CRJ-200s | 379 | 1,325 | 1,103 | 1,206 | 1,357 | 18,030 | 23,400 |
| Note payable to manufacturer | 393 | 786 | 786 | 1,791 | | | 3,756 |
| Mortgage note payable | 9 | 38 | 41 | 44 | 48 | 790 | 970 |
| Other | 33 | 59 | 52 | 17 | 18 | 87 | 266 |
| Total long-term debt: | 5,463 | 21,228 | 21,757 | 23,619 | 22,778 | 480,408 | 575,253 |
| Short-term debt: | | | | | | | |
| Notes payable to manufacturer interim financing (1) | 178,939 | | | | | | 178,939 |
| Total debt: | 184,402 | 21,228 | 21,757 | 23,619 | 22,778 | 480,408 | 754,192 |
| Payments under operating leases: | | | | | | | |
| Cash aircraft rental payments (2) | 49,056 | 184,590 | 184,591 | 179,641 | 166,018 | 1,281,975 | 2,045,871 |
| Lease payments on equipment and operating facilities | 246 | 891 | 844 | 680 | 703 | 3,156 | 6,520 |
| Total lease payments | 49,302 | 185,481 | 185,435 | 180,321 | 166,721 | 1,285,131 | 2,052,391 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Future aircraft acquisition costs (3) | 875,000 | | | | | | 875,000 |
| Total | $1,108,704 | $206,709 | $207,192 | $203,940 | $189,499 | $1,765,539 | $3,681,583 |

(1) Represents the principal amount of notes payable to the manufacturer for interim financed aircraft. The Company expects to permanently finance these aircraft under operating leases in the following year; however, these aircraft may also be financed as debt.

(2) Lease payments on aircraft flown pursuant to our guaranteed-revenue agreements are reimbursed by the applicable code-share partner.

(3) Represents the estimated cost of commitments to acquire CRJ-200, CRJ-700 and CRJ-900 aircraft in the future.

**Critical Accounting Estimates and Judgments**

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

We have identified the accounting policies below as critical to our business operations and the understanding of our results of operations. The impact of these policies on our business operations is discussed throughout Management s Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results. The discussion below is not intended to be a comprehensive list of our accounting policies. For further discussion on the application of these and other accounting policies, see Note 1 in the Notes to the Consolidated Financial Statements in Form 10-K/A, which contains accounting policies and other disclosures required by accounting principles generally accepted in the United States of America.

***Revenue Recognition***

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

The America West, US Airways, and Midwest Airlines B1900D turboprop code-share agreements are pro-rate agreements. Under a pro-rate agreement, the Company receives a percentage of the passenger s fare based on a standard industry formula that allocates revenue based on the percentage of transportation provided. Revenue from our pro-rate agreements and our independent operation is recognized when transportation is provided. Tickets sold but not yet used are included in air traffic liability on the consolidated balance sheets.

The Company also receives subsidies for providing scheduled air service to certain small or rural communities. Such revenue is recognized in the period in which the air service is provided. The amount of the subsidy payments under the Essential Air Service Program is determined by the United States Department of Transportation on the basis of its evaluation of the amount of revenue needed to meet operating expenses and to provide a reasonable return on investment with respect to eligible routes.

***Allowance for Doubtful Accounts***

Amounts billed by the Company under revenue guarantee arrangements are subject to our interpretation of the applicable code-share agreement and are subject to audit by our code-share partners. Periodically our code-share partners dispute amounts billed and pay amounts less than the amount billed. Ultimate collection of the remaining amounts not only depends upon Mesa prevailing under audit, but also upon the financial well-being of the code-share partner. As such, the Company periodically reviews amounts past due and records a reserve for amounts estimated to be uncollectible. The allowance for doubtful accounts was $5.1 million at June 30, 2004 and $4.7 million at September 30, 2003. If the Company s actual ability to collect these receivables and the actual financial viability of its partners is materially different than estimated, the Company s estimate of the allowance could be materially understated or overstated.

