

MESA AIR GROUP INC
Form 10-K/A
March 07, 2008

Table of Contents

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

**Form 10-K/A
(Amendment No. 1)**

**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 No

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 No

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

Indicate by check mark 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.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting Company
(Do not check if a smaller reporting company)

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant as of December 3, 2007: Common Stock, no par value: \$105.2 million.

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

DOCUMENTS INCORPORATED BY REFERENCE

Not applicable

MESA AIR GROUP, INC.

**2007 FORM 10-K/A
TABLE OF CONTENTS**

**Page
No.**

PART III

<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	4
<u>Item 11.</u>	<u>Executive Compensation</u>	6
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	26
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	28
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	29

PART IV

<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules</u>	30
<u>EX-31.1</u>		
<u>EX-31.2</u>		
<u>EX-32.1</u>		
<u>EX-32.2</u>		

Table of Contents

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (the Amendment) amends the Annual Report on Form 10-K of Mesa Air Group, Inc. (the Company) for the fiscal year ended September 30, 2007, originally filed with the Securities and Exchange Commission (the SEC) on January 15, 2008 (the Original Filing). The Company is filing this Amendment to include the information required by Part III, which was omitted from the Original Filing. In addition, in connection with the filing of this Amendment and pursuant to the rules of the SEC, the Company is including with this Amendment certain currently dated certifications. Accordingly, Item 15 of Part IV has also been amended to reflect the filing of these currently dated certifications.

This Form 10-K/A does not attempt to modify or update any other disclosures set forth in the Original Filing, except as required to reflect the additional information included in Part III of this Form 10-K/A. Additionally, this amended Form 10-K/A, except for the additional information included in Part III, is as of the filing date of the Original Filing and does not update or discuss any other Company developments subsequent to the date of the Original Filing.

Table of Contents**PART III****Item 10. Directors, Executive Officers and Corporate Governance****Directors**

The following table sets forth the names and ages of the directors of the Company:

Name	Age	Position
Jonathan G. Ornstein	50	Chairman of the Board
Daniel J. Altobello	66	Director
Robert Beleson	57	Director
Carlos E. Bonilla	53	Director
Joseph L. Manson	58	Director
Peter F. Nostrand	60	Director
Maurice A. Parker	62	Director
Richard R. Thayer	50	Director

Directors

Biographical information regarding our directors is set forth below.

Jonathan G. Ornstein was appointed President and Chief Executive Officer of the Company effective May 1, 1998. Mr. Ornstein became a director in January 1998. Mr. Ornstein assumed the role of Chairman of the Board in June 1999. On June 21, 2000, Mr. Ornstein relinquished his position as President of the Company to Michael J. Lotz. From April 1996 until joining the Company as Chief Executive Officer, Mr. Ornstein served as President and Chief Executive Officer and Chairman of Virgin Express S.A./N.V., a European airline. From 1995 to April 1996, Mr. Ornstein served as Chief Executive Officer of Virgin Express Holdings, Inc. Mr. Ornstein joined Continental Express Airlines, Inc. as President and Chief Executive Officer in July 1994 and, in November 1994, was named Senior Vice President, Airport Services at Continental Airlines, Inc. Mr. Ornstein was previously employed by the Company from 1988 to 1994, as Executive Vice President and as President of the Company's subsidiary, WestAir Holding, Inc.

Daniel J. Altobello has served as a director of the Company since January 1998 and is the current Lead Director. Mr. Altobello also serves as a member of the Compensation Committee and as an ex-officio non-voting member of the Nominating & Corporate Governance Committee. Mr. Altobello is currently the Chairman of Altobello Family Partners, an investment company and is the retired Director and Chairman of Onex FoodServices, the parent corporation of Caterair International, Inc. and LSG/SKY Chefs. From 1989 to 1995, Mr. Altobello served as Chairman, President and Chief Executive Officer of Caterair International Corporation. From 1979 to 1989, he held various managerial positions with the food service management and in-flight catering divisions of Marriott Corporation, including Executive Vice President of Marriott Corporation and President of Marriott Airport Operations Group. Mr. Altobello began his management career at Georgetown University as Vice President of Administration Services. He is a member of the board of directors of Friedman, Billings and Ramsey Group, Inc., Diamond Rock Hospitality Trust and JER Investors Trust, all reporting companies, and an advisory director of Thayer Capital Partners, a private company. He is a trustee of Loyola Foundation, Inc. Mr. Altobello obtained a bachelor of arts in

English from Georgetown University and a master of business administration from Loyola College.

