

MESA AIR GROUP INC
Form 10-Q
May 11, 2009

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

FORM 10-Q

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

For the quarterly period ended March 31, 2009

OR

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

For the transition period from _____ to _____

Commission file number 000-15495

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 Number)

410 North 44th Street, Suite 100
Phoenix, Arizona 85008

Note: PDF provided as a courtesy

TABLE OF CONTENTS
INDEX

Page
No.

PART I. Financial Information

Item 1.

Financial Statements

Condensed Consolidated Statements of Operations

3

Condensed Consolidated Balance Sheets

4

Condensed Consolidated Statements of Cash Flows

5

Notes to Condensed Consolidated Financial Statements

7

Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations

20

Item 3.

Quantitative and Qualitative Disclosures About Market Risk

31

Item 4.

Controls and Procedures

31

PART II. Other Information

Item 1.

Legal Proceedings

31

Item 1A.

Risk Factors

33

Item 2.

Unregistered Sales of Equity Securities and Use of Proceeds

33

Item 3.

Defaults Upon Senior Securities

34

Item 4.

Submission of Matters to a Vote of Security Holders

34

Item 5.

Other Information

34

Item 6.

Exhibits

34

Signatures

35

2

Part I -- FINANCIAL INFORMATION

Item 1. *Financial Statements*

MESA AIR GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,		Six Months Ended March 31,	
	2009	2008	2009	2008
	(Unaudited)			
	(In thousands, except per share data)			
Operating revenues:				
Passenger	\$ 229,568	\$ 316,840	\$ 491,064	\$ 640,043
Freight and other	3,443	3,489	7,070	6,878
Net operating revenues	233,011	320,329	498,134	646,921
Operating expenses:				
Flight operations	84,812	89,207	170,304	182,778
Fuel	50,323	118,759	128,858	234,678
Maintenance	56,799	66,884	105,961	138,894
Aircraft and traffic servicing	17,783	20,255	34,272	39,910
Promotion and sales	1,293	922	2,413	1,703
General and administrative	14,725	20,984	26,233	35,976
Depreciation and amortization	9,312	9,769	18,030	19,356
Loss contingency	-	(34,100)	-	(34,100)
Bankruptcy settlement	-	(27)	-	(27)
Impairment of long-lived assets	350	-	350	-
Total operating expenses	235,397	292,653	486,421	619,168
Operating income (loss)	(2,386)	27,676	11,713	27,753
Other income (expense):				
Interest expense	(5,402)	(9,719)	(13,588)	(19,400)
Interest income	988	1,919	2,097	4,519
Gain on extinguishment of debt	37,210	7,354	45,317	7,354
Loss from equity method investments	(2,794)	(506)	(1,559)	(1,558)
Other income (expense)	(414)	2,296	(891)	6,199
Total other income (expense)	29,588	1,344	31,376	(2,886)
Income from continuing operations before taxes	27,202	29,020	43,089	24,867
Income tax provision (benefit)	64,479	11,557	64,878	10,162
Net income (loss) from continuing operations	(37,277)	17,463	(21,789)	14,705
Income (loss) from discontinued operations, net of taxes	539	(8,043)	353	(9,492)
Net income (loss)	\$ (36,738)	\$ 9,420	\$ (21,436)	\$ 5,213
Basic income (loss) per common share:				
Income (loss) from continuing operations	\$ (0.43)	\$ 0.65	\$ (0.38)	\$ 0.53
Income (loss) from discontinued operations	0.01	(0.30)	0.01	(0.34)

Edgar Filing: MESA AIR GROUP INC - Form 10-Q

Net income (loss) per share	\$	(0.42)	\$	0.35	\$	(0.37)	\$	0.19
		<u> </u>		<u> </u>		<u> </u>		<u> </u>
Diluted income (loss) per common share:								
Income (loss) from continuing operations	\$	(0.43)	\$	0.51	\$	(0.38)	\$	0.45
Income (loss) from discontinued operations		0.01		(0.22)		0.01		(0.26)
		<u> </u>		<u> </u>		<u> </u>		<u> </u>
Net income (loss) per share	\$	(0.42)	\$	0.29	\$	(0.37)	\$	0.19
		<u> </u>		<u> </u>		<u> </u>		<u> </u>

See accompanying notes to condensed consolidated financial statements.

MESA AIR GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	<u>March 31,</u> <u>2009</u>	<u>September 30,</u> <u>2008</u>
(Unaudited)		
(In thousands, except share amounts)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 43,209	\$ 50,763
Marketable securities	2	224
Restricted cash	13,911	13,947
Receivables, net	16,745	32,429
Income tax receivable	1,959	734
Expendable parts and supplies, net	28,476	31,067
Prepaid expenses and other current assets	162,751	162,701
Deferred income taxes	18,854	18,379
Assets of discontinued operations	21,190	24,805
	<hr/>	<hr/>
Total current assets	307,097	335,049
Property and equipment, net	575,753	577,183
Lease and equipment deposits	11,832	11,957
Equity method investments	16,096	13,697
Other assets	18,481	21,319
	<hr/>	<hr/>
Total assets	\$ 929,259	\$ 959,205
	<hr/>	<hr/>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 39,419	\$ 137,990
Accounts payable	37,130	28,898
Air traffic liability	5,657	7,861
Accrued compensation	6,813	7,394
Income taxes payable	14	-
Other accrued expenses	41,517	50,646
Liabilities of discontinued operations	36,953	39,620
	<hr/>	<hr/>
Total current liabilities	167,503	272,409
Long-term debt, excluding current portion	443,966	420,878
Deferred credits	115,717	116,849
Deferred income taxes	81,180	15,734
Other noncurrent liabilities	25,336	23,678
	<hr/>	<hr/>
Total liabilities	833,702	849,548
	<hr/>	<hr/>
Stockholders' equity		
Common stock of no par value and additional paid-in capital, 900,000,000 shares authorized; 146,575,835 and 26,773,479 shares issued and outstanding, respectively	113,205	105,869
Retained earnings (deficit) (17,648)		
	<hr/>	<hr/>
		3,788
	<hr/>	<hr/>
Total stockholders' equity	95,557	
	<hr/>	<hr/>
		109,657
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 929,259	

See accompanying notes to condensed consolidated financial statements.

