MESA AIR GROUP INC
Form 10-K
January 15, 2008

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

Form 10-K

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

For the Fiscal Year Ended September 30, 2007

Commission File Number 0-15495

Mesa Air Group, Inc.
(Exact name of registrant as specified in its charter)

Nevada *(State or other jurisdiction of incorporation or organization)*	**85-0302351** *(I.R.S. Employer Identification No.)*
410 North 44th Street, Suite 100, Phoenix, Arizona *(Address of principal executive offices)*	**85008** *(Zip Code)*

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock. No Par Value	The NASDAQ Stock Market LLC

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

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

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No þ

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

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

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

The aggregate market value of common stock held by non-affiliates of the Registrant (30,705,950 shares) as of March 30, 2007, was approximately $231.2 million, based on the closing sales price per share as reported on Nasdaq on such date.

On January 11, 2008, the Registrant had outstanding 28,883,618 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Certain sections of the Company s Proxy Statement to be filed in connection with the Company s 2008 Annual Meeting of Stockholders to be held on April 17, 2008 are incorporated by herein at Part III, Items 10-14.

MESA AIR GROUP, INC.

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PART I

Forward-Looking Statements

This Form 10-K Report contains certain statements including, but not limited to, information regarding the replacement, deployment, and acquisition of certain numbers and types of aircraft, and projected expenses associated therewith; costs of compliance with Federal Aviation Administration regulations and other rules and acts of Congress; the passing of taxes, fuel costs, inflation, and various expenses to 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 statements relate to future events or the future financial performance of Mesa and only reflect management s expectations and estimates. The following is a list of factors, among others, that could cause actual results to differ materially from the forward-looking statements: changing business conditions in certain market segments and industries; changes in Mesa s code-sharing relationships; an increase in competition along the routes Mesa operates or plans to operate; 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 prices; 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 unwilling to incur greater costs for flights; our ability to operate our new Hawaiian airline service profitably; unfavorable resolution of legal proceedings involving Hawaiian Airlines and Aloha Airlines regarding our Hawaiian operation; unfavorable resolution of negotiations with municipalities for the leasing of facilities; failure of our joint venture in China or changes in Chinese laws or regulations that have an adverse effect on Kunpeng s operations. One or more of these or other factors may cause Mesa s actual results to differ materially from any forward-looking statement. Mesa is not undertaking any obligation to update any forward-looking statements contained in this Form 10-K.

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

Item 1. *Business*

General

Mesa Air Group, Inc. (Mesa or the Company) is a holding company whose principal subsidiaries operate as regional air carriers providing scheduled passenger and airfreight service. As of September 30, 2007, the Company served 184 cities in 45 states, the District of Columbia, Canada, the Bahamas and Mexico and operated a fleet of 182 aircraft with approximately 1,100 daily departures.

Approximately 98% of our consolidated passenger revenues from continuing operations for the fiscal year ended September 30, 2007 were derived from operations associated with code-share agreements. Our subsidiaries have code-share agreements with Delta Air Lines, Inc. (Delta), Midwest Airlines, Inc. (Midwest Airlines), United Airlines, Inc. (United Airlines or United) and America West Airlines, Inc. (America West) which currently operates as US Airways and is referred to herein as US Airways. The current US Airways is the result of a merger between America West and US Airways, Inc. (Pre-Merger US Airways). These code-share agreements allow use of the code-share partners flight designator code to identify flights and fares in computer reservation systems, permit use of logos, service marks, aircraft paint schemes and uniforms similar to the code-share partner and provide coordinated schedules and joint advertising. The remaining passenger revenues from continuing operations are derived from our independent ***go!*** operations in Hawaii.

In addition to carrying passengers, we carry freight and express packages on our passenger flights and have interline small cargo freight agreements with many other carriers. We also have contracts with the U.S. Postal

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Service for carriage of mail to the cities we serve and occasionally operate charter flights when our aircraft are not otherwise used for scheduled service.

Our airline operations are conducted by the following airline subsidiaries:

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

Air Midwest, Inc. (Air Midwest), a Kansas corporation, flies Beechcraft 1900D 19-seat turboprop aircraft and operates as US Airways Express under code-share agreements with US Airways and Pre-Merger US Airways. Air Midwest s flights in Kansas City code-share with both Midwest Airlines and US Airways. Air Midwest also operates as Mesa Airlines in select Essential Air Service (EAS) markets. Certain EAS markets are Independent Operations and are not subject to a code-sharing agreement with a major carrier. As noted below in Discontinued Operations , the Company has committed to a plan to sell Air Midwest or certain assets thereof.

Freedom Airlines, Inc. (Freedom), a Nevada corporation, flies ERJ-145 50-seat regional jet aircraft, CRJ-900 76-seat regional jet aircraft and, until the removal from service in fiscal 2007, DeHavilland 37-seat Dash-8 s, and operates as Delta Connection under code-share agreements with Delta. During the second quarter of 2007, Delta exercised its right to terminate our turboprop code-sharing agreement and we subsequently removed all 12 Dash-8 aircraft from service.

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

Discontinued Operation

In the fourth quarter of fiscal 2007, the Company committed to a plan to sell Air Midwest or certain assets. Air Midwest consists of turboprop operations, which includes our independent Mesa operations, Midwest Airlines code-share operations, and our Beechcraft 1900D turboprop code-share operations with US Airways. In connection with this decision, the Company began soliciting bids for the sale of the twenty Beechcraft 1900D aircraft in operation and began to take the necessary steps to exit the EAS markets that we serve. Within the next fiscal year, the Company expects to sell Air Midwest in its entirety or sell certain operating assets thereof, primarily the twenty Beechcraft 1900 s.

Corporate Structure

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

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

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

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

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

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

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

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

Air Midwest, LLC, a Nevada limited liability company, was formed for the purpose of a contemplated conversion of Air Midwest, Inc. from a corporation to a limited liability company. This conversion has not yet occurred.

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

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

Patar, Inc., a Nevada corporation, was established to invest in certain foreign businesses.

Ping Shan, SRL, a Barbados society with restricted liability, was established for the purpose of being a holding company of an interest in a Chinese entity that operates within the airline industry.

Aircraft in Operation

The following table sets forth our aircraft fleet (owned and leased) in operation by aircraft type and code-share service as of September 30, 2007:

	Canadair Regional Jet-200 (CRJ-200)	Canadair Regional Jet-700 (CRJ-700)	Canadair Regional Jet-900 (CRJ-900) (A)	Embraer Regional Jet-145 (ERJ-145)	Beechcraft 1900D (B)	DeHavilland Dash 8	Total
US Airways Express	13		38		16	6	73
United Express	34	20				10	64
Delta Connection				36			36
Mesa Airlines	5				4		9
Total	52	20	38	36	20	16	182

(A) One CRJ-900 aircraft delivered in fiscal 2007 began revenue service in fiscal 2008 (for Delta Connection) and therefore excluded from aircraft in operation.

(B) As previously discussed, in the fourth quarter of fiscal 2007, we committed to a plan to sell Air Midwest or certain assets thereof. The net book value of these aircraft are included within Assets of discontinued operations on the Consolidated Balance Sheets.

Code-Share Agreements

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

The financial arrangement with our code-share partners involves either a revenue-guarantee or pro-rate arrangement. The US Airways (regional jet and Dash-8), Delta (regional jet) and United (regional jet and Dash-8) code-share agreements are revenue-guarantee code-share agreements. Under the terms of these code-share agreements, the major carrier controls marketing, scheduling, ticketing, pricing and seat inventories. We receive a guaranteed payment based upon a fixed minimum monthly amount plus amounts related to departures and block hours flown in addition to direct reimbursement of expenses such as fuel, landing fees and insurance. Among other advantages, revenue-guarantee arrangements reduce our exposure to fluctuations in passenger traffic and fare levels, as well as fuel prices. The US Airways and Midwest Airlines Beechcraft 1900D turboprop code-share

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agreements are pro-rate agreements, for which we receive an allocated portion of each passenger s fare and pay all of the costs of transporting the passenger.

The following table summarizes our available seat miles (ASMs) flown and passenger revenue recognized under our code-share agreements and independent operations for the years ended September 30, 2007 and 2006:

	Fiscal 2007				Fiscal 2006			
	ASM s (000 s)		Passenger Revenue (000 s)		ASM s (000 s)		Passenger Revenue (000 s)	
	(In thousands)							
US Airways (Revenue-Guarantee)	4,331,579	48%	$ 576,257	44%	3,605,297	40%	$ 609,239	48%
United (Revenue-Guarantee)	3,074,054	34%	461,732	35%	2,876,008	32%	477,151	37%
Pre-Merger US Airways (Revenue- Guarantee)(1)					1,644,023	18%	58,511	5%
Delta (Revenue-Guarantee)	1,438,698	16%	249,774	19%	811,420	9%	121,315	10%
go!	152,629	2%	25,457	2%	44,308	1%	9,114	0%
Total Continued Operations	8,996,960		$ 1,313,220		8,981,056		$ 1,275,330	
Discontinued Operations	185,557		$ 30,188		158,284		$ 32,545	

(1) During fiscal 2006, all US Airways revenue guarantee flying was assumed under one contract.