***Accrued Health Care Costs***

The Company is currently self-insured for health care costs and as such, a reserve for the cost of claims that have not been paid as of the balance sheet date is estimated. The Company s estimate of this reserve is based upon historical claim experience and upon the recommendations of its health care provider. At June 30, 2004 and September 30, 2003, the Company accrued $2.4 million and $1.8 million, respectively, for the cost of future health care claims. If the ultimate development of these claims is significantly different than those that have been estimated, the reserves for future health care claims could be materially overstated or understated.

***Long-lived Assets, Aircraft and Parts Held for Sale***

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

***Valuation Allowance for Deferred Tax Assets***

The Company records deferred tax assets for the value of benefits expected to be realized from the utilization of alternative minimum tax credit carryforwards and state and federal net operating loss carryforwards. The Company periodically reviews these assets for realizability based upon expected taxable income in the applicable taxing jurisdictions. To the extent the Company believes some portion of the benefit may not be realizable, an estimate of the unrealized portion is made and an allowance is recorded. At June 30, 2004 and September 30, 2003, the Company had a valuation allowance for certain deferred tax assets not expected to be realized of $0.1 million. Realization of these deferred tax assets is dependent upon generating sufficient taxable income prior to expiration of any net operating loss carryforwards. The Company believes it will generate sufficient taxable income in the future to realize these net operating loss carryforwards as the Company has had pretax income in fiscal 2003, 2002 and 2001 (excluding impairment charges) and as the Company has taken steps to minimize the financial impact of its unprofitable subsidiaries. Although realization is not assured, management believes it is more likely than not that the recorded deferred tax asset, net of the valuation allowance provided, will be realized. If the ultimate realization of these deferred tax assets is significantly different than those that have been estimated, the valuation allowance for deferred tax assets could be materially overstated or understated.

**AIRCRAFT**

The following table lists the aircraft owned and leased by the Company for scheduled operations as of June 30, 2004:

| Type of Aircraft | Owned | Leased | Total | Operating on June 30, 2004 | Passenger Capacity |
|---|---|---|---|---|---|
| Canadair 200 Regional Jet | 2 | 49 | 51 | 51 | 50 |
| Canadair 700 Regional Jet | 5 | 10 | 15 | 15 | 64 |
| Canadair 900 Regional Jet | 13 | 9 | 22 | 22 | 90 |
| Embraer 145 Regional Jet | | 36 | 36 | 36 | 50 |
| Beechcraft 1900D | 35 | | 35 | 35 | 19 |
| Dash 8-200 | | 16 | 16 | 16 | 37 |
| Embraer EMB 120 | | 6 | 6 | | 30 |
| Total | 55 | 126 | 181 | 175 | |

*ERJ Program*

As of June 30, 2004, the Company has taken delivery of all 36 ERJ-145 50-passenger regional jets contracted for under the June 1999 aircraft purchase agreement with Embraer. All aircraft have been permanently financed as operating leases.

*CRJ Program*

In August 1996, we entered into an agreement (the 1996 BRAD Agreement ) with Bombardier Regional Aircraft Division ( BRAD ) to acquire 32 CRJ-200 50-passenger regional jet aircraft. The 32 aircraft have been delivered and are currently under permanent financing as operating leases with initial terms of 16.5 to 18.5 years.

In May 2001, we entered into a second agreement with BRAD (the 2001 BRAD Agreement ) to purchase a total of 15 CRJ-700s and 25 CRJ-900s. The transaction includes standard product support provisions, including training, preferred pricing on initial inventory provisioning, maintenance and technical publications. The Company

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has accepted delivery of 15 CRJ-700s. We are the launch customer of the CRJ-900, and as of June 30, 2004, have taken delivery of 22 CRJ-900 aircraft. In addition to the firm orders, Mesa has an option to acquire an additional 80 CRJ-700 or CRJ-900 regional jets. In January 2004, the Company exercised options to acquire 20 CRJ-700 and CRJ-900 aircraft (exact mix to be determined at a later date) for delivery through 2005. In conjunction with the 2001 BRAD Agreement, Mesa has $15.0 million on deposit with BRAD, which was included with lease and equipment deposits at June 30, 2004.