Robert Beleson was elected as a director of the Company in October 2003. Mr. Beleson also serves as Chairman of the Nominating & Corporate Governance Committee and is a member of the Audit Committee. In November 2004, he became the Chief Executive Officer of Christiana Spirits Incorporated and served in that capacity until September 2007. Mr. Beleson is also an equity investor in Christiana Spirits Incorporated and currently serves as its Chairman. Since May 2002, Mr. Beleson has also provided marketing and strategic planning consulting services to select clients in the aviation and wine and spirit industries. This consulting service was formally organized as Brookfield Marketing, L.L.C. on October 1, 2003. From July 2001 to April 2002, he served as

Table of Contents

Chief Marketing Officer for Avolar, a former division of United Airlines. From March 1996 to December 2000, he served as President of M. Shanken Communications, Inc., New York, New York. From May 1991 to February 1996, he served as Chief Marketing Officer for Playboy Enterprises. Mr. Beleson received a bachelor of science from Cornell University School of Industrial and Labor Relations and a master of business administration from Harvard Business School.

Carlos E. Bonilla was elected as a director of the Company in April 2006. Mr. Bonilla also serves as a member of the Compensation Committee. He is currently Senior Vice President of the Washington Group, a government relations firm and has been with such firm since March 2003. He previously served, from January 2001 until March 2003, as a Special Assistant to President George W. Bush, focusing on a variety of transportation and pension issues. Mr. Bonilla received a bachelor of arts in economics from American University and a master of arts in economics from Georgetown University.

Joseph L. Manson has been a director of the Company since July 2001. Mr. Manson also serves as a member of the Nominating & Corporate Governance Committee. Mr. Manson joined the Washington, D.C. office of the law firm Baker & Hostetler LLP as a partner in February 2005. Prior to joining Baker & Hostetler, Mr. Manson was employed with Piper Rudnick LLP (which merged with Verner Liipfert Bernhard McPherson and Hand) since 1974. Mr. Manson received a bachelor of science from the University of Virginia and a doctorate in jurisprudence from Emory University.

Peter F. Nostrand was elected as a director of the Company in April 2005. Mr. Nostrand also serves as Chairman of the Compensation Committee and is a member of the Audit Committee. He is currently the Chairman Emeritus, SunTrust, Greater Washington where he has served in a variety of functional divisions including International, National, Energy, Commercial and Retail beginning in June 1973. Mr. Nostrand received a bachelor of arts from Amherst College and a master of education from the University of Virginia.

Maurice A. Parker has been a director of the Company since November 1998. Mr. Parker has served as Executive Director of Regional Aviation Partners since April 2001. From 1978 to January 1997, Mr. Parker served as a Federal Mediator for the National Mediation Board of the United States government. From 1997 to the present, Mr. Parker has worked as an independent arbitrator, mediator and consultant. Mr. Parker obtained a bachelor of science in technical education from the University of Houston and a doctorate in jurisprudence from South Texas College of Law.

Richard R. Thayer was elected as a director of the Company in April 2006. Mr. Thayer also serves as Chairman of the Audit Committee and is a member of the Nominating & Corporate Governance Committee. He is currently the Executive Vice President, Finance at Philadelphia Media Holdings LLC and its principal subsidiary Philadelphia Newspapers LLC, publisher of the Philadelphia Inquirer and the Philadelphia Daily News. Prior to joining Philadelphia Media Holdings LLC, he was Managing Director at J.P. Morgan Securities, Inc. He has over twenty-five years experience in the banking and securities industries at J.P. Morgan and its predecessor banks including, Managing Director, in its Restructuring, Syndicated & Leveraged Finance and Global Transportation groups. Mr. Thayer obtained a bachelor of science from the Wharton School, University of Pennsylvania with a dual major in Finance and Marketing.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors and executive officers, as well as persons beneficially owning more than 10% of the outstanding Common Stock, to file certain reports of ownership with the SEC within specified time periods. Such officers, directors and shareholders are also required by SEC rules to furnish the Company with copies of all Section 16(a) forms they file.