US Airways Code-Sharing Agreements

Revenue-Guarantee

As of September 30, 2007, we operated 38 CRJ-900, 13 CRJ-200, and 6 Dash-8 aircraft for US Airways under a revenue-guarantee code-share agreement. In exchange for providing flights and all other services under such agreement, we receive a fixed monthly minimum amount plus certain additional amounts based upon the number of flights flown and block hours performed during the month. US Airways also reimburses us for certain costs on an actual basis, including fuel costs, aircraft ownership and financing costs, landing fees, passenger liability, hull insurance and aircraft property taxes, all as defined in the agreement. In addition, US Airways also provides, at no cost to Mesa, certain ground handling and customer service functions, as well as airport-related facilities and gates at US Airways hubs and cities where both carriers operate. We also receive a monthly payment from US Airways based on a percentage of revenue from flights that we operate under the code-share agreement. Under the our agreement, US Airways has the right to reduce the combined CRJ fleets utilized under the code-share agreement by one aircraft in any six-month period. The Company has received notice of US Airways intent to reduce one CRJ-200 in January 2008, one CRJ-200 in September 2008 and one CRJ-200 in January 2009 and expects to continue to receive notice on one CRJ-200 every six months. In addition, US Airways may eliminate the Dash-8 aircraft upon 180 days prior written notice. The code-share agreement terminates on June 30, 2012 unless US Airways elects to extend the contract for two years or exercises options to increase fleet size. The code-share agreement is subject to termination prior to that date in various circumstances including:

If our flight completion factor or arrival performance in our Phoenix hub falls below certain levels for a specified period of time, subject to notice and cure rights;

If either US Airways or we become insolvent, file for bankruptcy or fail to pay our debts as they become due, the non-defaulting party may terminate the agreement;

Failure by us or US Airways to perform the covenants, conditions or provisions of the code-share agreement, subject to 15 days notice and cure rights;

If we or US Airways fail to make a payment when due, subject to ten business days notice and cure rights;

If we are required by the FAA or the U.S. Department of Transportation (DOT) to suspend operations and we have not resumed operations within three business days, except as a result of an emergency airworthiness directive from the FAA affecting all similarly equipped aircraft, US Airways may terminate the agreement;

Upon a change in our ownership or control without the written approval of US Airways.

Pro-Rate

Pursuant to a turboprop code-share agreement with US Airways, we operated four Beechcraft 1900D turboprop aircraft primarily in Phoenix, Las Vegas and Salt Lake City under a pro-rate revenue-sharing arrangement as of September 30, 2007. We control scheduling, inventory and pricing. We are allocated a portion of each passenger s fare based on a standard industry formula and are required to pay all costs of transporting the passenger. The pro-rate agreement terminates on March 31, 2012 unless US Airways elects to extend the contract for successive one-year periods. The pro-rate agreement could also be terminated prior to that termination date under similar circumstances as the revenue-guarantee agreement. In the fourth quarter of fiscal 2007, we committed to a plan to sell all or part of our Beechcraft 1900D operations and pursue the wind-down of our Air Midwest turboprop operation.

Pre-Merger US Airways Code-Sharing Agreement

Pro-Rate

Pursuant to a turboprop code-sharing agreement with Pre-Merger US Airways, we operated twelve Beechcraft 1900D turboprop aircraft under a pro-rate revenue-sharing arrangement as of September 30, 2007. We control scheduling, inventory and pricing subject to US Airways concurrence that such service does not adversely affect its other operations in the region. We are allocated a portion of each passenger s fare based on a standard industry formula and are required to pay all of the costs of transporting the passenger. Additionally, we are required to pay certain franchise, marketing and reservation fees to US Airways.

US Airways may terminate the turboprop agreement at any time for cause upon not less than five days notice under any of the following conditions:

If we fail to utilize the aircraft as specified in the agreements;

If we fail to comply with the trademark license provisions of the agreement;

If we fail to perform the material terms, covenants or conditions of the code-sharing agreement; or

Upon a change in our ownership or control without the written approval of US Airways.

The turboprop code-share agreement was scheduled to terminate in October 2006, but has been extended on its original terms, on a month-to-month basis, pending the negotiation of a new agreement with US Airways. In the fourth quarter of fiscal 2007, we committed to a plan to sell all or part of its Beechcraft 1900D operations and pursue the wind-down of our Air Midwest turboprop operation.

United Code-Sharing Agreement

As of September 30, 2007, we operated 34 CRJ-200, 20 CRJ-700 and 10 Dash-8 aircraft for United under a code-sharing arrangement. We have agreed with United to reduce the CRJ-200 fleet to 30 and to increase the CRJ-700 fleet to 22 in fiscal 2008. Additionally, the code share agreement allows us to swap up to 10 CRJ-200 s for 10 CRJ-700 s by April 30, 2010. In exchange for performing the flight services under the agreement, we receive from United a fixed monthly minimum amount, plus certain additional amounts based upon the number of flights flown and block hours performed during the month. Additionally, certain costs incurred by us in performing the flight services are pass-through costs, whereby United agrees to reimburse us for the actual amounts incurred for these items: aircraft ownership costs, property tax per aircraft, fuel cost, and landing fees. We also receive a profit margin based upon certain reimbursable costs under the agreement as well as our operational performance. The code-share agreement for (i) the 10 Dash-8 aircraft terminates in July 2013 unless terminated by United by giving notice six months prior to April 30, 2010, (ii) 10 50-seat CRJ-200 s terminates no later than April 30, 2010, which can be accelerated up to two years at our discretion and can be swapped to CRJ-700 s for a term of up to 10 years but not beyond October 2018, (iii) 20 50-seat regional jets terminates in July 2013, but can be terminated early in April 2010, (iv) the 5 CRJ-700 s delivered in fiscal 2007 (the 12 to be delivered upon the withdrawal of the 50-seat regional jets) terminates ten years from delivery date, but no later than October 31, 2018, and (v) the remaining 15 CRJ-700 s terminates in three traunches between December 31, 2011 and December 31, 2013.

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

If certain operational performance factors fall below a specified percentage for a specified time, subject to notice and cure rights;

Failure by us to perform the material covenants, agreements, terms or conditions of the code-share agreement or similar agreements with United, subject to thirty (30) days notice and cure rights;

If either United or we become insolvent, file bankruptcy or fail to pay debts when due, the non-defaulting party may terminate the agreement;

In the event that we merge with, or if control of us is acquired by another air carrier or a corporation directly or indirectly owning or controlling another air carrier.

Delta Code-Sharing Agreement

As of September 30, 2007, we operated 36 ERJ-145 aircraft for Delta pursuant to a code-sharing agreement. Flight operations for Delta are performed by our wholly-owned subsidiary, Freedom Airlines. During the second quarter of 2007, Delta exercised its right to terminate our turboprop code-sharing agreement and we subsequently removed all 12 Dash-8 aircraft from service. Also during the second quarter, as part of Delta s bankruptcy, we reached an agreement with Delta for an amendment to and assumption of our existing code-sharing agreement (Amended DCA), as well as for a new code-sharing agreement (Expansion DCA). The Amended DCA and Expansion DCA provide that we can increase our fleet up to 36 (from 30 to 36) ERJ-145 aircraft for up to three years and 14 CRJ-900 aircraft, respectively. Under the Amended DCA, in exchange for performing the flight services and our other obligations under the agreement, we receive from Delta monthly compensation made up of a fixed monthly amount, plus certain additional amounts based upon number of block hours flown and departures during the month. Additionally, certain costs incurred by Freedom are pass-through costs, whereby Delta agrees to reimburse us for the actual amounts incurred for these items: landing fees, hull insurance, passenger liability costs, fuel costs, catering costs and property taxes. Aircraft rent/ownership expenses are also considered a pass-through cost, but are limited to a specified amount for each type of aircraft. We are eligible to receive additional compensation based upon our completion rate and on-time arrival rate each month. Further, for each semi-annual period during the term of the agreement, we are eligible to receive additional compensation from Delta based upon performance. The fixed rates payable to us by Delta under the Amended DCA have been determined through the term of such agreement and are subject to annual revision. Also, pursuant to the Amended DCA we received a general unsecured claim of $35.0 million as part of Delta s bankruptcy proceedings, which claim was in full and final satisfaction of any and all claims we may have against Delta for pre-petition debt. During the third quarter of fiscal 2007 we received 787,261 shares of Delta stock representing approximately 89% of the total award as part of the Delta bankruptcy settlement. These shares were sold in the same quarter for approximately $16.5 million. The resulting gain was deferred and is being amortized over the remainder of the Amended DCA.