MESA AIR GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended March 31,	
	2009	2008
	(Unaudited)	
	(In thousands)	
Cash Flows from Operating Activities:		
Net income (loss) from continuing operations	\$ (21,789)	\$ 14,705
Net income (loss) from discontinued operations	353	(9,492)
	(21,436)	5,213
Net income (loss)		
Adjustments to reconcile income (loss) to net cash flows provided by operating activities:		
Depreciation and amortization	18,049	19,342
Impairment charges	350	9,134
Deferred income taxes	64,972	(2,536)
Gain on investment securities	-	(3,132)
(Gain) Loss from equity method investment	1,559	1,558
Amortization of deferred credits	(8,578)	(9,026)
Amortization of restricted stock awards	413	496
Amortization of contract incentive payments	164	164
Loss on sale of assets	259	156
Stock option benefit	(13)	(17)
Provision for obsolete expendable parts and supplies	458	2,071
Provision (benefit) for doubtful accounts	2,948	(909)
Gain on extinguishment of debt	(45,317)	(7,354)
Reversal of loss contingency	-	(34,100)
Changes in assets and liabilities:		
Net sales of investment securities	222	113,199
Receivables	12,175	4,052
Income tax receivables	(1,254)	154
Expendable parts and supplies	2,133	1,463
Prepaid expenses	110	(15,971)
Other current assets	339	817
Accounts payable	4,236	17,352
Income taxes payable	1,004	3,282
Other accrued expenses	(10,756)	(6,111)
	22,037	99,297
Net cash provided by operating activities		
Cash Flows from Investing Activities:		
Capital expenditures	(14,066)	(12,910)
Proceeds from sale of flight equipment and expendable inventory	3	5,760
Change in restricted cash	37	(90,594)
Change in other assets	117	468
Net returns of lease and equipment deposits	242	2,329
	(13,667)	(94,947)
Net cash used in investing activities		

See accompanying notes to condensed consolidated financial statements.

Edgar Filing: MESA AIR GROUP INC - Form 10-Q

	Six Months Ended March 31,	
	2009	2008
	(Unaudited)	
	(In thousands)	
Cash Flows from Financing Activities:		
Principal payments on short and long-term debt	(27,186)	(32,576)
Proceeds from financing	2,981	-
Proceeds from issuance of common stock	835	-
Common stock purchased and retired	-	(6,812)
Proceeds from receipt of deferred credits	7,446	4,048
Net cash used in financing activities	(15,924)	(35,340)
Net change in cash and cash equivalents	(7,554)	(30,990)
Cash and cash equivalents at beginning of period	50,763	72,377
Cash and cash equivalents at end of period	\$ 43,209	\$ 41,387
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest, net of amounts capitalized	\$ 10,530	\$ 19,999
Cash paid (refunded) for income taxes, net	265	(1,565)
SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Conversion of convertible debt to equity	\$ 21,370	\$ -
Conversion of accrued interest into equity investment	3,959	2,779
Accrued purchase of property and equipment	2,996	-
Receivable for credits related to aircraft financing	-	(3,912)

See accompanying notes to condensed consolidated financial statements.

MESA AIR GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Business and Basis of Presentation

The accompanying unaudited, condensed consolidated financial statements of Mesa Air Group, Inc. have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for a complete set of financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the results for the periods presented have been made. Operating results for the three and six months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2009. These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2008.

The accompanying condensed consolidated financial statements include the accounts of Mesa Air Group, Inc. and the following wholly-owned operating subsidiaries (collectively "Mesa" or the "Company"): Mesa Airlines, Inc. ("Mesa Airlines"), a Nevada corporation and certificated air carrier; Freedom Airlines, Inc. ("Freedom"), a Nevada corporation and certificated air carrier; Air Midwest, Inc. ("Air Midwest"), a Kansas corporation; MPD, Inc., a Nevada corporation, doing business as Mesa Pilot Development; Regional Aircraft Services, Inc. ("RAS"), a California corporation; Mesa Air Group — Airline Inventory Management, LLC ("MAG-AIM"), an Arizona limited liability company; Ritz Hotel Management Corp., a Nevada corporation; Mesa Air New York, Inc., a New York Corporation; Nilchii, Inc. ("Nilchii"), a Nevada corporation; MAGI Insurance, Ltd. ("MAGI"), a Barbados, West Indies based captive insurance company; and Ping Shan SRL ("Ping Shan"), a Barbados company with restricted liability. MPD, Inc. provides pilot training in coordination with a community college in Farmington, New Mexico and with Arizona State University in Tempe, Arizona. RAS performs ground handling services. MAG-AIM purchases, distributes and manages the Company's inventory of rotable and expendable spare parts. Ritz Hotel Management Corp. is a company that owns and manages a Phoenix area hotel property used for crew-in-training accommodations. MAGI is a captive insurance company established for the purpose of obtaining more favorable aircraft liability insurance rates. Nilchii was established to invest in certain airline related businesses. All significant intercompany accounts and transactions have been eliminated in consolidation.

Reclassification

The statements of operations for the three and six months ended March 31, 2008 reflect a reclassification of \$7.4 million from other income to gain on extinguishment of debt to conform to presentation that was provided in the statement of operations for the year ended September 30, 2008 and to the presentation provided in the comparable periods of the current year. In addition, the statement of cash flows for the six months ended March 31, 2008 also reflects reclassification of the \$7.4 million from principal payments on short and long term debt to gain on extinguishment of debt to conform to the presentation of the comparable period of the current year. The Company does not believe the reclassification is material to the financial statements.

Recent Accounting Pronouncements

The Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48 ("FIN 48") in the first quarter of fiscal 2008. Under FIN 48, the tax benefit from an uncertain tax position may be recognized only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. The determination is based on the technical merits of the position and presumes that each uncertain tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information. As a result of implementing FIN 48 in the

first quarter of fiscal 2008, the only effect on the Company was to reclassify a \$2.7 million tax reserve from long-term deferred income tax liability to other noncurrent liabilities at December 31, 2007 under FIN 48. No other changes resulting from implementing FIN 48 were necessary. The Company does not expect a significant change with its uncertain tax positions through the second quarter of fiscal 2010.

The tax law is subject to varied interpretations, and we have taken positions related to certain matters where the law is subject to interpretation and where substantial amounts of income tax benefits have been recorded in our financial statements. As we become aware of new interpretations of the relevant tax laws and as we discuss our interpretations with taxing authorities, we may in the future change our assessments of the likelihood of sustainability or of the amounts that may or may not be sustained upon audit. And as our assessments change, the impact to our financial statements could be material. We believe that the estimates, judgments and assumptions made when accounting for these matters are reasonable, based on information available at the time they are made. However, there can be no assurance that actual results will not differ from those estimates.