In 2003 and 2004, the Company acquired 11 previously operated CRJ-100/200 aircraft in order to meet required deliveries under its code-share agreements. The aircraft are financed as operating leases. The Company continues to actively pursue previously operated 50-seat regional jet aircraft to meet its contractual delivery requirements. The Company plans to lease five additional previously operated CRJ-200 aircraft over the next quarter.

Also in 2004, the Company acquired eight CRJ 200 aircraft through the purchase of the assets of Midway. Of the eight aircraft acquired, two are owned and six are leased.

The following table summarizes the Company s jet fleet status and current fleet expansion plans, as well as options on additional aircraft deliveries, for the periods indicated:

| | CRJ-100/200 | CRJ-700 Firm Orders | CRJ-900 Firm Orders | CRJ-700/900 Options | ERJ-145 Firm Orders | ERJ-145 Options | Cumulative Total |
|---|---|---|---|---|---|---|---|
| Delivered: | | | | | | | |
| At 6/30/2004 | 51 | 15 | 22 | | 36 | | 124 |
| Scheduled deliveries: | | | | | | | |
| Fiscal 2004 | 5 | | 3 | | | | 132 |
| Fiscal 2005 | 7 | | 14* | | | | 153 |
| Fiscal 2006 | | | 6 | 6 | | 8 | 173 |
| Fiscal 2007 | | | | 24 | | 10 | 207 |
| Fiscal 2008 | | | | 10 | | 12 | 229 |
| Fiscal 2009 and Beyond | | | | 20 | | 15 | 264 |
| **Total** | 63 | 15 | 45 | 60 | 36 | 45 | |

* The Company has the right to convert a portion of these CRJ-900 aircraft to CRJ-700 aircraft at a later date.

*Beechcraft 1900D*

As of June 30, 2004, we owned 35 Beechcraft 1900D aircraft. Effective March 31, 2004, the Company parked seven leased B1900 aircraft and has negotiated the terms of the early return with all of the aircraft lessors.

*Dash-8*

As of June 30, 2004, we operated 16 leased Dash-8 aircraft.

*Aircraft Financing Relationships with the Manufacturer*

It is customary business practice to enter into interim financing with the manufacturer. Under interim financing arrangements, the Company takes delivery and title of the aircraft prior to securing permanent financing. After taking delivery of the aircraft, it is the Company s intention to subsequently enter into a sale-leaseback transaction with an independent third-party lessor. Occasionally the Company will permanently finance aircraft with long-term debt, but it is our current intention to permanently finance aircraft as operating leases rather than debt. The Company currently has seven aircraft on interim financing with the manufacturer. These interim financings agreements are six months in length and provide for monthly interest only payments at LIBOR plus three percent. The current interim financing agreement with the manufacturer provides for the Company to have a maximum of 15 aircraft on interim financing at a given time.

**RISK FACTORS**

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### Risks Related to Our Business

*The negative impact of the September 11, 2001 terrorist attacks and the resulting government responses could be material to our financial condition, results of operations and prospects.*

The terrorist attacks of September 11, 2001 were highly publicized. The impacts that these events will continue to have on the airline industry in general, and on us in particular, are not known at this time, but are expected to include a substantial impact on our operations due to:

- a reduction in the demand for travel in the near and mid-term until public confidence in the air transportation system is restored;
- an increase in costs due to enhanced security measures and government directives in response to the terrorist attacks;
- an increase in the cost of aviation insurance in general, and the cost and availability of coverage for acts of war, terrorism, hijacking, sabotage and similar acts of peril in particular; and
- an increase in airport rents and landing fees.