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Based solely on its review of such forms received by it, or written representations from certain reporting persons, the Company believes that between October 1, 2006 and September 30, 2007, all Section 16(a) filing requirements applicable to its officers, directors and 10% shareholders were met.

Table of Contents

Corporate Governance

The Board of Directors is responsible for providing oversight of the affairs of the Company for the benefit of stockholders. The Board of Directors has adopted Corporate Governance Guidelines, charters for its Audit, Compensation, Nominating/Corporate Governance and Code of Conduct and Ethics for directors, officers and employees of Mesa Air Group, Inc., its subsidiaries and affiliated companies. You can obtain copies of our current committee charters, codes and policies in the Corporate Governance section of our website (www.mesa-air.com) or by writing to our Corporate Secretary at 410 North 44th Street, Suite 100, Phoenix, Arizona 85008. Any substantive amendment to, or waiver from, any provision of the Code of Conduct and Ethics with respect to any director or executive officer will be posted on our website.

Changes to Procedures for Shareholders to Nominate Persons for Election to the Board of Directors

There were no material changes made during fiscal 2007 to the procedures by which shareholders may recommend nominees to the Company's board of directors.

Audit Committee Matters

The Audit Committee is composed of outside directors who are not officers or employees of the Company or its subsidiaries. In the opinion of the board of directors and as independent is defined under current standards of the NASDAQ Stock Market (including the heightened independence requirements of audit committee members), these directors are independent of management and free of any relationship that would interfere with their exercise of independent judgment as members of this committee. Additionally, the Board has determined that Peter F. Nostrand and Richard R. Thayer, each of the Audit Committee, is an audit committee financial expert, as such term is defined in Item 407(d)(5)(ii) of Regulation S-K. Messrs.

Item 11. *Executive Compensation*

Compensation Committee Report

The Compensation Committee (the Committee) has reviewed and discussed the following Compensation Discussion and Analysis (the CD&A) and discussed it with management. Based on its review and discussion with management, the Committee recommended to the Board of Directors that the CD&A be included in the Company's proxy statement and in this Form 10-K/A (Amendment No. 1). This report is provided by the following independent directors, who comprise the Committee:

Peter F. Nostrand, Chairman
Daniel J. Altobello
Carlos E. Bonilla

COMPENSATION DISCUSSION & ANALYSIS

The following paragraphs describe the material elements of the Company's compensation objectives and policies and the application of these objectives and policies to the Company's executive officers, particularly the individuals named in the Summary Compensation Table of this Form 10-K/A (Amendment No. 1). The rules regarding disclosure of executive compensation were modified significantly in 2006. Accordingly, the information set forth below is not directly comparable to the information disclosed in our prior year proxy statements.

The following discussion and analysis should be read in conjunction with the Summary Compensation Table and related tables that are presented below.

Table of Contents

Executive Summary

The purpose of this compensation discussion and analysis is to provide information about each material element of compensation that we pay or award to, or that is earned by, our named executive officers. For our 2007 fiscal year, our named executive officers were:

Jonathan G. Ornstein, our Chairman and Chief Executive Officer;

Michael J. Lotz, our President and Chief Operating Officer and Chief Accounting Officer;

Michael Ferverda, our Senior Vice President – Operations;

William Hoke, our interim Chief Financial Officer; and

Brian S. Gillman, our Executive Vice President and General Counsel.

George Murnane III, our former Executive Vice President and Chief Financial Officer is also a named executive officer in this proxy statement because he was employed by the Company in fiscal 2007 and, therefore, disclosure regarding his compensation is required under SEC regulations. On September 21, 2007, Mr. Murnane was placed on administrative leave. Mr. Murnane's employment was terminated on November 5, 2007. William Hoke performed Mr. Murnane's duties while he was on administrative leave and was appointed interim Chief Financial Officer effective with Mr. Murnane's termination.

The following discussion and analysis addresses and explains the numerical and related information contained in the summary compensation tables and includes actions regarding executive compensation that occurred after the end of our 2007 fiscal year, including the award of bonuses related to 2007 performance, and the approval by our Compensation Committee of amendments to the employment agreements to which some of our named executive officers are a party.