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements." This standard defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosure about fair value measurements. This pronouncement applies to other accounting standards that require or permit fair value measurements. Accordingly, this statement does not require any new fair value measurement. This statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company was required to adopt SFAS No. 157 in the first quarter of fiscal 2009. The Company has cash and cash equivalents that include money market securities of \$2,000 that are considered to be highly liquid and easily tradeable and marketable securities. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as level 1 within the fair value hierarchy. See Note 5 for more information regarding our marketable securities. The fair value of our jet fuel swap is determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. Therefore, the Company has categorized this swap contract as level 2 within the fair value hierarchy. See Note 7 for more information regarding our jet fuel swap.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities &mdash Including an Amendment of FASB Statement No. 115". Under SFAS No. 159, companies have an opportunity to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company was required to adopt SFAS No. 159 in the first quarter of fiscal 2009. The Company has not elected the fair value option for any assets or liabilities as allowed by SFAS No. 159.

In December 2007, the FASB issued SFAS No. 141(R) "Business Combinations". This statement replaces SFAS No. 141, "Business Combinations" however it retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS No. 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This statement defines the acquirer as the entity that obtains control of one or more businesses and establishes the acquisition date as the date the acquirer achieves control. SFAS No. 141 did not define the acquirer, although it included guidance on identifying the acquirer, as does this statement. This statement's scope is broader than that of SFAS No. 141, which applied only to business combinations in which control was obtained by transferring consideration. By applying the same method of accounting-the acquisition method-to all transaction and other events in which one entity obtains control over one or more other businesses, this statement improves the comparability of the information about business combinations provided in financial reports. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company will be required to apply SFAS No.141(R) beginning in the first quarter of fiscal 2010. Management believes that it will not have a significant impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160 an amendment of ARB No. 51, "Non-controlling Interests in Consolidated Financial Statements". A non-controlling interest, sometimes called a minority interest, is the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. The objective of this statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards. This statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding non-controlling interest in one or more subsidiaries or that deconsolidate a subsidiary. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company will be required to adopt SFAS No. 160 in the first quarter of fiscal 2010. Management believes that it will not have a significant impact on the Company's consolidated financial statements.

In May 2008, the FASB issued FASB Staff Position ("FSP") APB 14-1 "Accounting for Convertible Debt Instruments That May be Settled in Cash Upon Conversion (Including Partial Cash Settlement)". FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not

addressed by paragraph 12 of APB Opinion No. 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants". Additionally, this FSP specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The company will be required to adopt FSP APB 14-1 in the first quarter of fiscal 2010. Management has not evaluated the impact that this FSP will have on the Company's consolidated financial statements.

In June 2008, the FASB issued Emerging Issues Task Force ("EITF") 07-5 "Determining whether an Instrument (or Embedded Feature) is indexed to an Entity's Own Stock". EITF 07-5 clarifies how to determine whether certain instruments or features were indexed to an entity's own stock under EITF Issue No. 01-6, *The Meaning of "Indexed to a Company's Own Stock,"* ("EITF 01-6") and provides guidance to determine what accounting literature may apply to a particular equity linked instrument or feature. EITF 07-5 will become effective for the Company in the first quarter of fiscal 2010, and must be applied to all instruments outstanding on the date of

adoption. The Company is currently evaluating the impact of EITF 07-5, and has not yet determined the effect of its adoption on the Company's consolidated financial statements.

In June 2008, the FASB issued EITF 08-3 "Accounting by Lessees for Maintenance Deposits", on the accounting for maintenance deposits that may not be refunded. EITF 08-3 requires that lessees continually evaluate whether it is probable that an amount on deposit with a lessor will be returned to reimburse the costs of the maintenance activities incurred by the lessee. When an amount on deposit is less than probable of being returned, it shall be recognized as additional expense. When the underlying maintenance is performed, the maintenance costs shall be expensed or capitalized in accordance with the lessee's maintenance accounting policy. EITF 08-3 is effective for financial statements issued for fiscal years beginning on or after December 15, 2008, including interim periods within those fiscal years. Earlier application by an entity that has previously adopted an alternative accounting policy is not permitted. The Company currently accounts for its maintenance deposits in accordance with EITF 08-3, and therefore, the adoption of EITF 08-3 will not have an impact on the Company's consolidated financial statements.

In October 2008, the FASB issued SFAS No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active." This standard expands upon the implementation guidance in SFAS No. 157 for estimating the present value of future cash flows for some hard-to-value financial statement, such as collateralized debt obligations. This statement became effective upon issuance. SFAS No. 157-3 did not have a significant impact on the Company's consolidated financial statements.

In November 2008, the FASB issued EITF 08-6 "Equity Method Investment Accounting Considerations", on how the initial carrying value of an equity method investment should be determined, how an impairment assessment of an underlying indefinite-lived intangible asset of an equity method investment should be performed, and how an equity method investee's issuance of shares should be accounted for. The Company will be required to adopt EITF 08-6 in the first quarter of fiscal 2010. Management has not evaluated the impact of this issue on the Company's consolidated financial statements.

In April 2009, the FASB issued FSP Financial Accounting Standards ("FAS") 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments." This FSP changes existing guidance for determining whether an impairment of debt securities is other than temporary. The FSP requires other than temporary impairments to be separated into the amount representing the decrease in cash flows expected to be collected from a security (referred to as credit losses) which is recognized in earnings and the amount related to other factors which is recognized in other comprehensive income. This noncredit loss component of the impairment may only be classified in other comprehensive income if the holder of the security concludes that it does not intend to sell and it will not more likely than not be required to sell the security before it recovers its value. If these conditions are not met, the noncredit loss must also be recognized in earnings. When adopting the FSP, an entity is required to record a cumulative effect adjustment as of the beginning of the period of adoption to reclassify the noncredit component of a previously recognized other than temporary impairment from retained earnings to accumulated other comprehensive income. FSP FAS 115-2 and FAS 124-2 are effective for interim and annual periods ending after June 15, 2009. The FSP will not impact the Company's condensed consolidated financial statements as it currently classifies all debt securities as trading, whereby changes in fair value of marketable securities are recorded directly to the consolidated statement of operations instead of other comprehensive income.

In April 2009, the FASB issued FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly." This FSP provides additional guidance on estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability. The FSP also provides additional guidance on circumstances that may indicate that a transaction is not orderly. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009. The Company does not believe the adoption of this FSP will materially impact the Company's condensed consolidated financial statements.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments", which relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet at fair value. Prior to issuing the FSP, fair values for these assets and liabilities were only disclosed once a year. The FSP now requires these disclosures on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instrument not measured on the balance sheet at fair value. This FSP will be effective for interim and annual reporting periods ending after June 15, 2009. The adoption of this FSP will not have a significant impact on the Company's condensed consolidated financial statements.