In addition, we expect that the general increase in hostilities relating to reprisals against terrorist organizations and the continued threat of further terrorist attacks will continue to negatively impact our revenues and costs in the near and mid-term. The extent of the impact that the terrorist attacks and their aftermath will have on our operations, and the sufficiency of our financial resources to absorb this impact, will depend on a number of factors, including:

- the adverse impact that terrorist attacks, and the resulting government responses, will have on the travel industry and the economy in general;
- the potential increase in fuel costs and decrease in availability of fuel if oil-producing countries are affected by the aftermath of the terrorist attacks, including the government s responses, and our ability to manage this risk in connection with that part of our operations where our fuel costs are not reimbursed by our code-share partners under the terms of our code-share agreements;
- our ability to reduce our operating costs and conserve financial resources, taking into account the cost increases (including significant increases in the cost of aviation insurance) expected to result from the aftermath of the terrorist attacks and the government s responses;
- any resulting decline in the value of the aircraft in our fleet;
- our ability to raise additional financing, if necessary, taking into account our current leverage and the limitations imposed by the terms of our existing indebtedness;
- the number of crew members who may be called for duty in the reserve forces of the armed services and the resulting impact on our ability to operate as planned; and
- the scope and nature of any future terrorist attacks.

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

We depend on relationships created by our code-share agreements. We derive a significant portion of our consolidated passenger revenues from our revenue guarantee code-share agreements with America West, United

Airlines, and US Airways. Our code-share partners have certain rights to cancel the applicable code-share agreement upon the occurrence of certain events or the giving of appropriate notice, subject to certain conditions. Although no notice has been given to date that any party intends to cancel these contracts, there can be no assurance that they will not serve notice at a later date of their intention to cancel, forcing us to stop selling those routes with the applicable partner s code and potentially reducing our traffic and revenue. In addition, our code-share agreement with America West allows America West, subject to certain restrictions, to reduce the combined CRJ fleets utilized under the code-share agreement by one aircraft in any six-month period commencing in January 2007. In addition, beginning in February 2007, America West may eliminate the Dash-8 aircraft upon 180 days prior written notice. America West has used this provision to reduce the number of aircraft covered by the code-share agreement and there can be no assurance that, commencing in January 2007, they will not continue to further reduce the number of covered aircraft.

In addition, because a majority of our operating revenues are currently generated under revenue-guarantee code-share agreements, if any one of them is terminated, our operating revenues and net income could be materially adversely affected unless we are able to enter into satisfactory substitute arrangements or, alternatively, fly under our own flight designator code, including obtaining the airport facilities and gates necessary to do so. In fiscal year 2004 to date, our America West code-share agreement accounted for 37% of our consolidated passenger revenues, our US Airways code-share agreement accounted for 43% of our consolidated passenger revenues and our United code-share agreement accounted for 18% of our consolidated passenger revenues. Any material modification to, or termination of, our code-share agreements with any of these partners could have a material adverse effect on our financial condition, the results of our operations and the price of our common stock. Should any of our revenue-guarantee code-share agreements be terminated, we cannot assure you that we would be able to enter into substitute code-share arrangements, that any such arrangements would be as favorable to us as the current code-share agreements or that we could successfully fly under our own flight designator code.