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

Under the Amended DCA Delta has the right to remove eight ERJ-145 aircraft at a rate of three aircraft per month, commencing in August 2008. At the end of the term, Delta has the right to extend the agreement for additional one year successive terms on the same terms and conditions. Delta may terminate the Amended DCA at any time, with or without cause, upon twelve months prior written notice, provided such notice shall not be given prior to the earlier of (i) the sixth anniversary of the in-service date of the 30th aircraft added to the Delta Connection fleet by the Company, or (ii) November 2012. The Expansion DCA terminates on the tenth anniversary of the in-service date of the first aircraft. At the end of the term, the Expansion DCA will automatically renew for successive one-year terms on the same terms and conditions unless Delta provides us 180 days prior written notice of its intention to not renew.

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

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

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

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

Joint Venture Agreement in China

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

Under the terms of the Joint Venture Agreement, Ping Shan and Shan Yue agreed to assist Kunpeng in securing aircraft and spare part supplies from foreign suppliers and to provide high level executives for the management of Kunpeng and technical support, including pilot, maintenance and operations support and training for employees of Kunpeng. Kunpeng s fiscal year ends on December 31st. Pursuant to the Joint Venture Agreement, Ping Shan and Shan Yue will receive 25% and 24%, respectively, of the after-tax net profit of Kunpeng, if any, at the end of the fiscal year unless Kunpeng s board of directors determines that such profits should be reinvested. Additionally, the amount of profit available for distribution will be reduced by an amount equal to allocations to a reserve fund and expansion fund of Kunpeng and a bonus and welfare fund for Kunpeng s employees, as determined by Kunpeng s board of directors. No profit will be distributed unless any cumulative deficit carried forward for previous years is recovered. Kunpeng s board consists of seven members, four of whom are appointed by Shenzhen Airlines, two are appointed by Ping Shan and one is appointed by Shan Yue.

Under the terms of the Joint Venture Agreement, Shenzhen Airlines and the Company are obligated to contribute an additional RMB 204,000,000 and RMB 196,000,000 (approximately $27.6 million and $26.5 million,

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respectively, at December 10, 2007) to Kunpeng in accordance with Kunpeng s operational requirements as determined by Kunpeng s board of directors, but in any event, prior to May 16, 2009. As of September 30, 2007 the Company had invested $6.5 million in the joint venture.

Fleet Plans

CRJ Program

As of September 30, 2007, we operated 110 Canadair Regional Jets (52 CRJ-200/100, 20 CRJ-700 and 38 CRJ-900 s).

In January 2004, we exercised options to purchase twenty CRJ-900 aircraft (seven of which can be converted to CRJ-700 aircraft). As of September 30, 2007, we have taken delivery of thirteen CRJ-900 aircraft and five CRJ-700 aircraft. The obligation to purchase the remaining two CRJ-900 s (which can be converted to CRJ-700 s) was terminated in June 2007 in connection with our agreement to purchase 10 new CRJ-700 NextGen aircraft (with an option to purchase an eleventh aircraft), deliveries scheduled to begin in September 2008. In September 2007, we took delivery of one CRJ-900 aircraft, on lease from Delta, in connection with the Delta code-share agreement of March 2007. Subsequent to year end, we took delivery of one more CRJ-900 aircraft, also on lease from Delta with 12 more CRJ-900 aircraft (to be leased from Delta) scheduled for delivery through January 2009 in connection with such code-share agreement.

ERJ Program

As of September 30, 2007, we operated 36 Embraer 145 aircraft. We acquired all 36 ERJ-145s through a June 1999 agreement with Empresa Brasiliera de Aeronautica S.A. (Embraer). We also have options for 25 additional aircraft. In September 2006, our contract with Embraer was amended to extend the option exercise date to November 2008 for deliveries beginning in May 2009.

Beechcraft 1900D

As of September 30, 2007, we owned 34 Beechcraft 1900D aircraft and were operating 20 while leasing the remaining 14. We lease four of our Beechcraft 1900D to Gulfstream International Airlines, a regional turboprop air carrier based in Ft. Lauderdale, Florida and lease an additional ten Beechcraft 1900D aircraft to Big Sky Transportation Co., a regional turboprop carrier based in Billings, Montana (Big Sky). As previously discussed, we intend to sell the 20 Beechcraft 1900D aircraft that were in operation at September 30, 2007.

Dash-8

As of September 30, 2007, we had 16 Dash-8 aircraft in operation; 10 with US Airways Express and 6 with United Express. During fiscal 2007, we parked 12 Dash-8 aircraft, associated with the Delta code-share agreement. Due to higher than anticipated costs associated with our Delta Dash-8 fleet related to our JFK operations, the Company and Delta developed a joint plan to eliminate the Dash-8 fleet from the JFK operations. The agreement reached with Delta called for service to conclude by August 21, 2007. Losses are accrued as each aircraft is removed from operations for early termination penalties, lease settle up and other charges. The estimated costs associated with the parking and early termination of the lease agreements totaling approximately $11.6 million have been recorded in our Statement of Operations in fiscal 2007. Subsequent to September 30, 2007, we began to deploy regional jet aircraft to service JFK operations for Delta.

Marketing

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

Under the Delta, United and US Airways revenue-guarantee code-share agreements, market selection, pricing and yield management functions are performed by our respective partners. Prior to the decision to discontinue the Air Midwest turboprop operation as previously discussed, the market selection process for our Beechcraft 1900D turboprop operations, outside the EAS program flights, included an in-depth analysis on a route-by-route basis and was followed by a review and approval process in a joint effort with US Airways regarding the level of service and fares. For our ***go!*** operations in Hawaii, we make all decisions on market selection, pricing and yield management functions.

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

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

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

Competition

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

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

Fuel

Historically, we have not experienced problems with the availability of fuel, and believe that we will be able to obtain fuel in quantities sufficient to meet our existing and anticipated future requirements at competitive prices. Standard industry contracts generally do not provide protection against fuel price increases, nor do they ensure availability of supply. However, our revenue-guarantee code-share agreements with Delta, United and US Airways (regional jet and Dash-8) allow fuel used in the performance of the agreements to be reimbursed by our code-share partner, thereby reducing our exposure to fuel price fluctuations. In fiscal 2007, approximately 97% of our fuel purchases were associated with our Delta, United and US Airways (regional jet and Dash-8) revenue-guarantee code-share agreements. A substantial increase in the price of jet fuel, to the extent our fuel costs are not reimbursed, or the lack of adequate fuel supplies in the future, could have a material adverse effect on our business, financial condition, results of operations and liquidity.

Maintenance of Aircraft and Training

All mechanics and avionics specialists employed by us have the appropriate training and experience and hold the required licenses issued by the FAA. Using a combination of FAA-certified maintenance vendors and our own

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personnel and facilities, we maintain our aircraft on a scheduled and as-needed basis. We emphasize preventive maintenance and inspect our aircraft engines and airframes as required. We also maintain an inventory of spare parts specific to the aircraft types we fly. We provide periodic in-house and outside training for our maintenance and flight personnel and also take advantage of factory training programs that are offered when acquiring new aircraft.

Insurance

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

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

Employees

As of September 30, 2007, we employed approximately 4,800 employees. Approximately 2,700 of our employees are represented by various labor organizations. Our continued success is partly dependent on our ability to continue to attract and retain qualified personnel.

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

As of November 30, 2007, Kunpeng employed approximately 120 employees. The laws of China presently require a trade union to be established if requested by any 25 or more employees, but because no such request has been received, no such trade union has been established for Kunpeng. Each of Kunpeng s employees independently entered into an employment contract with Kunpeng in accordance with Chinese Law. Kunpeng has hired pilots from outside China as well as from flight training schools in China; however, hiring and retaining qualified pilots is one of the risks that could hinder the growth of Kunpeng.

Pilot turnover at times is a significant issue among regional carriers, particularly when major carriers are hiring experienced commercial pilots away from regional carriers. We are currently experiencing higher than average turnover as a result of recent hirings by major carriers. The addition of aircraft, especially new aircraft types or transferring of aircraft between operating entities, can result in pilots upgrading between aircraft types and as a result, becoming unavailable for duty during the extensive training periods required. No assurances can be made that pilot turnover and unavailability will not continue at the present rate or be a significant problem in the future, particularly if major carriers expand their operations. Similarly, there can be no assurance that sufficient numbers of new pilots will be available to support any future growth.

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

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Essential Air Service Program

The Essential Air Service (EAS) program administered by the DOT guarantees a minimum level of air service in certain communities, predicated on predetermined guidelines set forth by Congress. Based on these guidelines, the DOT subsidizes air service to communities that might not otherwise have air service. As of September 30, 2007, we provided service to 28 such cities for an annualized subsidy of approximately $24.1 million. EAS rates are normally set for two-year contract periods for each city. In connection with the decision to sell Air Midwest or certain assets thereof, we began to take the necessary steps to exit the EAS markets that we serve and expect to be out of all EAS markets by the end of fiscal 2008.

Investment Activities

On December 22, 2006, our wholly-owned subsidiary, Ping Shan, entered into the Joint Venture Agreement with Shan Yue and Shenzhen Airlines, pursuant to which the parties formed Kunpeng, an equity joint venture company organized under the laws of the Peoples Republic of China. As of September 30, 2007, we had invested $6.5 million in capital contributions to the joint venture in accordance with the terms of the Joint Venture Agreement. Under the terms of the Joint Venture Agreement the Company committed to contribute an additional $26.5 million prior to May 16, 2009.