2. 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 consisted of Beechcraft 1900D turboprop operations. In connection with this decision, the Company began soliciting bids for the sale of the twenty Beechcraft 1900D aircraft in operation and exited all of its Essential Air Service ("EAS") markets effective June 30, 2008.

Edgar Filing: MESA AIR GROUP INC - Form 10-Q

All assets and liabilities, results of operations, and other financial and operational data associated with these assets have been presented in the condensed consolidated financial statements as discontinued operations separate from continuing operations in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets".

During the three and six months ended March 31, 2009, the Company recorded revenues, income (loss) before taxes, income tax expense (benefit) and net income (loss) generated by discontinued operations as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2009	2008	2009	2008
	(In thousands)			
Revenue	\$ -	\$ 9,015	\$ 120	\$ 19,485
Income (loss) before income taxes	\$ 775	\$ (12,252)	\$ 589	\$ (14,603)
Income tax expense (benefit)	236	(4,209)	236	(5,111)
Net income (loss) from discontinued operations	\$ 539	\$ (8,043)	\$ 353	\$ (9,492)

Only interest expense directly associated with the debt outstanding of our Beechcraft 1900D aircraft is included in discontinued operations. General overhead or interest expense which is not directly related to Air Midwest, is not included within discontinued operations. The remaining carrying value of all assets and liabilities of the discontinued operations approximate fair market value, therefore no adjustment related thereto have been recorded in the six months ended March 31, 2009.

Assets, including assets held for sale, and liabilities associated with the Air Midwest turboprop operation have been segregated from continuing operations and presented as assets and liabilities of discontinued operations in the condensed consolidated balance sheets for all periods presented. In accordance with SFAS No. 144, depreciation and amortization related to assets held for sale ceased as of September 30, 2007. Assets and liabilities of the discontinued operations were as follows:

	March 31, 2009	September 30, 2008
	(In thousands)	
Current assets	\$ 94	\$ 3,654
Property and equipment, net	20,800	20,800
Other assets	296	351
Current liabilities	(1,021)	(1,467)
Current portion of long-term debt	(5,703)	(5,206)
Long-term debt excluding current portion	(30,229)	(32,947)
Net liabilities of discontinued operations	\$ (15,763)	\$ (14,815)

3. Management's Plans Regarding Going Concern

Liquidity and Going Concern Matters:

The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern. This assumes continuing Hawaii operations and the realization of assets and liabilities in the ordinary course of business. The Company expects to continue its *go!* operations and to continue to serve its three code-share partners (see Delta discussion below). Accordingly, the Company believes that its projected cash flows from operations and working capital to be sufficient to meet its current operating expenses, lease obligations and debt

service requirements for at least the next 12 months. The Company currently has excess regional jet aircraft and B1900D turboprop aircraft and may, in April 2010, have additional excess aircraft. (See excess aircraft discussion below). The Company's business plan also focuses on further reducing costs and enhancing liquidity by instituting plans for all or some of the following: the sale of excess aircraft, subleasing of excess aircraft, and/or discussions with our current partners or future partners, sales or financing transactions for aircraft related parts, and renegotiation of credit terms from certain of the Company's key vendors.

On March 28, 2008, Delta notified the Company of its intent to terminate the Delta Connection Agreement among Delta, the Company and the Company's wholly owned subsidiary, Freedom Airlines, Inc. alleging failure to maintain a specified completion rate with respect to its ERJ-145 Delta Connection flights during three months of the six-month period ended February 2008. Following Delta's termination notification, the Company filed a Complaint on April 7, 2008 in the United States District Court for the Northern District of Georgia ("the Court") seeking declaratory and injunctive relief. An evidentiary hearing was conducted in late May 2008. Following the hearing, the Court ruled in the Company's favor and issued a preliminary injunction against Delta.

The effect of this ruling is to prohibit Delta from terminating the Delta Connection Agreement covering the ERJ-145 aircraft operated by Freedom, based on Freedom's completion rate prior to April 2008, pending a final trial at a date to be determined by the court. On June 27, 2008, Delta filed a Notice of Appeal. On July 15, 2008, Delta filed a motion requesting that the appeal be heard on an expedited basis. Delta and the Company have fully briefed the issue on appeal and oral arguments in the 11th Circuit Court of Appeals were held on January 30, 2009.

If the District Court or Court of Appeals ultimately rules in favor of Delta and allows the termination of the Connection Agreement, management believes they will be unable to redeploy the ERJ-145s in a timely manner, or at the lease rates the Company receives under the Delta Connection Agreement in the event of any re-deployment of such aircraft. As a result, if the Company is not successful in its litigation with Delta, the Company's cash flows from operations and available working capital will be insufficient to meet these cash requirements. The accompanying condensed consolidated financial statements do not include any adjustments that might result from an unfavorable outcome in this matter.

We currently have excess aircraft that are not operating under our code-share agreements and at *go!*. As of April 1, 2009, we have 37 excess aircraft consisting of five CRJ-200s (previously operated at Kunpeng Airlines), 12 ERJ-145s (previously operated under the Delta agreement) and 20 B1900Ds (previously operated at Air Midwest). We continue to pursue opportunities to sublease our excess regional jet aircraft and sell our B1900D aircraft. Our excess aircraft will have a negative impact on our financial condition and results of operations.

In addition, we currently operate 26 CRJ-200s, 20 CRJ-700s and 10 Dash-8 aircraft for United pursuant to a code-share agreement. Under our agreement with United, we may swap 10 CRJ-200s for 10 CRJ-700s; to exercise this right, we must advise United of the delivery dates for the swap of 10 CRJ-700s by October 31, 2009. Also, under our United agreement, 26 CRJ-200s and 10 Dash-8s can be terminated early by United in April 2010, upon six months prior notice. We have not received notice from United regarding its intentions with respect to its CRJ-200 and Dash-8 fleet. The 26 CRJ-200 and 10 Dash-8 aircraft represent approximately 19% of the Company's revenues. Although we have early return rights for 8 CRJ-200 aircraft flying for United, we have substantial aircraft lease obligations beyond April 2010 on the remaining fleet. If United exercises its early termination option for the CRJ-200 and/or Dash-8 aircraft, we would be unlikely to place these aircraft in revenue-generating service in a timely manner or sublease these aircraft at the lease reimbursement rates in the United code-share agreement. In the absence of obtaining additional capital through equity or debt financings, asset sales, consensual restructuring the aircraft lease terms and/or similar measures, continuing our agreement with United, or placing the aircraft with another carrier, our cash flows from operations and available working capital will be insufficient to meet our obligations.