Executive Compensation Philosophy and Objectives

The Company's executive compensation policies, as endorsed by the Compensation Committee, have been designed to provide a balanced compensation program that will assist the Company in its efforts to attract, motivate and retain talented executives who the Compensation Committee and senior management believe are important to the long-term financial success and growth of the Company. The Company seeks to provide a balanced compensation program consisting of base salaries, cash incentives, equity-based incentives, perquisites and deferred compensation, but to emphasize incentive compensation that will:

be competitive in the marketplace;

permit us to attract and retain highly qualified executives;

encourage extraordinary effort on behalf of the Company;

reward the achievement of specific financial goals by the Company, which aligns the interests of management with the interests of our stockholders; and

be financially sound.

The Company strives to allocate a significant percentage of total compensation to incentive compensation. The more responsibility executives have over time, the more their pay is determined by the degree to which certain performance goals are reached. We refer to that part of compensation as at risk pay and it is a fundamental way in which the Company aligns executive pay with stockholder interests. For example, as described in greater detail below, for our senior executive officers cash incentive bonuses can equal a significant percentage of base salary if maximum performance thresholds are achieved.

This compensation philosophy translates into the following two principles in our executive compensation design:

1. Base salary should decrease as a percentage of total direct compensation as the executive's responsibilities increase.

Table of Contents

As employees move to higher levels of responsibility with more direct influence over the Company's performance, they have a higher percentage of pay at risk.

2. The ratio of long-term incentive compensation (equity) to short-term incentive compensation (cash) should increase as the executive's responsibilities increase.

We expect our executives to focus on the Company's long-term success in achieving profitable growth and generating greater shareholder return. The compensation program is designed to motivate executives to take actions best aligned toward achieving such goals. Executives in positions that most directly affect corporate performance should have as their main priority profitably growing the Company. Receiving part of their compensation in the form of equity reinforces the link between their actions and shareholders' investment. Equity ownership encourages executives to behave like owners and provides a clear link with shareholders' interests.

The Company believes that its compensation policies have been, thus far, successful in motivating and retaining its executive officers, as evidenced by the limited turnover in its executive officer ranks in recent years.

Role of the Compensation Committee and Management in Setting Compensation

Role of the Compensation Committee.

The Compensation Committee primarily administers the Company's cash compensation plans and employee stock option and award plans, and it has the responsibility for recommending the allocation of cash and other compensation, as well as equity awards and discretionary bonuses to senior executive officers of the Company. The entire Board of Directors regularly reviews the Compensation Committee decisions relating to executive compensation. The Compensation Committee consists of three non-employee directors, Messrs. Altobello, Bonilla and Nostrand, all of whom are independent according to NASDAQ standards and disinterested as required by Rule 16b-3 of the Exchange Act.

Role of Management.

At the beginning of each fiscal year, our CEO evaluates the performance of our President; and the CEO and President evaluate the performance of the other executive officers against the strategic operating plan for the prior fiscal year. In addition, the CEO's and the President's evaluations of individual performance also focus on executive officers' leadership abilities, including their professional development and mentoring of their direct reports. This additional evaluation is carried out by evaluating, on a quarterly basis, each executive officer's performance against a set of performance factors mutually set and agreed upon by the executive officer and the CEO or President, as the case may be.

The CEO and President then develop compensation recommendations for the other executive officers. Factors that are weighted in making individual target compensation recommendations include:

the performance review conducted by the CEO and/or the President;

value of the job in the marketplace;

relative importance of the position within the Company;

individual tenure and experience; and

individual contributions to the Company's results.

The CEO or President review of an executive officer's performance with respect to his or her performance factors is not directly tied to the executive officer's compensation. Such reviews, however, heavily influence the CEO's and/or President's assessment of an executive officer's readiness for the types of responsibilities typically associated with a particular position. Once an executive officer's role and responsibilities are defined, value of the job in the marketplace and relative importance of the position within the executive ranks are the most determinative factors in setting the proper compensation plan for that executive officer, adjusted to take into consideration the executive officer's tenure and experience.