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

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

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

Regulation

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

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

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

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

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

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

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

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

Available Information

We maintain a website where additional information concerning our business can be found. The address of that website is *www.mesa-air.com. We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after we electronically file or furnish such materials to the SEC.*

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

The following risk factors, in addition to the information discussed elsewhere herein, should be carefully considered in evaluating us and our business:

Risks Related to Our Business

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

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

Our code-share agreement with US Airways allows US Airways, subject to certain restrictions, to reduce the combined CRJ fleets utilized under the code-share agreement by one aircraft in any six-month period, of which five have been eliminated as of September 2007. US Airways has notified the Company of its intent to reduce the maximum number of CRJs in 2008. US Airways has used this provision to reduce the number of aircraft covered by the code-share agreement and we anticipate they will continue to further reduce the number of covered aircraft in accordance with the agreement. In addition, US Airways may eliminate the Dash-8 aircraft upon 180 days prior written notice.

As of September 30, 2007, we operated 36 ERJ-145 aircraft for Delta pursuant to two code-sharing agreements. Flight operations for Delta are performed by our wholly-owned subsidiary, Freedom Airlines. As part of Delta s bankruptcy, we reached an agreement with Delta for an amendment to and assumption of our existing code-sharing agreement (Amended DCA), as well as for a new code-sharing agreement (Expansion DCA).

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Under the Amended DCA, six ERJ-145 aircraft will remain in service for up to three years, eight ERJ-145 aircraft will be removed at a rate of three aircraft per month, commencing in August 2008, and the remaining aircraft will be removed from service in May 2017 when the agreement terminates.

Because a majority of our operating revenues from continuing operations are currently generated under revenue-guarantee code-share agreements, if any one of them is terminated, our operating revenues and net income could be materially adversely affected unless we are able to enter into satisfactory substitute arrangements or, alternatively, fly under our own flight designator code, including obtaining the airport facilities and gates necessary to do so. For the year ended September 30, 2007, our US Airways revenue-guarantee code-share agreement accounted for 44.0% of our consolidated passenger revenues, our Delta code-share agreement accounted for 19.0% of our consolidated passenger revenue and our United code-share agreement accounted for 35.1% of our consolidated passenger revenues.

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. If any of our other current or future code-share partners become bankrupt, our code-share agreement with such partner may not be assumed in bankruptcy and could be terminated. This and other such events could have a material adverse effect on our business, financial condition and results of operations. In addition, any negative events that occur to other regional carriers and that affect public perception of such carriers generally could also have a material adverse effect on our business, financial condition and results of operations.

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

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

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

In June 2003, we completed the private placement of senior convertible notes due 2023 (the Notes), which resulted in gross proceeds of $100.1 million ($96.9 million net). The Notes were sold at an issue price of $397.27 per note and are convertible into shares of our common stock at a conversion rate of 39.727 shares per note, which equals a conversion price of $10 per share. Holders of the Notes may convert their Notes only if: (i) the sale price of our common stock exceeds 110% of the accreted conversion price for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding quarter; (ii) prior to June 16, 2018, the trading price for the notes falls below certain thresholds; (iii) the Notes have been called for redemption; or (iv) specified corporate transactions occur. The holders of the Notes may require the Company to repurchase the Notes on June 16, 2008 at a price of $397.27 per $1,000 note plus accrued and unpaid cash interest. If the holders of these Notes exercise their right to

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require the Company to repurchase their Notes on June 16, 2008, the Company will be required, at its election, to repurchase such Notes with cash, common stock, or a combination thereof.

As a result of prior conversions of the Notes by noteholders, at September 30, 2007, there were approximately $37.8 million in Notes outstanding. If the holders of these Notes exercise their right to require the Company to repurchase all of the Notes on June 16, 2008, the Company will be required to repurchase such Notes for approximately $37.8 million in cash, common stock, or a combination thereof. If Mesa elects to issue shares of its common stock in lieu of cash, such shares must be issued pursuant to an effective registration statement filed with the Securities and Exchange Commission. No assurance can be given that the Company will be able to timely register shares of common stock. The failure to do so would be a breach of the terms of the indenture covering the Notes. In addition, if Mesa elects to issues additional stock to meet this purchase obligation, this issuance would dilute existing stockholders.

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

The operation of our business is significantly dependent on the availability of qualified employees, including, specifically, flight crews, mechanics and avionics specialists. Historically, regional airlines have periodically experienced high pilot turnover as a result of air carriers operating larger aircraft hiring their commercial pilots. Further, the addition of aircraft, especially new aircraft types, or transferring of aircraft between operating entities can result in pilots upgrading 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 September 30, 2007, we had approximately 4,800 employees, approximately 2,700 of whom are members of two labor unions, including ALPA and the AFA. Our collective bargaining agreement with ALPA became amendable in September 2007 and we are in the early stages of negotiations with respect to such agreement. Our collective bargaining agreement with the AFA became amendable in June 2006 and we are in mediated negotiations. The inability to negotiate acceptable contracts with existing unions as agreements become amendable or with new unions could result in work stoppages by the affected workers, lost revenues resulting from the cancellation of flights and increased operating costs as a result of higher wages or benefits paid to union members. We cannot predict which, if any, other employee groups may seek union representation or the outcome or the terms of any future collective bargaining agreement and therefore the effect, if any, on our business, financial condition and results of operations. If negotiations with unions over collective bargaining agreements prove to be unsuccessful, following specified cooling off periods, the unions may initiate a work action, including a strike, which could have a material adverse effect on our business, financial condition and results of operations.

We are currently experiencing increased pilot turnover which at times is a significant issue among regional carriers when major carriers are hiring experienced commercial pilots away from regional carriers. The addition of aircraft, especially new aircraft types or transferring of aircraft between operating entities, can result in pilots upgrading between aircraft types and becoming unavailable for duty during the extensive training periods required. No assurances can be made that pilot turnover and unavailability will not be a significant problem in the future, particularly if major carriers expand their operations. Similarly, there can be no assurance that sufficient numbers of new pilots will be available to support any future growth.

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

Labor costs constitute a significant percentage of our total operating costs. Under our code-share agreements, our reimbursement rates contemplate labor costs that increase on a set schedule generally tied to 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 DOT, which include required levels of financial, managerial and regulatory fitness. The DOT is authorized to establish consumer protection regulations to prevent unfair methods of competition and deceptive practices, to prohibit certain pricing practices, to inspect a carrier s books, properties and records, to mandate conditions of carriage and to suspend an air carrier s fitness to operate. The DOT also has the power to bring proceedings for the enforcement of air carrier economic regulations, including the assessment of civil penalties, and to seek criminal sanctions.

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

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

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

Recently, proposals to address congestion at certain airports or in certain airspace, particularly in the Northeast U.S., have included concepts such as congestion pricing or other alternatives that could impose a significant cost on the airlines operating in those airports or airspace. Furthermore, events related to extreme weather delays in late 2006 and early 2007 have caused Congress and the DOT to consider proposals related to airlines handling of lengthy flight delays during extreme weather conditions. If adopted, these measures could have the effect of raising ticket prices, reducing revenue and increasing costs. To the extent these costs are not absorbed by our code share partners, our revenues and results of operations could similarly be materially adversely affected.

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

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

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

Congress has adopted increased safety and security measures designed to increase airline passenger security and protect against terrorist acts. Such measures have resulted in additional operating costs to the airline industry. 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 results of operations could be adversely affected.

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

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

We believe that our aircraft are mechanically reliable based on the percentage of scheduled flights completed and as of September 30, 2007 the average age of our fleet excluding Beechcraft 1900D s is 5.2 years. However, there can be no assurance that such aircraft will continue to be sufficiently reliable over longer periods of time. Furthermore, any public perception that our aircraft are less than completely reliable could have a material adverse effect on our business, financial condition and results of operations.

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

The airline business is very capital intensive and we are highly leveraged. For the year ended September 30, 2007, our debt service payments, including principal and interest, totaled $77.1 million and our aircraft lease payments totaled $239.7 million. We have significant lease obligations with respect to our aircraft and ground facilities, which aggregated approximately $2.1 billion at September 30, 2007. As of September 30, 2007, our growth strategy involves the acquisition of ten more CRJ-700 regional jets, with deliveries beginning late fiscal 2008 and 13 more CRJ-900 aircraft, being leased directly from Delta for $1.00 per month in connection with the Delta code-share agreement of March 2007, with delivery through 2009. As of September 30, 2007, we had permanently financed all aircraft delivered under the 2001 Bombardier Regional Aircraft Agreement (BRAD) agreement. 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. There are no assurances that we will be able to obtain permanent financing for the ten CRJ-700 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 and investment requirements 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 generated from operations, much of which may have to be used to satisfy debt and lease obligations and investment requirements; and

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

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 loss and adverse publicity stemming from any accident involving any of our aircraft.