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

We are directly affected by the financial and operating strength of our code-share partners. Any events that negatively impact the financial strength of our code-share partners or have a long-term effect on the use of our code-share partners by airline travelers would likely have a material adverse effect on our business, financial condition and results of operations. In the event of a decrease in the financial or operational strength of any of our code-share partners, such partner may seek to reduce, or be unable to make, the payments due to us under their code-share agreement. In addition, they may reduce utilization of our aircraft. Although there are certain monthly guaranteed payment amounts, there are no minimum levels of utilization specified in the code-share agreements. UAL Corp., the parent of our code-share partner United Airlines, has not emerged from reorganization under Chapter 11 of the U.S. Bankruptcy Code. Additionally, US Airways, which accounted for 43% of our consolidated passenger revenue in for the first nine months of fiscal 2004, had its corporate credit rating reduced to CCC+ from B- by Standard & Poor s on May 5, 2004. The financial performance of US Airways and United could directly affect their ability to perform under our code-share agreements with them. If any of our code-share partners, including US Airways, becomes bankrupt, our code-share agreement with such partner may not be assumed in bankruptcy and would be terminated. This and other such events could have an adverse effect on our business, financial condition and results of operations. In addition, any negative events that occur to other regional carriers and that affect public perception of such carriers generally could also have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

At June 30, 2004, we had approximately 4,500 employees, a significant number of whom are members of labor unions, including the Air Line Pilots Association and the Association of Flight Attendants. Our collective bargaining agreement with the Air Line Pilots Association expires in August 2007 and our collective bargaining agreement with the Association of Flight Attendants expires in June 2006. The inability to negotiate acceptable contracts with existing unions as agreements expire or with new unions could result in work stoppages by the affected workers, lost revenues resulting from the cancellation of flights and increased operating costs as a result of higher wages or benefits paid to union members. We cannot predict which, if any, other employee groups may seek union representation or the outcome or the terms of any future collective bargaining agreement and therefore the effect, if any, on our financial condition and results of operations. If negotiations with unions over collective bargaining agreements prove to be unsuccessful, following specified cooling off periods, the unions may initiate a work action, including a strike, which could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

We are also subject to the jurisdiction of the FAA with respect to our aircraft maintenance and operations, including equipment, ground facilities, dispatch, communication, training, weather observation, flight personnel and other matters affecting air safety. To ensure compliance with its regulations, the FAA requires airlines to obtain an operating certificate, which is subject to suspension or revocation for cause, and provides for regular inspections.

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

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

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

*Fluctuations in fuel costs could adversely affect our operating expenses and results.*

The price and supply of jet fuel is unpredictable and fluctuates based on events outside our control, including geopolitical developments, regional production patterns and environmental concerns. Although approximately 91% of our fuel costs for fiscal 2004 was reimbursed by our code-share partners, price escalations or reductions in the supply of jet fuel will increase our operating expenses and, to the extent such fuel costs are not reimbursed by our code-share partners, could cause our operating results and net income to decline.

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

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

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

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

We believe that our aircraft are mechanically reliable based on the percentage of scheduled flights completed and as of June 30, 2004 the average age of our regional jet fleet is 2.85 years. However, there can be no assurance that such aircraft will continue to be sufficiently reliable over longer periods of time. Furthermore, any public perception that our aircraft are less than completely reliable could have a material adverse effect on our business, financial condition and results of operations.

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*Our fleet expansion program will require a significant increase in our leverage and the financing we require may not be available on favorable terms or at all.*

The airline business is very capital intensive and, as a result, many airline companies are highly leveraged. During the fiscal 2004, our debt service payments totaled $28.8 million and our lease payments totaled $128.5 million. We have significant lease obligations with respect to our aircraft and ground facilities, which aggregated approximately $2.1 billion at June 30, 2004. As of June 30, 2004, our growth strategy involves the acquisition of eight more Bombardier regional jets during fiscal 2004. As of June 30, 2004, we had permanently financed 30 of the 37 CRJ-700 and CRJ-900 aircraft delivered under the 2001 BRAD agreement; the remaining aircraft are subject to interim financing. We may utilize interim financing provided by the manufacturer and have the ability to fund up to 15 aircraft at any one time under this facility. Our ability to obtain additional interim financing is contingent upon obtaining permanent financing for the aircraft already delivered. There are no assurances that we will be able to obtain permanent financing for future aircraft deliveries.