Table of Contents

At the Committee's regularly scheduled meeting in November, the Committee reviews and considers the CEO and President's compensation recommendations for each executive officer. The other executive officers, except as described above, do not play a role in setting executive officer compensation.

Compensation Methodologies; Role of Consultants and Benchmarking

The Compensation Committee periodically assembles, with the assistance of independent executive compensation consultants, competitive market information about executive compensation from a periodic review of companies included in a peer group, other competitive market compensation information, executive compensation trends, our business needs, and our financial performance compared to peers. The Committee reviews this competitive information together with performance assessments of our executives and recommendations provided by the CEO and President. The Committee obtained such information from Frederick W. Cooke & Co. (FWC) in April 2004 and utilized such information in setting the compensation for Messrs. Ornstein and Lotz when the Company entered into their respective employment agreements.

Generally, the Committee's goal is to set executive officers' compensation levels to fall within the median to upper quintiles of surveyed companies, with guaranteed salary levels to remain reasonably consistent with median to upper quintile rates. For fiscal 2007, based on Company performance, total compensation for all of the named executive officers was at or above the market median.

In determining what it believes to be market median for executive positions, the Committee obtained information from FWC regarding competitive market compensation data available from the proxy statements of peer group companies selected by the Committee. The peer group utilized for setting the compensation for Messrs. Ornstein and Lotz in their 2004 employment agreements consisted of publicly traded regional and national air carriers that are headquartered in the United States with whom the Company competes for employees with similar skills.

Our management worked with FWC to make specific recommendations to the Committee with regard to compensation based upon the market data and management's assessment of the performance of each individual executive officer (other than the CEO). For the CEO, the Committee conducts the performance assessment. Compensation amounts realized from past years and prior year equity awards are generally not considered in the current year's determination of each individual's compensation package. The impact of tax or accounting treatments for particular forms of compensation also are generally not considered, except to the extent they reflect industry norms.

The Compensation Committee reviews and approves on an annual basis the evaluation process and compensation structure for the Company's senior officers. The Committee evaluates, with the CEO's and President's input, the Company's other executive officers and approves the annual compensation, including salary, bonus, incentive and equity compensation, for such officers. The Committee also provides oversight of management's decisions concerning performance and compensation of other Company officers. The Committee generally meets in the first quarter of each year to review and recommend changes to annual and incentive compensation.

Compensation Program Design and Elements of Compensation

The principal components of compensation for our named executive officers are:

- base salary and benefits;
- short-term cash incentive compensation;
- long-term equity-based compensation;

perquisites;

severance and change in control plans; and

retirement benefits in the form of deferred compensation.

Table of Contents

Base Salary and Benefits

Base salary and broad-based benefits, which are not at risk, are designed to attract and retain executives by providing fixed compensation based on competitive market practice, relative to the skills, experience and expected contributions of each executive officer of the Company.

Base salaries for Messrs. Ornstein, Lotz and Gillman are set in their respective employment agreements, which are described below in the Employment and Change of Control Arrangements section. The base salaries for Messrs. Ferwerda and Hoke were set based on a review of comparative market information for similar situated positions in the airline industry, and Mr. Murnane's base salary was set forth in an employment agreement. Our Compensation Committee reviews base salaries annually and targets base pay for executive officers at the median to upper quintiles of the comparison groups and adjusts, as appropriate, for tenure, performance and variations in actual position responsibilities from position descriptions in the comparison groups. We took into account compensation levels payable to executives in our industry and reviewed executive compensation information with regard to comparably-sized companies. We further considered the increasingly active market (and correspondingly increased cash and equity compensation levels) for executives with established track records, and potential costs to the Company if replacement management executives were required. We also took into account information concerning employment opportunities with third parties available to our named executive officers, and the importance of retaining their services in areas such as operational leadership and continuing interactions with stakeholders. We continue to consider market conditions with respect to the compensation of all of our executives.

The approved 2007 base salaries, as compared to 2006 salaries, include the following for the named executive officers:

Jonathan G. Ornstein, Chairman and Chief Executive Officer \$450,000 (2006 \$450,000);

Michael J. Lotz, President and Chief Operating Officer \$400,000 (2006 \$400,000);

Brian S. Gillman, our Senior Vice President and General Counsel \$160,000 (2006 \$150,000)

Michael Ferwerda, our Senior Vice President Operations \$100,000 (2006 \$99,808); and

William Hoke, our interim Chief Financial Officer \$140,000 (2006 Mr. Hoke commenced employment in March 2007).