4. Segment Reporting

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," requires disclosures related to components of a company for which separate financial information is available that is evaluated regularly by a company's chief operating decision maker in deciding the allocation of resources and assessing performance. The Company has two airline operating subsidiaries, Mesa Airlines and Freedom Airlines, as well as various other subsidiaries organized to provide support for the Company's airline operations. The Company has aggregated these subsidiaries into two reportable segments: Mesa Airlines/Freedom and *go!*. Operating revenues in the Other category are primarily sales of rotatable and expendable parts to the Company's operating subsidiaries and ground handling

services performed by employees of RAS for Mesa Airlines. The assets and liabilities and results of operations associated with Air Midwest are not included within the segment information table below as they are classified as discontinued operations in the condensed consolidated financial statements.

Mesa Airlines and Freedom Airlines provide passenger service under revenue-guarantee contracts with United Airlines, Inc. ("United"), Delta Air Lines, Inc. ("Delta") and US Airways, Inc. ("US Airways"). As of March 31, 2009, Mesa Airlines and Freedom Airlines operated a fleet of 146 aircraft - 96 CRJs, 34 ERJs and 16 Dash-8's. There are two CRJ and six ERJ non- revenue generating operational spares.

go!

provides independent inter-island Hawaiian passenger service where revenue is derived from ticket sales. As of March 31, 2009, *go!* operated a fleet of 5 CRJ-200 aircraft.

The Other category includes Mesa Air Group (the holding company), RAS, MPD, MAG-AIM, MAGI, Mesa Air New York, Nilchii, Ping Shan and Ritz Hotel Management Corp., all of which support Mesa's operating subsidiaries. Activity in the Other category consists primarily of sales of rotatable and expendable parts and ground handling services to the Company's operating subsidiaries, but also includes all administrative functions not directly attributable to any specific operating company. These administrative costs are allocated to the operating companies based upon specific criteria including headcount, available seat miles ("ASM's") and other operating statistics.

The Company only allocates those assets specifically associated with the operation of aircraft engaged in the revenue generating activity of a segment.

Edgar Filing: MESA AIR GROUP INC - Form 10-Q

Three Months Ended March 31, 2009 (000's)	Mesa/ Freedom	go!	Other	Eliminations	Total
Total net operating revenues	\$ 223,866	\$ 9,605	\$ 45,537	\$ (45,997)	\$ 233,011
Depreciation and amortization	8,645	263	404	-	9,312
Operating income (loss)	5,684	(2,104)	774	(6,740)	(2,386)
Interest expense	(4,855)	138	(733)	48	(5,402)
Interest income	19	-	1,018	(49)	988
Income (loss) before income tax	795	(2,279)	35,424	(6,738)	27,202
Income tax provision (benefit)	4,749	(557)	65,397	(5,110)	64,479
Total assets	1,268,811	12,320	518,246	(891,308)	908,069
Capital expenditures (including non-cash)	3,504	117	2,373	-	5,994

Three Months Ended March 31, 2008 (000's)	Mesa/ Freedom	go!	Other	Eliminations	Total
Total net operating revenues	\$ 312,984	\$ 7,185	\$ 49,461	\$ (49,301)	\$ 320,329
Depreciation and amortization	8,403	555	811	-	9,769
Operating income (loss)	3,549	(8,302)	39,092	(6,663)	27,676
Interest expense	(7,689)	-	(2,175)	145	(9,719)
Interest income	1,127	41	896	(145)	1,919
Income (loss) before income tax	(290)	(8,258)	44,231	(6,663)	29,020
Income tax provision (benefit)	619	(5,157)	20,886	(4,791)	11,557
Total assets	1,384,422	16,453	595,692	(868,803)	1,127,764
Capital expenditures (including non-cash)	22	366	767	-	1,155

Six Months Ended March 31, 2009 (000's)	Mesa/ Freedom	go!	Other	Eliminations	Total
Total net operating revenues	\$ 477,824	\$ 21,201	\$ 95,275	\$ (96,166)	\$ 498,134
Depreciation and amortization	16,670	528	832	-	18,030
Operating income (loss)	24,388	(1,211)	2,528	(13,992)	11,713
Interest expense	(12,026)	138	(1,892)	192	(13,588)
Interest income	350	17	1,924	(194)	2,097
Income (loss) before income tax	12,384	(1,595)	46,290	(13,990)	43,089
Income tax provision (benefit)	4,749	(557)	65,796	(5,110)	64,878
Total assets	1,268,811	12,320	518,246	(891,308)	908,069
Capital expenditures (including non-cash)	11,126	125	5,811	-	17,062

Six Months Ended March 31, 2008 (000's)	Mesa/ Freedom	go!	Other	Eliminations	Total
Total net operating revenues	\$ 633,773	\$ 13,352	\$ 106,418	\$ (106,622)	\$ 646,921
Depreciation and amortization	16,622	1,080	1,654	-	19,356
Operating income (loss)	8,874	(14,884)	48,002	(14,239)	27,753
Interest expense	(15,154)	-	(4,541)	295	(19,400)
Interest income	2,947	73	1,794	(295)	4,519
Income (loss) before income tax	3,073	(14,805)	50,838	(14,239)	24,867
Income tax provision (benefit)	1,256	(6,051)	20,776	(5,819)	10,162
Total assets	1,384,422	16,453	595,692	(868,803)	1,127,764
Capital expenditures (including non-cash)	6,845	366	3,846	-	11,057

5. Marketable Securities

The Company has a cash management program that provides for the investment of excess cash balances primarily in short-term money market instruments, US treasury securities, intermediate-term debt instruments, and common equity securities of companies operating in the airline industry.

SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," requires that all applicable investments be classified as trading securities, available for sale securities or held-to-maturity securities. As of March 31, 2009 and September 30, 2008, the Company had \$2,000 and \$0.2 million in marketable securities that include US Treasury notes, government bonds and corporate bonds. These investments are classified as trading securities during the periods presented and accordingly, are carried at market value with changes in value reflected in the current period operations. Unrealized losses relating to trading securities held at March 31, 2009 and September 30, 2008 were \$41,000 and \$12,000, respectively. During the quarter ended March 31, 2009, the Company did not record any net realized gains on marketable securities.

6. Restricted Cash

At March 31, 2009, the Company had \$13.9 million in restricted cash. The Company has an agreement with a financial institution for a \$15.0 million letter of credit facility and to issue letters of credit for landing fees, workers compensation insurance and other business needs. Pursuant to the agreement, \$11.6 million of outstanding letters of credit are required to be collateralized by amounts on deposit. Approximately \$2.0 million relates to maintenance deposits and reserves associated with aircraft which were leased to Kunpeng Airlines.