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

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

In February 2006, Hawaiian Airlines, Inc. (Hawaiian) filed a complaint against us in the United States Bankruptcy Court for the District of Hawaii (the Bankruptcy Court) alleging that we had breached the terms of a Confidentiality Agreement entered into in April 2004 with the Trustee in Hawaiian s bankruptcy proceedings. Hawaiian s complaint alleged, among other things, that we breached the Confidentiality Agreement by (a) using the evaluation material in deciding to enter the Hawaiian inter-island market, and (b) failing to return or destroy any evaluation materials after being notified by Hawaiian on or about May 12, 2004 that the Company had not been selected as a potential investor for a transaction with Hawaiian. Hawaiian, in its complaint, sought unspecified damages, requested that we turn over to Hawaiian any evaluation material in our possession, custody or control, and also sought an injunction preventing our subsidiary, ***go!*** from providing inter-island transportation services in the State of Hawaii for a period of two years from the date of such injunctive relief.

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On October 30, 2007, the Bankruptcy Court found that we violated the terms of the Confidentiality Agreement and awarded Hawaiian $80.0 million in damages and ordered us to pay Hawaiian s cost of litigation, reasonable attorneys fees and interest. This ruling arose out of the Bankruptcy Court s finding that our former executive vice president and Chief Financial Officer intentionally and in bad faith destroyed evidence pertinent to Hawaiian s case against us. Mr. Murnane was terminated on November 2, 2007. While we have filed a notice of appeal to this ruling, we can give no assurance that our appeal will result in a favorable outcome for us. In November 2007, we posted a $90.0 million bond as security for the judgment amount by placing such amount with a surety acceptable to the Bankruptcy Court. If we are unable to successfully overturn this ruling or reduce the amount of damages award, we will lose some or all of the cash securing the bond.

On January 9, 2007, Aloha Airlines filed suit against Mesa Air Group in the United States District Court for the District of Hawaii. The complaint seeks damages and injunctive relief. Aloha alleges that Mesa s inter-island air fares are below cost and that Mesa is, therefore, violating specific provisions of the Sherman Act. Aloha also alleges breach of contract and fraud by Mesa in connection with two confidentiality agreements, one in 2005 and the other in 2006.

Mesa denies any attempt at monopolization of the inter-island market and further denies any improper use of the data furnished by Aloha while Mesa was considering a bid for Aloha during its bankruptcy proceedings. The case is in its incipient stages and a tentative trial date of October 28, 2008 has been scheduled by the court.

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

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

We may experience difficulty finding, training and retaining employees.

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

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

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

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

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

- establish a brand that is attractive to our target customers;
- maintain adequate controls over our expenses;
- monitor and manage operational and financial risks;
- secure favorable terms with airports, suppliers and other contractors;
- maintain the safety and security of our operations;
- attract, retain and motivate qualified personnel; and
- react to responses from competitors who are more established in the Hawaiian markets.

We have experienced significant operating and cash losses in certain areas of operations which could negatively impact our business and operations.

We have experienced significant cash losses in our Air Midwest operations. In the fourth quarter of fiscal 2007 the Company committed to a plan to sell Air Midwest or certain assets thereof. There can be no assurance that we will be successful in our efforts to find a buyer for such operations or assets.

We have three equity method investments as of September 30, 2007. During fiscal 2007, we incurred significant non-cash losses related to these investments. We are not in control of the operations for these investments. Accordingly, we cannot control or predict the future impact these investment may have on our business, financial condition or results of operations.

Risks Related to Our Joint Venture in China

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

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

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

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

- changes in policies by the Chinese government resulting in changes in laws or regulations or the interpretation of laws or regulations;
- confiscatory taxation;
- changes in employment restrictions;
- restrictions on imports and sources of supply;
- import duties;

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corruption;

currency revaluation; and

the expropriation of private enterprise.

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

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

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

levying fines;

revoking Kunpeng s business and other licenses;

requiring that Kunpeng restructure its ownership or operations; and

requiring that Kunpeng discontinue any portion or all of its business.

Controversies affecting China s trade with the United States may negatively affect our operations.

While China has been granted permanent most favored nation trade status in the United States through its entry into the World Trade Organization, controversies and trade disagreements between the United States and China may arise that have a material adverse effect upon our investment in Kunpeng.

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

The Chinese labor market recently experienced an increase in the cost of labor. Recent changes in Chinese labor laws that are effective January 1, 2008 are likely to increase costs further and impose restrictions on Kunpeng s relationship with its employees. There can be no assurance that the labor laws will not change further or

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that their interpretation and implementation will vary, which may have a material adverse effect upon Kunpeng s business and results of operations.

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

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

The full tax exemption for the enterprise income tax expired on December 31, 2005 and the one-half reduction on the enterprise profit tax to 13.5% will expire on December 31, 2008. Regardless of whether Kunpeng is granted preferential tax treatment by China s tax authorities, after such tax holidays, Kunpeng s profits will be subject to the full tax rate of 25%, effective as of January 1, 2008 in accordance with the EIT Law passed in 2007. If Kunpeng is not granted preferential tax treatment, and in any event, after January 1, 2008, Kunpeng s tax obligations could materially impact its operations.

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

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

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

As of December 10, 2007, our outstanding obligation to make additional capital contributions to Kunpeng under the Joint Venture Agreement had an aggregate fair value of approximately $26.5 million (or approximately 196,000,000 Renminibi). The potential increase in the fair value of this obligation resulting from a 10% adverse change in quoted foreign currency exchange rates would be approximately $2.65 million at December 10, 2007.

The ability of Kunpeng to make profit distributions to us may be restricted due to foreign exchange control regulations of China.

The ability of Kunpeng to make profit distributions to us may be restricted due to the foreign exchange control policies and availability of cash balances. Since substantially all of Kunpeng s operations are conducted in China and a majority of its revenues are generated in China, a significant portion of its revenue earned and currency received are denominated in Renminbi.

The Chinese government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Renminbi is currently not a freely convertible currency. Shortages in the availability of foreign currency may restrict Kunpeng s ability to remit sufficient foreign currency to make profit distributions to us, or otherwise satisfy foreign currency denominated obligations. Under existing Chinese foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from the transaction, can be made in foreign currencies without prior approval from the State Administration of Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate governmental authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies.

The Chinese government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents Kunpeng from obtaining sufficient foreign currency to satisfy its currency demands, it may not be able to make profit distributions to us or pay certain of its expenses as they come due.

We are a joint venture partner in a new regional air carrier in the People s Republic of China to whom we sublease aircraft. If the regional carrier is unable to operate profitably, or if for any reason it defaults under a sublease with us, such event would have a material adverse effect on our financial condition and results of operations.

As a joint venture partner with Shenzhen Airlines, we are a co-owner of Kunpeng, a regional air carrier certificated under the laws of the People s Republic of China. In addition to our joint venture interest in Kunpeng, we currently sublease three regional jets to Kunpeng and are in negotiations to sublease additional aircraft to Kunpeng in the future. We lease these aircraft from unrelated third parties under long-term leases (Headlease) and as the lessee we are responsible for rent as well as all costs of maintaining, operating and insuring the aircraft. We pass along most of those costs to the sublessee under the sublease, but we are not thereby released from our obligations under the Headlease. If the sublessee defaults and fails to perform any of its obligations under a sublease, that failure may result in a default by us under the related Headlease. If Kunpeng were to default under a sublease, for any reason, that default would have a material adverse effect on the value of our investment in the joint venture, and would also have a material adverse effect upon our ability to perform our obligations under the related Headlease, including our obligation to pay rent and to maintain the aircraft in a specified airworthy condition. Any of these events could materially and adversely affect our financial condition and results of operations.

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

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

Risks Related to Our Industry

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

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

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

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

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

The airline industry is heavily regulated.

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

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

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

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

Additional laws, regulations, taxes and airport rates and charges have been proposed from time to time that could significantly increase the cost of airline operations or reduce revenues. If adopted, these measures could have had the effect of raising ticket prices, reducing revenue and increasing costs. In addition, as a result of the terrorist attacks in

New York and Washington, D.C. in September 2001, the FAA has imposed more stringent security procedures on airlines and imposed security taxes on each ticket sold. We cannot predict what other new regulations may be imposed on airlines and we cannot assure you that laws or regulations enacted in the future will not materially adversely affect our financial condition, results of operations and the price of our common stock.

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

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

Risks Related to Our Common Stock

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

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

- authorize our board of directors to issue preferred stock ranking senior to our common stock without any action on the part of the stockholders;
- establish advance notice procedures for shareholder proposals, including nominations of directors, to be considered at stockholders 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 stockholders to modify the number of authorized directors; and
- restrict the ability of stockholders to call special meetings of stockholders.

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.

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 Form 10-K, 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 Form 10-K;
- governmental regulatory action; or
- adverse changes in general market conditions or economic trends.

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

None.