Mr. Murnane, our former Executive Vice President and Chief Financial Officer, received a base salary of \$250,000 in 2007, as compared to a base salary of \$237,308 in 2006.

Our named executive officers are also eligible to participate in employee benefit plans generally available to our employees, including medical, health, life insurance and disability plans. Our named executive officers are also eligible to participate in the Company's 401(k) plan, and receive Company matching contributions, which are generally available to our employees. Information concerning perquisites, which, by definition, are not generally available to our employees are described in greater detail below.

Short-Term Cash Incentive Compensation

The Compensation Committee views cash incentive compensation as a means of closely tying a significant portion of the total potential annual cash compensation for executives to the financial performance of the Company. Our cash

incentive compensation plans are designed to reward individuals for the achievement of certain defined financial objectives of the Company, namely earnings per share growth.

Incentive bonuses for Messrs. Ornstein and Lotz, and formerly Mr. Murnane, which are set forth in their respective employment agreements, are payable quarterly and set at a prescribed percentage of base salary, based upon the year over year percentage growth in earnings per share (EPS) of the Company. EPS was selected to align incentive compensation with corporate EPS goals and because the Compensation Committee believes investors may focus on EPS growth when valuing the Company s common stock. Under the employment agreements, earnings per share is defined as gross profit (loss) before taxes and one-time non-recurring items, divided by basic

Table of Contents

outstanding shares. The following table summarizes incentive bonuses that were potentially payable to each of Messrs. Ornstein, Lotz and Murnane in fiscal 2007.

Name	Bonus Level	% Change EPS	Quarterly Amount	Annual Amount	Actual Amount
Jonathan G Ornstein, Chairman and Chief Executive Officer	Minimum	Positive	\$ 13,125	\$ 52,500	\$ 52,500
	Threshold	5%	\$ 26,250	\$ 105,000	\$ -0-
	Target	10%	\$ 52,500	\$ 210,000	\$ -0-
	Maximum	15%	\$ 105,000	\$ 420,000	\$ -0-
Michael J. Lotz, President and Chief Operating Officer	Minimum	Positive	\$ 10,000	\$ 40,000	\$ 40,000
	Threshold	5%	\$ 20,000	\$ 80,000	\$ -0-
	Target	10%	\$ 40,000	\$ 160,000	\$ -0-
	Maximum	15%	\$ 80,000	\$ 320,000	\$ -0-
George Murnane III, former Executive Vice President and Chief Financial Officer	Minimum	Positive	\$ 10,000	\$ 40,000	\$ 30,000
	Threshold	5%	\$ 20,000	\$ 80,000	\$ -0-
	Target	10%	\$ 30,000	\$ 120,000	\$ -0-
	Maximum	15%	\$ 45,000	\$ 180,000	\$ -0-

In fiscal 2007, our GAAP EPS declined from \$1.01 in fiscal 2006 to \$(2.63), primarily attributable to a non-cash impairment charge recorded during the second quarter of fiscal 2007 totaling approximately \$37.7 million on a pre-tax basis and loss contingency charge of \$86.9 million on a pretax basis during the fourth quarter of fiscal 2007. Notwithstanding this full year decline, our EPS improved in the first quarter of fiscal 2007 over the comparable periods in fiscal 2006. As a result, Messrs. Ornstein, Lotz and Murnane received cash bonuses during fiscal 2007 of \$52,500, \$40,000 and \$30,000, respectively.

Mr. Gillman's employment agreement also provides for an incentive bonus equal to a minimum of 30% of his base salary, payable quarterly, if the Company is profitable. In addition, Mr. Gillman is eligible to receive an additional discretionary cash bonus in the aggregate of 31% to 100% of Mr. Gillman's salary at such time that the Board of Directors grants similar bonuses to other executives of the Company. Mr. Gillman's total compensation, including bonus levels, was set to provide a total compensation package commensurate with similarly situated executives. In fiscal 2007, Mr. Gillman received an incentive bonus of \$91,407 for the same reason described above with respect to Messrs. Ornstein and Lotz.