7. Jet Fuel Swap

go!

is significantly impacted by changes in jet fuel prices. Jet fuel consumed for the three months ended March 31, 2009 and 2008 represented approximately 18.3% and 25.7% of *go!*'s operating expenses, respectively. Over the past several years, fuel expense has become an increasingly larger portion of *go!*'s operating expenses due to the dramatic increases in all energy prices over this period. The Company's goal is to acquire jet fuel at the lowest possible costs. Approximately 4.6% of our total fuel costs are not reimbursed by our code-share partners.

As a result, on October 24, 2008, the Company paid a deposit and entered into a fixed price swap agreement for the purchase of jet fuel not reimbursed by code-share partners. We do not account for our fixed price swap agreement as a hedge instrument as defined by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". Therefore, any changes in the fair value of the swap agreement since the last period are recorded to other income (expense) in the condensed consolidated statement of operations of the period. All cash flows associated with the purchasing of fuel are classified as operating cash flows in the condensed consolidated statement of cash flows.

During the three and six months ended March 31, 2009, we recognized a loss of \$0.2 million and \$0.4 million, respectively, related to the change in the fair value of our fixed price swap agreement in our Other income (expense) in the condensed consolidated statement of operations. As of March 31, 2009, the Company had \$0.3 million remaining on deposit to cover the jet fuel swap.

8. Equity Method Investments

Equity method investments consisted of the following:

	March 31, 2009	September 30, 2008
	(In thousands)	
Investment in airline company	\$ 15,996	\$ 9,244

Edgar Filing: MESA AIR GROUP INC - Form 10-Q

Investment in Kunpeng Airlines Co., Ltd.		100		4,453
		<u> </u>		<u> </u>
Total equity method investments	\$	16,096	\$	13,697
		<u> </u>		<u> </u>

Edgar Filing: MESA AIR GROUP INC - Form 10-Q

Gain (loss) from equity method investments:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2009	2008	2009	2008
(In thousands)				
Equity method gain (loss) from airline investment	\$ 1,559	\$ 595	\$ 2,794	\$ (995)
Equity method loss from payment processing company	-	(101)	-	(265)
Impairment from payment processing company		(762)		(762)
Equity method gain (loss) from Kunpeng Airlines Co., Ltd.	(4,353)	(238)	(4,353)	464
Loss from equity method investments	\$ (2,794)	\$ (506)	\$ (1,559)	\$ (1,558)

The Company accounts for its investment in the Kunpeng Airlines ("Kunpeng") joint venture with Shenzhen Airlines ("Shenzhen") using the equity method of accounting. Under the equity method, the Company adjusts the carrying amount of its investment for its share of the earnings or losses. The Company's beneficial ownership percentage is 44%, after taking into consideration the 5% interest held for the exclusive benefit of an unaffiliated third party. In general, the Company would record 44% of the income or loss of Kunpeng, except that the parties have agreed to share losses according to their respective percentage ownership, with Mesa's exposure capped at a percentage of the gross revenues of Kunpeng that is materially below its percentage ownership interest. During the third quarter of 2008, the Company entered into a Letter of Intent ("LOI") to sell its interest in Kunpeng to Shenzhen. As a result of the negotiated valuation of the interest by the parties set forth in the LOI, the Company recorded a loss on its investment in the third quarter of 2008.

On April 16, 2009, we completed transactions entered into in March 2009 pursuant to an agreement with Shenzhen relating to Kunpeng, a regional airline based in the People's Republic of China. Under the agreement, the Company divested its 49% indirect interest in Kunpeng Airlines by selling to nominees of Shenzhen all of the Company's interest in each of Ping Shan SRL and Shan Yue SRL, both Barbados societies with restricted liability, through which the Company held its interest in Kunpeng. Also pursuant to the agreement, outstanding aircraft lease payments owed by Kunpeng to the Company were settled for \$4.4 million and the Company's lease of five CRJ-200 aircraft to Kunpeng terminated. In total, the Company received \$4.5 million, which included \$100,000 for the Company's interests in Ping Shan SRL and Shan Yue SRL. \$900,000 of the total consideration was offset by the Company's return of security deposits. As a result, the Company recorded a loss on this equity method investment in the second quarter of 2009 of \$4.4 million. The five aircraft were returned to the Company during the third quarter of 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. In the second quarter of fiscal 2008, due to the improbability of recovering our investment, the company wrote-off the remaining balance of the investment.

During the quarter ended December 31, 2008, approximately \$4.0 million was added to the investment in the airline company related to the conversion of interest to principal. All interest on a 17% note with the airline company that has been accrued, but not paid on each annual payment date of December 31, at the option of the investee, shall be added to the principal amount of the note and shall no longer be deemed to be accrued and unpaid.

9. Concentrations

The Company has code-share agreements with Delta, US Airways and United. Approximately 97.3% and 96.0% of the Company's consolidated passenger revenue for the three and six month period ended March 31, 2009 respectively, was derived from these agreements. Accounts receivable from the Company's code-share partners were 23.3% and 34.3% of total gross accounts receivable at March 31, 2009 and September 30, 2008, respectively.

Amounts billed by the Company under revenue guarantee arrangements are subject to our interpretation of the applicable code-share agreement, and are subject to audit by our code-share partners. Periodically our code-share partners dispute amounts billed and pay amounts less than the amount billed. Ultimate collection of the remaining amounts not only depends upon Mesa prevailing under audit, but also upon the financial well-being of the code-share partner. As such, the Company periodically reviews amounts past due and records a reserve for amounts estimated to be uncollectible. The Company's allowance for doubtful accounts was \$11.0 million and \$10.3 million at March 31, 2009 and September 30, 2008, respectively.

US Airways accounted for approximately 47.3% and 47.2% of the Company's total passenger revenue in the three and six month period ended March 31, 2009, respectively. A termination of the US Airways revenue-guarantee code-share agreements would have a material adverse effect on the Company's business prospects, financial condition, results of operations and cash flows. On March 30, 2009, US Airways advanced to us \$5.0 million as an advance payment of certain costs, fees and payments. In exchange for the advance, Mesa will offset credits that are due from US Airways for the month of May 2009. As of March 31, 2009, the obligation to apply the credits is included in accounts payable in the condensed consolidated balance sheet.

United accounted for approximately 33.2% and 31.7% of the Company's total passenger revenue in the three and six month period ended March 31, 2009, respectively. In most cases under our code share arrangements, the Company is contractually responsible for procuring the fuel necessary to conduct its operations, and fuel costs are then passed through to code-share partners via weekly invoicing. The United code-share agreement contains an option that allows United to assume the contractual responsibility for procuring and providing the fuel necessary to operate the flights that Mesa operates for United. United exercised this option at 15 of the stations we operate, and as a result we no longer incur fuel expense or recognize related fuel pass-through revenue for these United stations. A termination of the United agreement would have a material adverse effect on the Company's business prospects, financial condition, results of operations and cash flows.