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Item 2. *Properties*

Our primary property consists of the aircraft used in the operation of our flights. The following table lists the aircraft owned and leased by the Company as of September 30, 2007:

	Number of Aircraft				
Type of Aircraft	Owned	Leased	Total	Operating on Sept. 30, 2007	Passenger Capacity
CRJ-200/100 Regional Jet	2	57	59	52	50
CRJ-700 Regional Jet	8	12	20	20	66
CRJ-900 Regional Jet	14	25	39	38	86(1)
Embraer 145 Regional Jet		36	36	36	50
Beechcraft 1900D	34		34	20	19(2)
Dash-8		27	27	16	37(3)
Total	58	157	215	182	

(1) One CRJ-900 aircraft has a passenger capacity of 76, delivered in fiscal 2007 and began revenue service in fiscal 2008.

(2) In connection with its decision to discontinue the Air Midwest turboprop operations, the Company began soliciting bids for the sale of the 20 aircraft in operation as of September 30, 2007.

(3) As discussed in the Delta Code Share Agreement section (Part I), 11 Dash-8 s are in process of being returned to the respective lessors.

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

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

Type	Location	Ownership	Approximate Square Feet
Headquarters	Phoenix, AZ	Leased	36,000
Training/Administration	Phoenix, AZ	Leased	27,000
Hangar/Office	Phoenix, AZ	Leased	22,000
Engine Shop & Commissary	Phoenix, AZ	Leased	25,000
RAS Office/Component Overhaul Facility	Phoenix, AZ	Leased	19,000

Customer Service Training/Storage	Phoenix, AZ	Leased	10,000
Office (East Coast)	Charlotte, NC	Leased	5,500
Hangar	Charlotte, NC	Leased	30,000
Hangar	Columbia, SC	(1)	20,000
Hangar	Columbia, SC	(1)	35,350
Hangar	Grand Junction, CO	(1)	25,000
Hangar/Office	Wichita, KS	(1)	20,000
Training/Administration	Farmington, NM	(1)	10,000
Hangar	Farmington, NM	(1)	24,000
Hangar/Office	Dubois, PA	(1)	23,000
Hangar	Orlando, FL	Leased	18,693
Office	Honolulu, HI	Leased	7,793
Hangar	Chicago, IL	Leased	16,448

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

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

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

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

Item 3. *Legal Proceedings*

In February 2006, Hawaiian Airlines, Inc. (Hawaiian) filed a complaint against the Company in the United States Bankruptcy Court for the District of Hawaii (the Bankruptcy Court) alleging that the Company breached the terms of a Confidentiality Agreement entered into in April 2004 with the Trustee in Hawaiian s bankruptcy proceedings. Hawaiian s complaint alleged, among other things, that the Company breached the Confidentiality Agreement by (a) using the evaluation material in deciding to enter the Hawaiian inter-island market, and (b) failing to return or destroy any evaluation materials after being notified by Hawaiian on or about May 12, 2004 that the Company had not been selected as a potential investor for a transaction with Hawaiian. Hawaiian, in its complaint, sought unspecified damages, requested that the Company turn over to Hawaiian any evaluation material in the Company s possession, custody or control (the Turnover Claim), and also sought an injunction preventing the Company from providing inter-island transportation services in the State of Hawaii for a period of two years from the date of such injunctive relief.

On October 30, 2007, the Bankruptcy Court found that the Company violated the terms of the Confidentiality Agreement and awarded Hawaiian $80.0 million in damages and ordered the Company to pay Hawaiian s cost of litigation, reasonable attorneys fees and interest. This ruling arose out of the Bankruptcy Court s finding that our former executive vice president and Chief Financial Officer (CFO), intentionally and in bad faith destroyed evidence pertinent to Hawaiian s case against us. While we have filed a notice of appeal to this ruling and posted a $90.0 million bond, we can give no assurance that our appeal will result in a favorable outcome for us. In connection with these findings, we conducted a board of directors led internal investigation utilizing external forensic accountants and legal counsel to determine the extent, if any, of evidence that may exist indicating that our former CFO committed any other similar actions, or violated any other company policies or controls. This investigation was completed in December 2007, and nothing came to our attention that lead us to believe that any other issues existed.

On January 9, 2007, Aloha Airlines filed suit against Mesa Air Group in the United States District Court for the District of Hawaii. The complaint seeks damages and injunctive relief. Aloha alleges that Mesa s inter-island air fares are below cost and that Mesa is, therefore, violating specific provisions of the Sherman Act. Aloha also alleges breach of contract and fraud by Mesa in connection with two confidentiality agreements, one in 2005 and the other in 2006.

Mesa denies any attempt at monopolization of the inter-island market and further denies any improper use of the data furnished by Aloha while Mesa was considering a bid for Aloha during its bankruptcy. The case is in its incipient stages and a tentative trial date of October 28, 2008 has been scheduled by the court.

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

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

None.

PART II

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

Market Price of Common Stock

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

	Fiscal 2007		Fiscal 2006	
Quarter	**High**	**Low**	**High**	**Low**
First	$ 9.24	$ 7.41	$ 11.98	$ 8.45
Second	8.82	7.26	12.70	10.47
Third	8.02	6.51	11.14	8.69
Fourth	7.25	4.38	10.18	7.36

On January 11, 2008, we had 984 stockholders of record. We have never paid cash dividends on our common stock. The payment of future dividends is within the discretion of our board of directors and will depend upon our future earnings, if any, our capital requirements, bank financing, financial condition and other relevant factors.

Equity Compensation Plans

The following table sets forth certain information as of September 30, 2007, concerning outstanding options and rights to purchase common stock granted to participants in all of the Company s equity compensation plans (including the Outside Director s Stock Option Plan) and the number of shares of common stock remaining available for issuance under such equity compensation plans.

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))

Equity compensation plans approved by security holders	2,779,189	$ 7.11	521,369
Equity compensation plans not approved by security holders(1)	836,000	$ 8.49	
Total	3,615,189	$ 7.43	521,369

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

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COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Mesa Air Group, Inc., The NASDAQ Composite Index
And The AMEX Airline Index (Peer Group)

* $100 invested on 9/30/02 in stock or index-including reinvestment of dividends.
Fiscal year ending September 30.

Recent Sales of Unregistered Securities

There have been no recent sales of unregistered securities.

The following table sets forth information required regarding repurchases of common stock that we made during the twelve months ended September 30, 2007:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased		Average Price Paid per Share	Cumulative Number of Shares Purchased as Part of Publicly Announced Plan(1)	Maximum Number of Shares That May Yet Be Purchased Under the Plan
Three months ended December 31, 2006	530,225	$	8.03	10,960,765	8,461,496
Three months ended March 31, 2007	2,692,174	$	7.64	13,652,939	5,769,322
Three months ended June 30, 2007	2,248,246	$	6.79	15,901,185	13,521,076
Three months ended September 30, 2007		$		15,901,185	13,521,076

(1) Under resolutions adopted and publicly announced in December 1999, January 2001, October 2002, October 2004, April 2005, October 2005 and May 2007 our Board of Directors has authorized the repurchase, of up to an aggregate of approximately 29.4 million shares of our common stock. Purchases are made at management s discretion based on market conditions and the Company s financial resources. As of September 30, 2007 the Company has spent approximately $106.8 million to purchase and retire approximately 15.9 million shares of its outstanding common stock.

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Item 6. *Selected Financial Data*

Selected Financial Data and Operating Statistics

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

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

	2007(1)	2006(2)	2005(3)	2004(4)	2003(5)
Consolidated Statement of Operations Data Continuing Operations:					
Net operating revenues	$ 1,298,064	$ 1,284,903	$ 1,076,005	$ 815,098	$ 513,848
Operating expenses	1,371,836	1,182,514	943,006	741,137	452,024
Operating income	(73,772)	102,389	132,999	73,961	61,824
Interest expense	39,380	34,209	41,324	21,892	9,816
Income (loss) before income taxes	(108,922)	61,942	99,400	55,011	47,837
Net income (loss) from continuing operations	(71,538)	37,103	61,563	32,000	29,774
Net income (loss) per share continuing operations:					
Basic	$ (2.31)	$ 1.11	$ 2.11	$ 1.02	$ 0.94
Diluted	(2.31)	(0.91)	1.45	0.78	0.88
Net loss from discontinued operations	$ (10,023)	$ (3,136)	$ (4,696)	$ (5,718)	$ (4,464)
Consolidated Balance Sheet Data Continuing Operations:					
Working capital (deficit)	$ 192,916	$ 187,635	$ 225,176	$ 3,739	$ (16,357)
Total assets	1,226,296	1,238,213	1,167,671	1,121,537	712,452
Long-term debt, excluding current portion	561,946	500,363	589,029	500,921	199,023
Stockholders equity	$ 145,100	$ 264,210	$ 176,670	$ 128,904	$ 111,973
Consolidated Operating Statistics*:					
Passengers carried	16,393,027	14,839,701	13,088,872	10,239,915	6,444,459

Revenue passenger miles (000)	6,952,438	6,840,101	6,185,864	5,035,165	2,814,480
Available seat miles (ASM) (000)	9,182,517	9,139,340	8,715,749	7,107,684	4,453,707
Block hours	616,591	571,827	571,339	513,881	393,335
Average passenger journey in miles	424	461	473	492	436
Average stage length in miles	364	397	389	390	337
Load factor	75.7%	74.8%	71.0%	70.8%	63.2%
Break-even passenger load factor	74.6%	61.1%	53.3%	53.6%	46.3%
Revenue per ASM in cents	14.9	14.6	13.0	12.6	13.4
Operating cost per ASM in cents	14.7	13.5	11.6	11.7	12.3
Average yield per revenue passenger mile in cents	19.7	19.5	18.4	17.8	21.3
Average revenue per passenger	$ 82.14	$ 87.96	$ 84.25	$ 84.81	$ 89.44
Aircraft in service	182	191	182	180	150
Cities served	184	173	176	181	163
Number of employees	4,800	5,200	4,600	5,000	3,600

* Operating statistics include Air Midwest turboprop operations

(1) Net loss in fiscal 2007 includes the pretax effect of recognizing a loss contingency of $86.9 million, impairment of contract incentives of $25.3 million, $11.6 million of exit costs associated with the elimination of the Dash-8 JFK operations, and $6.4 million in impairment charges related to leasehold improvements made to certain aircraft under the United code-share agreement.