Mr. Hoke is not a party to an employment agreement with the Company. In accordance with his offer letter, Mr. Hoke is entitled to a guaranteed bonus of \$60,000 and received a signing bonus of \$15,000. In subsequent fiscal years Mr. Hoke will be eligible to receive a bonus of up to \$80,000 based on the profitability of the Company and his individual performance.

Similarly, Mr. Ferwerda is not a party to an employment agreement. He is eligible to receive a bonus of up to \$80,000 based on the profitability of the Company and his individual performance.

The Company also, at times, pays discretionary cash bonuses to its named executive officers. In fiscal 2007, the Company did not pay any discretionary cash bonuses to its named executive officers.

Long-Term Equity Based Compensation

The purpose of the Company's long-term incentive compensation plan is to provide a substantial equity incentive for our executive officers to manage the business for the long-term, complementing the annual bonus that rewards performance in a particular year, and to reward them for the performance of the Company and its common shares over multi-year periods. The Committee awards long-term compensation in the form of annual non-qualified stock option grants, and beginning in fiscal year 2006, restricted stock awards (in lieu of option grants). The Company believes granting restricted stock in lieu of stock options results in less dilution to existing shareholders, enables the Company to utilize its existing option plans longer (because the Company grants less restricted shares than options), and more accurately depicts the expense associated with such benefit. The Committee has not established any long-term incentive programs that are settled in cash because the Committee believes that stock settled programs offer better alignment between the interests of our executive officers and our shareholders.

Table of Contents

Equity Plans

The Company has two active equity compensation plans – the Key Officer Stock Option Plan and the 2005 Employee Stock Incentive Plan. The Key Officer Stock Option Plan provides for options to be issued to the Chief Executive Officer and President at set dates for prescribed amounts.

The 2005 Employee Stock Incentive Plan permits the issuance of incentive and non-qualified stock options, restricted stock and performance shares, which are performance bonuses payable in either cash or shares. All employees of the Company or its subsidiaries, including the named executive officers, are eligible to participate in the plan, and awards are issued at the discretion of the Compensation Committee upon recommendation by the Chief Executive Officer. Options granted under the 2005 Employee Stock Incentive Plan are issued at the weighted average price of common stock on the date of grant, generally vest at the rate of one-third per year commencing one year after the grant date, have a 10-year term and are subject to standard option provisions, including the requirement of continued employment and provisions to deal with termination of employment due to retirement, death or disability. Shares of restricted stock granted under the plan are issued at the weighted average price of common stock on the date of grant and typically vest in one-third increments over a three-year period.

Equity Awards

Although the employment agreements for Messrs. Ornstein, Lotz, Murnane and Gillman provide for annual option grants, each of these individuals entered into a restricted stock agreement with the Company pursuant to which each agreed to forego their respective option grants in favor of annual restricted stock grants. Messrs. Ornstein, Lotz, Murnane and Gillman are, and Murnane was, entitled to receive an amount of restricted stock equal to the net value of options to which each such person was otherwise entitled. In 2007, Messrs. Ornstein, Lotz, Murnane, and Gillman received 50,000, 33,333, 20,000, and 10,000 shares of restricted stock, respectively. The 20,000 shares of restricted stock granted to Mr. Murnane were cancelled prior to becoming unrestricted shares as a result of his termination on November 5, 2007.

Messrs. Ferwerda and Hoke do not have employment agreements with the Company. In 2007, they each received restricted stock grants of 10,000 shares.

Health and Welfare

The Committee has provided named executive officers with the same health and welfare benefits it provides all its other US-based employees; including medical, dental and vision coverage, life and disability insurance, and, as discussed above, a defined contribution plan (401(k)). Messrs. Ornstein, Lotz, and Gillman also have the option to participate in the Company's Deferred Compensation Plan.

Other Compensation Plans and Perquisites

Retirement Plans

The Company provides opportunities for all employees to save for retirement in three benefit plans: a voluntary defined contribution plan (401(k)), an employee stock purchase plan and a deferred compensation plan. A deferred compensation plan is also made available to Messrs. Ornstein, Lotz and Gillman pursuant to the terms of their respective employment agreements. These plans are designed to provide competitive retirement benefits.