Delta accounted for approximately 16.8% and 17.1% of the Company's total passenger revenue in the three and six month period ended March 31, 2009, respectively. A termination of the ERJ-145 Delta Connection agreement would have a material adverse effect on the Company's business prospects, financial condition, results of operations and cash flows. For further information see Note 3.

10. Notes Payable and Long-Term Debt

Long-term debt consisted of the following:

	March 31, 2009	September 30, 2008
	(In thousands)	
Notes payable to bank, principal and interest due monthly, interest at LIBOR plus 3%, (3.5% at March 31, 2009), collateralized by the underlying aircraft, due 2019	\$ 278,194	\$ 288,956
Senior convertible notes due June 2023 (1)	8,631	23,241
Senior convertible notes due February 2024 (1)	10,160	77,802
Senior unsecured notes due February 2012, interest at 8%	21,370	-
Note payable to financial institution due 2013, principal and interest due monthly at 7% per annum through 2008 converting to 12.5% thereafter, collateralized by the underlying aircraft	18,985	19,826
Notes payable to financial institution, principal and interest due monthly through 2022, interest at LIBOR plus 2.25% (2.7% at March 31, 2009), collateralized by the underlying aircraft	110,015	112,643
Notes payable to financial institution, principal and interest due monthly through 2012, interest at 8.3% per annum, collateralized by the underlying aircraft	11,715	12,566
Unsecured note payable to supplier, principal due semi-annually, interest at LIBOR plus 6% (6.5% at March 31, 2009) due quarterly through 2012	18,943	21,333
Notes payable to supplier, principal of \$82,057 due monthly starting with the 21st month, interest at 3.2%, collateralized by rotatable spare parts (2)	1,538	-
Unsecured note payable to supplier, principal and interest at 9.5% due monthly through 2015	2,981	1,624
Mortgage note payable to bank, principal and interest at 7.5% due monthly through 2009, collateralized by Del Rio Hotel	765	790
Other	88	87
	<hr/>	<hr/>
Total debt	483,385	558,868
Less current portion	(39,419)	(137,990)
	<hr/>	<hr/>
Long-term debt	\$ 443,966	\$ 420,878

(1) On May 20, 2008, the Company's board of directors approved separate agreements reached by the Company with certain of the holders of its Senior Convertible Notes due 2023 (the "2023 Notes"). As previously disclosed in the Company's filings with the Securities and Exchange Commission, holders of the 2023 Notes had the right to require the Company to repurchase the 2023 Notes on June 16, 2008 (the "Put") at a price of \$397.27 per \$1,000 note (the "Put Price") plus any accrued and unpaid cash interest. If all of the holders of the Notes had exercised this right, the Company would have been required to repurchase the 2023 Notes for approximately \$37.8 million in cash, common stock, or a combination thereof.

Edgar Filing: MESA AIR GROUP INC - Form 10-Q

During the three months ended December 31, 2008, the Company paid \$1.4 million to purchase approximately 9.5% of their outstanding Senior Convertible Notes due in 2023 and 2024 in the amount of \$2.0 million and \$7.6 million, respectively. The transaction after the payment of accrued interest, commissions and the write off of deferred debt issuance costs, resulted in a gain of \$8.1 million which has been recorded in the condensed consolidated statement of operations in gain on extinguishment of debt.

During the first two weeks of February 2009, we (i) issued 3.4 million shares of our common stock, in satisfaction of our obligation to repurchase \$1.4 million in aggregate principal amount at maturity of its Senior Convertible Notes due 2023 from holders of 2023 Notes that had exercised their put rights arising under the indenture governing the 2023 Notes and forbearance agreements between the Company and these holders, and (ii) completed transactions with certain holders of our 2023 Notes to purchase an additional \$29.1 million face amount of 2023 Notes in exchange for a total of \$1.8 million in cash, 8.4 million shares of common stock and \$1.0 million in aggregate principal amount of our new 8% senior unsecured notes due 2012 (the "2012 Notes").

Also during February 2009, we repurchased \$19.3 million in aggregate principal amount at maturity of our Senior Convertible Notes due 2024 ("2024 Notes") from holders of 2024 Notes that had exercised their put rights arising under the indenture governing the 2024 Notes, including \$6.5 million in aggregate principal amount at maturity of 2024 Notes pursuant to certain puts the Company agreed to accept on February 17, 2009. In consideration for the \$19.3 million of face amount of 2024 Notes, we issued 94.3 million shares of our common stock. On February 17, 2009, we entered into separate agreements with certain holders of our 2024 Notes to (i) exchange \$83.7 million in aggregate principal amount at maturity of the 2024 Notes for an aggregate of \$4.9 million in cash, 10.9 million shares of common stock, and \$16.2 million in aggregate principal amount of the 2012 Notes. The issuance of the common stock and 2012 Notes in the exchange closed on February 25, 2009.

Consistent with the guidance in FAS 15 each transaction is accounted for based on the terms of the negotiation with that note holder. In instances where the company issued new equity the shares were valued at the closing stock price on the day the shares were issued. In the instances where new notes were issued the total value of the note plus future interest payments (total future cash flows) were used to calculate the gain. The company will recognize no interest expense on the new notes in future periods.

Prior to the transactions that occurred in February 2009 and described above, \$52.1 million in aggregate principal amount at maturity of 2023 Notes and \$120.4 million in aggregate principal amount at maturity of 2024 Notes were outstanding. In total, pursuant to the transactions described above, we retired \$30.4 million face amount of 2023 Notes and \$103.0 million face amount of 2024 Notes in exchange for \$6.7 million in cash, 117.1 million shares of common stock and \$17.2 million principal amount of 2012 Notes. \$21.7 million of the 2023 Notes' face value was not put to the Company or otherwise repurchased and thus remains outstanding. The outstanding 2023 Notes may be put to the Company no earlier than June 16, 2013. \$17.4 million in aggregate principal amount at maturity of the 2024 Notes was not put or otherwise repurchased and thus remains outstanding. Such outstanding 2024 Notes may be put to the Company no earlier than February 10, 2014. When the 2023 Notes and 2024 Notes become putable in June 2013 and February 2014, respectively, we may pay the purchase price in cash or shares of our common stock or in a combination of cash and shares of our common stock.

The below table summarizes the face amounts of our outstanding convertible notes and outstanding shares before and after the note transactions described above.