There can be no assurance that our operations will generate sufficient cash flow to make such payments or that we will be able to obtain financing to acquire the additional aircraft necessary for our expansion. If we default under our loan or lease agreements, the lender/lessor has available extensive remedies, including, without limitation, repossession of the respective aircraft and, in the case of large creditors, the effective ability to exert control over how we allocate a significant portion of our revenues. Even if we are able to timely service our debt, the size of our long-term debt and lease obligations could negatively affect our financial condition, results of operations and the price of our common stock in many ways, including:

- increasing the cost, or limiting the availability of, additional financing for working capital, acquisitions or other purposes;

- limiting the ways in which we can use our cash flow, much of which may have to be used to satisfy debt and lease obligations; and

- adversely affecting our ability to respond to changing business or economic conditions or continue our growth strategy.

If we need funds and cannot raise them on acceptable terms, we may be unable to realize our current plans or take advantage of unanticipated opportunities and could be required to slow our growth.

*We depend on Bombardier to supply us with the aircraft we require to expand.*

As of June 30, 2004, we are obligated under our code-share agreements to place an additional 27 regional jets in service over the next 12 months. We currently have firm orders with Bombardier for an additional 23 regional jets. We also have options to acquire an additional 60 regional jets that are exercisable through 2008.

We are dependent on Bombardier as manufacturer of these jets and certain factors may limit or preclude our ability to obtain these regional jets, including:

- Bombardier could refuse, or may not be financially able, to perform its obligations under the applicable purchase agreement for the delivery of the regional jets; and

- a fire, strike or other event could occur that affects Bombardier s ability to completely or timely fulfill its contractual obligations.

Any disruption or change in the delivery schedule of these regional jets would affect our overall operations and our ability to fulfill our obligations under our code-share agreements.

Our operations could be materially adversely affected by the failure or inability of Bombardier or any key component manufacturers to provide sufficient parts or related support services on a timely basis or by an interruption of fleet service as a result of unscheduled or unanticipated maintenance requirements for our aircraft.

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*Reduced utilization levels of our aircraft under the revenue-guarantee agreements would adversely impact our revenues and earnings.*

Even though our revenue-guarantee agreements require a fixed amount per month to compensate us for our fixed costs, if our aircraft are underutilized (including taking into account the stage length and frequency of our scheduled flights) we will lose the opportunity to receive a margin on the variable costs of flights that would have been flown if our aircraft were more fully utilized.

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

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

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

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

On January 8, 2003, US Airways Express Flight 5481, operated by Air Midwest, crashed shortly after takeoff from Charlotte Douglas International Airport en route to Greenville/Spartanburg, S.C. The estates of the passengers from Flight 5481, or the passengers, or their estates, of any other future aircraft accident may seek to recover damages for death or injury. Although we believe our present insurance coverage is sufficient to cover any claims arising from the crash of Flight 5481, there can be no assurance that the insurance we carry to cover damages arising from these or any future accidents will be adequate. Accidents could also result in unforeseen mechanical and maintenance costs. In addition, any accident involving an aircraft that we operate could create a public perception that our aircraft are not safe, which could result in air travelers being reluctant to fly on our aircraft. To the extent a decrease is associated with our operations not covered by our code-share agreements, such a decrease could have a material adverse affect on our business, financial condition or results of operations.

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

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

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

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

*We may experience difficulty finding, training and retaining employees.*

Our business is labor-intensive, we require large numbers of pilots, flight attendants, maintenance technicians and other personnel and we anticipate that our expansion plans will require us to recruit, train and retain a significant number of new employees over the next several years.