401(k)

The Company maintains a defined contribution retirement plan for all its eligible employees in the United States under Section 401(k) of the Internal Revenue Code (the "401(k) Plan").

The 401(k) Plan offers the named executive officers and all other employees the opportunity to contribute up to 85% of their annual salary and bonus up to a specified maximum. In addition, the Company makes a matching contribution to each employee equal to 30% of an employee's contributions, with a cap of 10% of such employee's annual compensation. The rules of the Internal Revenue Code limit the compensation that may be used in applying any deferral election or matching contribution. In 2007, that limit was \$225,000 (the "IRS Cap").

Table of Contents

Perquisites

The Company provides executive officers with a limited number of perquisites that the Company and the Committee believe are reasonable and consistent with its overall compensation program, and necessary to remain competitive. The Committee periodically reviews the level of perquisites provided to the named executive officers. Costs associated with these perquisites are included under *All Other Compensation* in the Summary Compensation Table.

Retirement Benefits Deferred Compensation

The Company offers the 2005 Mesa Air Group, Inc. Deferred Compensation Plan to provide certain members of management with the opportunity to save for retirement and accumulate wealth in a tax-efficient manner beyond what is available under the Company's 401(k) retirement savings plan. The Compensation Committee believes that the deferred compensation plan motivates and assists in the retention of key employees by providing them with greater flexibility in structuring the timing of their compensation payments. The deferred compensation plan is an important retention and recruitment tool for the Company, as the companies with which we compete for executive talent typically provide a similar plan to their senior employees.

The employment agreement for Mr. Ornstein requires the Company to make annual deferred compensation payments to an account for the benefit of Mr. Ornstein in an amount equal to his base salary (\$450,000 in 2007) at the time of contribution. The employment agreement for Mr. Lotz requires the Company to make annual deferred compensation payments to an account for the benefit of Mr. Lotz in an amount equal to his base salary (\$400,000 in 2007) at the time of contribution into a deferred compensation account for the benefit of Mr. Lotz. Following the November 20, 2007 amendments that are described in greater detail below, the employment agreement for Mr. Gillman requires the Company to contribute \$50,000 each year into a deferred compensation account for the benefit of Mr. Gillman. All of these contributions are made on March 1st of each year. Messrs. Hoke and Ferwerda do not participate in any deferred compensation plans.

Severance and Change in Control Payments

It is our belief that the interests of shareholders will be best served if the interests of our senior management are aligned with them, and providing change of control benefits should eliminate, or at least reduce, any reluctance of senior management to pursue potential change of control transactions that may be in the best interests of shareholders. The salary multiple of the change of control benefits and use of the single trigger change of control benefits were determined after considering market data. In addition, the difference in salary multiples between executives was selected based on internal equities and demands of the job as well as the ability of the specific executive to find a similar position following a change of control. Relative to the overall value of the Company, the Compensation Committee believes these potential change of control benefits are reasonable. The cash components of any change of control benefits are paid lump-sum and are based upon a multiple of base salary plus bonus as described under the section entitled *Employment Agreements and Change of Control* with respect to each named executive officer entitled to such benefits.

Stock Ownership Guidelines

The Board has established share ownership guidelines for its members. Each non-employee member of the Board is strongly encouraged to hold shares of the Company's common stock having an acquisition value equal to one-year's retainer, with such ownership to be achieved within five years of joining the Board.

Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code of 1986, as amended, generally prohibits a public company from taking an income tax deduction for compensation over one million dollars paid to the Chief Executive Officer and its four other highest paid executive officers unless certain conditions are met. While the anticipated tax treatment of base and incentive compensation is given some weight in making compensation decisions, the Compensation Committee has not adopted a policy of limiting awards of compensation to amounts that would be deductible under Section 162(m) because the Compensation Committee believes that awards of compensation which would not

Table of Contents

comply with the Section 162(m) requirements may at times further the long-term interests of the Company and its stockholders.

Summary Compensation Table

The following table sets forth information concerning the compensation of our Chief Executive Officer and Chief Financial Officer, as well as the three next highest paid executive officers of the Company (the Named Executive Officers) as of September 30, 2007.

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