(2) Net income in fiscal 2006 includes a bankruptcy settlement of $12.1 million (pretax) and debt conversion costs of $13.1 million (pretax).

(3) Net income in fiscal 2005 includes the net effect of reversing certain impairment and restructuring charges of $1.3 million.

(4) Net income in fiscal 2004 includes the net effect of impairment and restructuring charges of $11.9 million (pretax).

(5) Net income in fiscal 2003 includes the effect of impairment and restructuring charges of $1.1 million (pretax) and the reversal of impairment and restructuring charges of $12.0 million (pretax).

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

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

Executive Overview

Fiscal 2007 was a year of challenges and modest successes for us. During fiscal 2007 we formed a joint venture in China with Shenzhen Airlines and commenced flying 50-seat CRJ-200 aircraft. We expect to be flying 10 aircraft by the summer of 2008 in time for the Beijing Olympic Games. China s market is considerably larger than the U.S and we expect this joint venture to materially contribute to our results of operations in the future. This new joint venture has also enabled us to transition certain excess 50-seat regional jet aircraft to China and reduce our exposure to certain unprofitable 50-seat regional jets flying with United Airlines.

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

We experienced a setback in our Hawaiian litigation. In October 2007, the United States Bankruptcy Court for the District of Hawaii found that the Company violated the terms of a confidentiality agreement between Hawaiian and Mesa and awarded Hawaiian $80.0 million in damages and ordered the Company to pay Hawaiian s cost of litigation, reasonable attorneys fees and interest. A loss contingency of $86.9 million has been recorded in the Statements of Operations for fiscal 2007. We have filed a notice of appeal to this ruling.

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets , the Company continually considers events or changes in circumstances that indicate the carrying amount of a long-term asset may not be recoverable. During the second quarter of 2007 the Company evaluated two such cases. In each instance the gross undiscounted cash flows related to a long-term asset were computed and found to be less than the carrying value of the long-lived asset. The fair market value of the two assets was then determined and an impairment charge, equal to the excess of the carrying value over fair value, was recorded totaling $37.7 million during the second quarter.

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

During fiscal 2007, we parked 12 Dash-8 aircraft, associated with the Delta code-share agreement. Due to higher than anticipated costs associated with our Delta Dash-8 fleet related to our JFK operations, the Company and Delta developed a joint plan to eliminate the Dash-8 fleet from the JFK operations. The agreement reached with Delta called for service to conclude by August 21, 2007. Losses are accrued as each aircraft is removed from operations for early termination penalties, lease settle up and other charges. The estimated costs associated with the parking and early termination of the lease agreements totaling approximately $11.6 million have been recorded in our Statements of Operations in fiscal 2007.

Although we experienced relatively flat operating revenues, from $1.28 billion in fiscal 2006 to $1.30 billion in fiscal 2007, we experienced material increases in Maintenance, Air and Traffic Servicing, and General and Administrative expenses, resulting in our first annual net loss in five years.

Discontinued Operations

In the fourth quarter of fiscal 2007, the Company committed to a plan to sell Air Midwest or certain assets thereof. Air Midwest consists of turboprop operations, which includes our independent Mesa operations. Midwest Airlines code-share operations, and our Beechcraft 1900D turboprop code-share operations with US Airways. In connection with this decision, the Company began soliciting bids for the sale of the twenty Beechcraft 1900D aircraft in operation and began to take the necessary steps to exit the EAS markets that we serve and expect to be out of all EAS markets by the end of fiscal 2008. All assets and liabilities, results of operations, and other financial and operational data associated with these assets have been presented in the accompanying consolidated financial statements as discontinued operations separate from continuing operations, unless otherwise noted. For all periods presented, we reclassified operating results of the Air Midwest turboprop operation to loss from discontinued operations.

Code-Share Agreements

Freedom commenced operations with Delta in October 2005 and is contracted to operate up to 36 50-seat regional jet aircraft on routes throughout Delta s network. During the second quarter of 2007, Delta exercised its right to terminate our turboprop code-sharing agreement and we subsequently removed all 12 Dash 8 aircraft from service recognizing exit costs of $11.6 million, but agreed to expand our service pursuant to an amendment to our existing code-sharing agreement and an agreement for a new service. Under the terms of the new code-sharing agreement, we are authorized to operate 14 CRJ-900 aircraft as a Delta Connection carrier. This new service began in November 2007 and as of December 2007, we are operating two CRJ-900 aircraft for Delta s network.

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Fleet

During fiscal 2007, we had a net reduction of 6 Dash-8 s related to Delta s discontinuance of our turboprop code-sharing agreement, and we removed eight CRJ-200 s; five from US Airways and three from United.

Aircraft in Operation at September 30:

Type of Aircraft	2007	2006	2005
CRJ-200/100 Regional Jet	52	60	56
CRJ-700 Regional Jet	20	15	15
CRJ-900 Regional Jet	38	38	37
Embraer 145 Regional Jet	36	36	36
Beechcraft 1900D	20	20	22
Dash-8	16	22	16
Total	182	191	182

Rotable Spare Parts Maintenance Agreements

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

Summary of Financial Results Continuing Operations

Mesa Air Group recorded a consolidated net loss from continuing operations of $71.5 million in fiscal 2007, representing a basic and diluted loss per share of $(2.31). This compares to consolidated net income from continuing operations of $37.1 million or $0.91 per diluted share in fiscal 2006 and consolidated net income from continuing operations of $61.6 million or $1.45 per diluted share in fiscal 2005.

Approximately 98% of our passenger revenue was associated with revenue-guarantee code-share agreements. Under the terms of our revenue-guarantee agreements, our major carrier partner controls the marketing, scheduling, ticketing, pricing and seat inventories. Our role is simply to operate our fleet in the safest and most reliable manner in exchange for fees paid under a generally fixed payment schedule. We receive a guaranteed payment based upon a fixed minimum monthly amount plus amounts related to departures and block hours flown in addition to direct reimbursement of expenses such as fuel, landing fees and insurance. Among other advantages, revenue-guarantee arrangements reduce our exposure to fluctuations in passenger traffic and fare levels, as well as fuel prices. In fiscal 2007, approximately 97% of our fuel purchases were reimbursed under revenue-guarantee code-share agreements. The remaining passenger revenues are derived from our ***go!*** operations.

Results of Continuing Operations

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

	Operating Data Years Ended September 30, 2007	2006	2005
Passengers	15,993,110	14,506,666	12,598,849
Available seat miles (ASM) (000 s)	8,996,959	8,980,470	8,526,378
Revenue passenger miles (000 s)	6,879,624	6,777,016	6,091,456
Load factor	76.5%	75.4%	71.4%
Yield per revenue passenger mile (cents)	18.9	19.0	17.7
Revenue per ASM (cents)	14.4	14.3	12.6
Operating cost per ASM (cents)	15.2	13.2	11.1
Average stage length (miles)	392	433	439
Number of operating aircraft in fleet	162	171	162
Gallons of fuel consumed	201,526,868	205,593,333	194,770,284
Block hours flown	564,379	522,884	508,776
Departures	378,291	338,888	322,524

Operating Expense Data
Years Ended September 30,

	2007			2006			2005		
	Amount (000s)	% of Total Net Revenues	Cost per ASM (cents)	Amount (000s)	% of Total Net Revenues	Cost per ASM (cents)	Amount (000s)	% of Total Net Revenues	Cost per ASM (cents)
Flight operations	$ 382,504	29.5%	4.3	$ 368,023	28.6%	4.1	$ 314,007	29.2%	3.7
Fuel	438,010	33.7%	4.9	446,788	34.8%	5.0	290,161	27.0%	3.4
Maintenance	254,626	19.6%	2.8	213,317	16.6%	2.4	173,869	16.2%	2.0
Aircraft and traffic servicing	82,248	6.3%	0.9	72,615	5.7%	0.8	59,407	5.5%	0.7
Promotion and sales	3,605	0.3%		1,990	0.2%		4	0.0%	
General and administrative	71,818	5.5%	0.8	56,940	4.4%	0.6	64,761	6.0%	0.8
Depreciation and amortization	39,354	3.0%	0.4	34,939	2.7%	0.4	42,054	3.9%	0.5
Loss contingency	86,870	6.7%	1.0						
Bankruptcy and vendor settlements	434	0.0%		(12,098)	(0.9)%	(0.1)			
Impairment and restructuring	12,367	1.0%	0.1				(1,257)	0.1%	

charges (credits)									
Total operating expenses	1,371,836	105.7%	15.2	1,182,514	92.0%	13.2	943,006	87.6%	11.1
Interest expense	(39,380)	(3.0)%	(0.4)	(34,209)	(2.7)%	(0.4)	(41,324)	(3.8)%	(0.5)
Interest income	14,314	1.1%	0.2	12,076	0.9%	0.1	2,888	0.3%	
Loss from equity method investments	(3,868)	(0.3)%		(2,490)	(0.2)%			0.0%	
Other income (expense)	$ (6,216)	(0.5)%	(0.1)	$ (15,824)	(1.2)%	(0.2)	$ 4,837	0.4%	0.1

Note: Numbers in the table above may not be recalculated due to rounding.