Prior to
Transaction

After All Transactions Effective 2/25/09

	Face Amount Outstanding
	Face Amount Outstanding
	Cash Paid by Mesa
	Shares Issued by Mesa
Senior Notes due June 2023	
	\$52.1 Million
	\$21.7 Million
	\$1.8 Million
	11,864,457
Senior Notes due February 2024	
	\$120.4 Million
	\$17.4 Million
	\$4.9 Million
	105,169,420
New Notes due 2012	
	0
	\$17.2 Million
	--
	--
Total	
	\$172.5 Million
	\$56.3 Million

\$6.7 Million

117,072,627

17

All of the issuances of common stock and 2012 Notes noted above were exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 3(a)(9) and Section 4(2) thereof.

11. Income Tax

For the quarter ended March 31, 2009, our effective tax rate increased to 231.3%, from 39.8% for the quarter ended March 31, 2008, and, for the six months ended March 31, 2009, our effective tax rate increased to 149.1% from 49.2% for the six months ended March 31, 2008. The increase in our effective tax rate is primarily due to the issuance of a significant number of shares in the second quarter, which triggered a Section 382 limitation in relation to the Company's net operating loss carryforwards. Section 382 of the Internal Revenue Code limits the amount of pre-change net operating loss carryforwards that can be utilized after an ownership change, see Note 1. As a result, the Company wrote off approximately \$55.0 million of its deferred tax assets related to its net operating loss carryforwards in the quarter ended March 31, 2009. In addition, the Company adjusted the deferred tax asset valuation allowance on its remaining deferred tax assets. The valuation allowance as of March 31, 2009 is \$5.5 million.

The Company adopted FIN 48 in the first quarter of fiscal 2008. Under FIN No. 48, the tax benefit from an uncertain tax position may be recognized only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. The determination is based on the technical merits of the position and presumes that each uncertain tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information. As a result of implementing FIN 48 in the first quarter of fiscal 2008, the only effect on the Company was to reclassify a \$2.7 million tax reserve from long-term deferred income tax liability to other noncurrent liabilities at December 31, 2007. No other changes resulting from implementing FIN 48 were necessary. The Company does not expect a significant change with its uncertain tax positions through the second quarter of fiscal 2010.

The difference between the actual income tax expense and the statutory tax expense (computed by applying the U.S. federal statutory income tax rate of 35% to income or loss before income taxes) is as follows:

	Three Months Ended March 31, 2009		Six Months Ended March 31, 2009	
Computed "expected" tax expense (benefit)	\$ 9,792	35.0%	\$ 15,287	35.0%
Increase (reduction) in income taxes resulting from:				
State taxes, net of federal tax benefit	285	1.0%	1,236	2.8%
Nondeductible expenses	288	1.0%	322	0.7%
Impact of adjusting net operating loss carryforwards	54,349	194.3%	48,268	110.6%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total tax expense	\$ 64,714	231.3%	\$ 65,113	149.1%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Note 1 — At the time of the ownership change, the Company had a Net Unrealized Built in Gain ("NUBIG") of approximately \$62.6 million. The Company may utilize its net operating losses to offset future taxable income up to the amount of the NUBIG provided the appropriate character of income is recognized within 5 years after the ownership change.

Elements of deferred income tax assets (liabilities) are as follows:

Edgar Filing: MESA AIR GROUP INC - Form 10-Q

	March 31, 2009	September 30, 2008
(In thousands)		
Deferred tax assets:		
Net operating loss carryforwards	\$ 31,809	\$ 86,843
Deferred credits	50,508	41,024
Other accrued expenses	15,032	12,209
Deferred gains	3,270	2,656
Other	3,188	2,589
Alternative minimum tax	4,612	3,746
Other reserves and estimated losses	2,171	1,763
Equity in loss of unconsolidated subsidiary	4,238	3,442
Allowance for doubtful receivables	4,800	3,899
Intangibles	91	74
Unrealized trading losses	163	132
Equity and deferred compensation	1,139	925
123R windfall in NOLs not yet reducing current tax	(3,266)	(2,653)
Valuation allowance	(5,542)	(12,241)
Total deferred tax assets	\$ 112,212	\$ 144,408
Deferred tax liabilities:		
Property and equipment	\$ (174,538)	\$ (141,763)
Other	-	-
Total deferred tax liabilities	\$ (174,538)	\$ (141,763)

12. Earnings (Loss) Per Share

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2009	2008	2009	2008
(In thousands)				
Share calculation:				
Weighted average shares outstanding — basic	86,604	26,928	56,804	27,756
Effect of dilutive outstanding stock options and warrants	*	*	*	*
Effect of restricted stock	*	*	*	*
Effect of dilutive outstanding convertible debt	*	9,167	*	9,167
Weighted average shares outstanding — diluted	86,604	36,095	56,804	36,923
Check Figure	42,935		42,935	
Adjustments to net income (loss):				
Net income (loss) from continuing operations	\$ (37,277)	\$ 17,463	\$ (21,789)	\$ 14,705
Interest expense on convertible debt, net of tax	-	916	-	1,874
Adjusted net income (loss) from continuing operations	\$ (37,277)	\$ 18,379	\$ (21,789)	\$ 16,579

* Excluded from the calculation of dilutive earnings per share because the effect would have been antidilutive.

Options to purchase 1,923,272 and 3,276,917 shares of common stock were outstanding during the quarters ended March 31, 2009 and 2008, respectively, but were excluded from the calculation of dilutive earnings per share for the quarters ended March 31, 2009 and 2008, respectively, because the effect would have been antidilutive.

13. Stock Repurchase Program

The Company's Board of Directors has authorized the Company to purchase up to 29.4 million shares of the Company's outstanding common stock. As of March 31, 2009, the Company has acquired and retired approximately 17.9 million shares of its outstanding common stock at an aggregate cost of approximately \$113.7 million, leaving approximately 11.5 million shares available for purchase under the current Board authorizations. Purchases are made at management's discretion based on market conditions and the Company's financial resources.

The Company did not repurchase any shares during the three months ended March 31, 2009.

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Cumulative Number of Shares Purchased as As Part of Publicly Announced Plan</u>	<u>Maximum Number of Shares that May Yet be Purchased Under the Plan</u>
January 2009	-	\$ -	17,952,603	11,469,658
February 2009	-	\$ -	17,952,603	11,469,658
March 2009	-	\$ -	17,952,603	11,469,658

14. Stock-Based Compensation

Stock based compensation expense is calculated by estimating the fair value of stock options and restricted stock at the time of grant and amortizing the fair value over the vesting period.

The following amounts were recognized for stock-based compensation:

	<u>Three Months Ended March 31,</u>		<u>Six Months Ended March 31,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
General and administrative expenses:				
Stock options expense	\$ -	\$ (67)		

(In thousands)