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The airline industry has from time to time experienced a shortage of qualified personnel, specifically pilots and maintenance technicians. In addition, as is common with most of our competitors, we have faced considerable turnover of our employees. Although our employee turnover has decreased significantly since September 11, 2001, our pilots, flight attendants and maintenance technicians often leave to work for larger airlines, which generally offer higher salaries and better benefit programs than regional airlines are financially able to offer. Should the turnover of employees, particularly pilots and maintenance technicians, sharply increase, the result will be significantly higher training costs than otherwise would be necessary. We cannot assure you that we will be able to recruit, train and retain the qualified employees that we need to carry out our expansion plans or replace departing employees. If we are unable to hire and retain qualified employees at a reasonable cost, we may be unable to complete our expansion plans, which could have a material adverse affect our financial condition, results of operations and the price of our common stock.

## Risks Related To Our Industry

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

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

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

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

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

*The airline industry is heavily regulated.*

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

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

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significantly increase our costs of doing business, to the extent such costs are not reimbursed by our code-share partners.

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

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

Additional laws, regulations, taxes and airport rates and charges have been proposed from time to time that could significantly increase the cost of airline operations or reduce revenues. For instance, passenger bill of rights legislation was introduced in Congress in 2001 which would have, among other things, required the payment of compensation to passengers as a result of certain delays and limited the ability of carriers to prohibit or restrict usage of certain tickets. If adopted, these measures could have had the effect of raising ticket prices, reducing revenue and increasing costs. Restrictions on the ownership and transfer of airline routes and takeoff and landing slots have also been proposed. In addition, as a result of the terrorist attacks in New York and Washington, D.C. in September 2001, the FAA has imposed more stringent security procedures on airlines. We cannot predict what other new regulations may be imposed on airlines and we cannot assure you that laws or regulations enacted in the future will not materially adversely affect our financial condition, results of operations and the price of our common stock.

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

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

### Risks Related to Our Common Stock

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

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

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

restrict the ability of stockholders to call special meetings of shareholders.

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

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*Our stock price may continue to be volatile and could decline substantially.*

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

our operating results failing to meet the expectations of securities analysts or investors in any quarter;

downward revisions in securities analysts   estimates;

material announcements by us or our competitors;

public sales of a substantial number of shares of our common stock following this offering;

governmental regulatory action; or

adverse changes in general market conditions or economic trends.

**Item 3. Qualitative and Quantitative Disclosure about Market Risk.**

There have been no material changes in the Company   s market risk since September 30, 2003.

**Item 4. Controls and Procedures.**

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company   s disclosure controls and procedures. Disclosure controls and procedures are designed to ensure that information required to be disclosed in the periodic reports filed or submitted under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission   s rules and forms. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company   s disclosure controls and procedures were effective as of the end of the period covered by this report but also concluded that there are certain weaknesses in our expendable and rotable parts area that could be improved upon. We are dedicating resources to correct these issues and are in the process of implementing the necessary corrections. The agreement with LogisTechs also required us to implement certain procedures directed towards monitoring the locations of our rotable inventory. Additionally, in April 2004, the Company determined that certain interim financing arrangements were not properly accounted for. As a result of this determination, we implemented procedures to review contract documentation to ensure that provisions of our contractual obligations are appropriately reflected in our consolidated financial statements. No change in the internal control over financial reporting occurred during the last fiscal quarter that has materially affected, or is likely to materially affect, the internal control over financial reporting, except as noted above.

* * *

## PART II. OTHER INFORMATION

### Item 1. *Legal Proceedings.*

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

### Item 2. *Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities*

(A) None

(B) None

(C) In February 2004, the Company completed the private placement of senior convertible notes due 2024, which resulted in gross proceeds of $100.1 million to the Company. Cash interest is payable on the notes at the rate of 2.115% per year on the principal amount at maturity, payable semiannually in arrears on February 10 and August 10 of each year, beginning August 10, 2004, until February 10, 2009. After that date, the Company will not pay cash interest on the notes prior to maturity, and the notes will begin accruing interest at a rate of 3.625% until maturity. On February 10, 2024, the maturity date of the notes, the principal amount of each note will be $1,000. The aggregate amount due at maturity, including interest accrued from February 10, 2009, will be $171,409,000. Each of the Company s wholly-owned domestic subsidiaries will guarantee the notes on an unsecured senior basis. The notes and the note guarantees are senior unsecured obligations and rank equally with the Company s existing and future senior unsecured and unsubordinated indebtedness. The notes and the note guarantees are junior to any secured obligations of the Company and any of its wholly owned subsidiaries to the extent of the collateral pledged.