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

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

Year Ended September 30, 2005 (000 s)	Mesa/ Freedom	*go!*	Other	Elimination	Total
Total net operating revenues	$ 1,064,014	$	$ 300,261	$ (288,270)	$ 1,076,005
Total operating expenses	929,344		258,508	(244,846)	943,006
Operating income (loss)	$ 134,670	$	$ 41,753	$ (43,424)	$ 132,999

Fiscal 2007 Versus Fiscal 2006

Operating Revenues

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

Operating Expenses

Flight Operations

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

Fuel

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

Maintenance

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

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Aircraft and Traffic Servicing

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

Promotion and Sales

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

General and Administrative

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

Depreciation and Amortization

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

Loss Contingency

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

Bankruptcy and Vendor Settlements

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

Impairment and Restructuring Charges

In fiscal 2007, in accordance with FAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets , the Company recorded an impairment charge of $12.4 million (which was in addition to the $25.3 million noted above) related to leasehold improvements pertaining to certain aircraft under the United and Delta code share

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agreements where the gross undiscounted cash flows related to long-lived assets was computed and found to be less than the carrying value of the long-lived assets. There were no such impairment charges in the twelve months ended September 30, 2006.

Interest Expense

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

Interest Income

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

Loss from Equity Method Investments

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

Other Income (Expense)

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

Income Taxes

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

Fiscal 2006 Versus Fiscal 2005

Operating Revenues

In fiscal 2006, operating revenue increased by $208.9 million, or 19.4%, from $1.1 billion in fiscal 2005 to $1.3 billion in fiscal 2006. This increase is due, in large part, to a $155.8 million increase in fuel reimbursements by our code-share partners. In addition, fiscal 2006 included four months of our **go*!*** operations.

Operating Expenses

Flight Operations

In fiscal 2006, flight operations expense increased $54.0 million, or 10.8%, to $368.0 million from $314.0 million for fiscal 2005. On an ASM basis, flight operations expense increased 11.2% to 4.1 cents per ASM in fiscal 2006 from 3.7 cents per ASM in fiscal 2005. The increase is primarily driven by aircraft lease expense increasing $35.2 million in fiscal 2006, due to the sale and leaseback of 15 CRJ-900 aircraft in September 2005. In addition, wages and employee related expenses increased $18.4 million in fiscal 2006. These increases are a result of training costs associated with the transition of aircraft onto the Freedom certificate as well as the start up of the Company s Delta Dash-8 operations at New York s JFK airport. Flight operations expense also increased due to the start-up of ***go!*** operations.

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Fuel

In fiscal 2006, fuel expense increased $156.6 million, or 47.1%, to $446.8 million from $290.2 million for fiscal 2005. On an ASM basis, fuel expense increased 46.0% to 5.0 cents per ASM in fiscal 2006 from 3.4 cents per ASM in fiscal 2005. Fuel cost per gallon in fiscal 2006 increased 45.6% from $1.49 per gallon in fiscal 2005 to $2.17 per gallon in fiscal 2006, resulting in a $140.5 million unfavorable price variance. In addition, the amount of fuel purchased in fiscal 2006 increased resulting in a $23.5 million unfavorable volume variance. In fiscal 2006, 99.9% of our fuel costs were reimbursed by our code-share partners.

Maintenance

In fiscal 2006, maintenance expense increased $39.4 million, or 22.7%, to $213.3 million from $173.9 million for fiscal 2005. On an ASM basis, maintenance expense increased 20% to 2.4 cents per ASM in fiscal 2006 from 2.0 cents per ASM in fiscal 2005. The increase was driven by an approximate $22.0 million increase in aircraft heavy maintenance and rotable spare part repair and rent expense, an approximate $8 million increase in engine maintenance, a $5.0 million increase in materials, repairs and servicing expenses, and a $2.3 million increase in hangar rent. These increases are due to the timing of certain maintenance events for the Company s aircraft and the establishment of additional bases to support the United and Delta operations.

Aircraft and Traffic Servicing

In fiscal 2006, aircraft and traffic servicing expense increased by $13.2 million, or 22.2%, to $72.6 million from $59.4 million for fiscal 2005. On an ASM basis, aircraft and traffic servicing expense increased 15.9% to 0.8 cents per ASM in fiscal 2006 from 0.7 cents per ASM in fiscal 2005. Aircraft and traffic servicing related to our code-share business increased $10.7 million, which included a $5.6 million increase in station rents and a $4.5 million increase in passenger related costs, primarily landing fees. These increases were mainly a result of moving into higher cost East Coast cities for United and Delta. These costs are reimbursed by our code-share partners. In addition, expenses were higher by $2.5 million due to the ***go!*** startup costs in 2006.

Promotion and Sales

We do not pay promotion and sales expenses under our regional jet revenue-guarantee contracts. In fiscal 2006 we incurred $2.0 million due to the startup of ***go!***. Promotion and sales expense in fiscal 2005 was negligible.

General and Administrative

In fiscal 2006, general and administrative expense decreased $7.8 million, or 12.1%, to $56.9 million from $64.8 million for fiscal 2005. The decrease was driven by administrative costs which included a $13.5 million reduction in bad debt expense from the Pre-Merger US Airways bankruptcy settlement and a $3 million reduction in medical expenses. These decreases were offset by a $1.8 million increase in legal expenses and a $1.7 million increase in utilities.

Depreciation and Amortization

In fiscal 2006, depreciation and amortization expense decreased $7.1 million, or 16.9%, to $34.9 million from $42.1 million for fiscal 2005. The decrease was primarily due to a $7.2 million reduction in depreciation expense as a result of permanently financing 15 CRJ-900 aircraft as operating leases in the fourth quarter of fiscal 2005.

Bankruptcy Settlement

In fiscal 2006, the Company received approximately 350,000 shares of US Airways common stock as part of our bankruptcy claim against Pre-Merger US Airways. The shares were valued at approximately $50 per share, therefore the Company recognized approximately $17.6 million in benefit from its claim. Of the $17.6 million, $5.5 million was applied to receivables that were previously reserved.

Impairment and Restructuring Charges

In fiscal 2005, we reversed $1.3 million in reserves for lease and lease return costs related to two Shorts 360 aircraft the Company returned to the lessor in January 2005.

Interest Expense

In fiscal 2006, interest expense decreased $7.1 million, or 17.2%, to $34.2 million from $41.3 million for fiscal 2005. The net decrease in interest expense was primarily due a $10.4 million reduction in interest expense as a result of permanently financing 15 CRJ-900 aircraft with operating leases in the fourth quarter of fiscal 2005, a $2.8 million reduction in convertible debt interest expense as a result of the conversion from debt to equity and a $1.0 million reduction in interest expense related to the financing of rotable inventory that was retired in the first quarter of fiscal 2006. These decreases were partially offset by a $6.4 million increase in interest expense on aircraft financing as a result of increases in variable interest rates.

Interest Income

In fiscal 2006, interest income increased $9.2 million to $12.1 million from $2.9 million for fiscal 2005. The increase is due to increases in the rates of return on our portfolio of marketable securities.

Loss from Equity Method Investments

In fiscal 2006, the Company participated with a private equity fund in making an investment in the common stock and notes of a closely held airline related business. Our proportional share of losses associated with this investment totaled $2.5 million. There were no such losses in 2005.

Other Income (Expense)

In fiscal 2006, other income (expense) increased $20.6 million from an income of $4.8 million for fiscal 2005 to an expense of ($15.8) million for fiscal 2006. The increase is primarily due to $13.1 million increase in debt conversion costs and a $5.1 million decrease in gains on investment securities.

Income Taxes

In fiscal 2006, our effective tax rate increased from 38.3% for fiscal 2005 to 40.1%. The increase in our effective tax rate is mainly due to the inability to deduct stock option expense related to incentive stock options for income tax purposes.