The notes are convertible into shares of the Company s common stock at a conversion rate of 40.3737 shares per $1,000 in principal amount at maturity of the notes. This conversion rate is subject to adjustment in certain circumstances. Holders of the notes may convert their notes only if: (i) the sale price of our common stock exceeds 110% of the accreted conversion price for at least 20 trading days in the 30 consecutive days ending on the last trading day of the preceding quarter; (ii) on or prior to February 10, 2019, the trading price for the notes falls below certain thresholds; (iii) the notes have been called for redemption; or (iv) specified corporate transactions occur. The Company may redeem the notes, in whole or in party, beginning on February 10, 2009, at a redemption price equal to the sum of the issue price, plus accrued original issue discount, plus any accrued and unpaid cash interest. The holders of the notes may require the Company to repurchase the notes on February 10, 2009 at a price of $583.40 per note plus accrued and unpaid cash interest, if any, on February 10, 2014 at a price of $698.20 per note plus accrued and unpaid cash interest, if any, and on February 10, 2019 at a price of $835.58 per note plus accrued and unpaid cash interest, if any. It is our intent to settle the notes in cash if the holders require repurchase in 2009, 2014 and 2019. The Company has filed a shelf registration statement with the U.S. Securities and Exchange Commission covering the resale of the notes and the shares of common stock issuable upon conversion thereof. We plan to use the net proceeds from the sale of the notes for working capital and to fund our obligations with respect to regional jet deliveries.

(D) None

(E)

On December 23, 1999, the Board of Directors authorized the repurchase of 10%, or 3.4 million shares, of the Company s outstanding shares of common stock at the time. On January 4, 2001 and October 24, 2002 the Board of Directors amended the original plan and authorized the repurchase of one million and two million additional shares of common stock, respectively. As of June 30, 2004, the Company has acquired and retired 4.8 million shares of our outstanding common stock at an aggregate cost of approximately

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$27.3 million, leaving 1.6 million shares available for repurchase under the existing Board authorizations, which is open ended. The Company repurchased the following shares during the three months ended June 30, 2004:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans | Maximum Number of Shares that May Yet Be Purchased Under the Plan |
|---|---|---|---|---|
| April 2004 | | | | |
| May 2004 | 193,778 | $ 6.74 | 193,778 | 1,616,334 |
| June 2004 | | $ | | |
| Total | 193,778 | $ 6.74 | 193,778 | 1,616,334 |

**Item 3.** ***Defaults upon Senior Securities.***

Not applicable

**Item 4.** ***Submission of Matters to vote for Security Holders.***

None

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

None

**Item 6.** ***Exhibits and Reports on Form 8-K.***

(A) Exhibits:

| | |
|---|---|
| 10.1(1) | Amended and Restated United Express Agreement between United Airlines, Inc. and Mesa Air Group, Inc. |
| 31.1 | Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as Amended |
| 31.2 | Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as Amended |
| 32.1 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

| | |
|---|---|
| 32.2 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

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

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(B) Reports on Form 8-K

(1) On July 28, 2004, Mesa Air Group, Inc. issued a press release related to its financial results for the third quarter ended June 30, 2004 and conducted a publicly-available conference call discussing those results.

(2) On April 30, 2004, Mesa Air Group, Inc. issued a press release relating to its financial results for the second quarter ended March 31, 2004 and describing a restatement of certain financial information.

**SIGNATURES**

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

MESA AIR GROUP, INC.

By: /s/ GEORGE MURNANE III

George Murnane III
Executive Vice President and CFO

Dated: August 11, 2004

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Index to Exhibits

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