UBS AG
Form 424B2
April 24, 2019

The information in this Preliminary Terms Supplement is not complete and may be changed. We may not sell these Securities until the Final Terms Supplement, the Prospectus Supplement, the accompanying Product Supplement and the Prospectus (collectively, the "Offering Documents") are delivered in final form. The Offering Documents are not an offer to sell these Securities, and we are not soliciting offers to buy these Securities in any state where the offer or sale is not permitted.

Subject to Completion
Dated April 24, 2019

PRELIMINARY TERMS SUPPLEMENT

Filed Pursuant to Rule 424(b)(2)

Registration Statement No. 333-225551

Preliminary Terms Supplement

UBS AG Trigger Phoenix Autocallable Optimization Securities

UBS AG $ Securities Linked to the shares of SPDR® S&P® Oil & Gas Exploration & Production ETF due on or about April 29, 2020

Indicative Terms

Issuer	UBS AG, London Branch
Principal Amount	$10.00 per security. The Securities are offered at a minimum investment of 100 Securities at $10.00 per Security (representing a $1,000 investment) and integral multiples of $10.00 in excess thereof.
Term	Approximately 12 months, unless called earlier.
Underlying Asset	The shares of SPDR® S&P® Oil & Gas Exploration & Production ETF
Contingent Coupon	If the closing price of the underlying asset is equal to or greater than the coupon barrier on any observation date, UBS will pay you the contingent coupon applicable to such observation date. If the closing price of the underlying asset is less than the coupon barrier on any observation date, the contingent coupon applicable to such observation date will not be payable and UBS will not make any payment to you on the relevant coupon payment date. The contingent coupon will be a fixed amount based upon equal quarterly installments at the per annum contingent coupon rate. Contingent coupons are not guaranteed and UBS will not pay you the contingent coupon for any observation date on which the closing price of the underlying asset is less than the coupon barrier. The table below sets forth each observation date and a hypothetical contingent coupon for the Securities. The table below assumes a

contingent coupon rate of 6.21% per annum. The actual contingent coupon rate will be set at the time the trade is placed on the trade date. Amounts in the table below may have been rounded for ease of analysis.

Observation Date*	Contingent Coupon (per security)
24-Jul-2019	$0.1553
24-Oct-2019	$0.1553
24-Jan-2020	$0.1553
24-Apr-2020	$0.1553

*Observation dates are subject to the market disruption event provisions set forth in the accompanying product supplement.

Contingent Coupon Rate	6.21% to 6.53% per annum (or approximately 1.553% to 1.633% per outstanding quarter). The actual contingent coupon rate will be set at the time the trade is placed on the trade date.
Automatic Call Feature	The Securities will be called automatically if the closing price of the underlying asset on any observation date is equal to or greater than the initial price. If the Securities are called on any observation date, UBS will pay you on the corresponding coupon payment date a cash payment per Security equal to your principal amount plus the contingent coupon otherwise due on such date pursuant to the contingent coupon feature. No further amounts will be owed to you under the Securities.
Payment at Maturity (per Security)	If the Securities are not called and the final price is equal to or greater than the trigger price and coupon barrier, UBS will pay you a cash payment per Security on the maturity date equal to your principal plus the contingent coupon otherwise due on the maturity date. If the Securities are not called and the final price is less than the trigger price, UBS will pay you a cash payment on the maturity date of significantly less than the principal amount, if anything, resulting in a loss of principal that is proportionate to the decline of the underlying asset, for an amount equal to $10 + ($10 x underlying return).
Underlying Return	$\frac{\text{Final Price} - \text{Initial Price}}{\text{Initial Price}}$
Closing Price	On any trading day, the last reported sale price (or, in the case of NASDAQ, the official closing price) of the underlying asset during the principal trading session on the principal national securities exchange on which it is listed for trading, as determined by the calculation agent.
Initial Price	The closing price of the underlying asset on the trade date, as determined by the calculation agent and as may be adjusted in the case of certain corporate events, as described in the accompanying product supplement.
Trigger Price/Coupon Barrier	Both 70.00% of the initial price of the underlying asset, as determined by the calculation agent and as may be adjusted in the case of certain corporate events, as described in the accompanying product supplement.
Final Price	The closing price of the underlying asset on the final valuation date, as determined by the calculation agent and subject to adjustments in the case of certain corporate events, as described in the accompanying product supplement.

Trade Date	April 24, 2019
Settlement Date	April 26, 2019
Final Valuation Date	April 24, 2020. The final valuation date may be subject to postponement in the event of a market disruption event, as described in the accompanying product supplement.
Maturity Date	April 29, 2020. The maturity date may be subject to postponement in the event of a market disruption event, as described in the accompanying product supplement.
Coupon Payment Dates	Three business days following each observation date, except the coupon payment date for the final valuation date will be the maturity date.
CUSIP	[ ]
ISIN	[ ]
Valoren	[ ]

The estimated initial value based on an issuance size of approximately $100,000 of the Securities as of the trade date is expected to be between 94.28% and 96.78% of the issue price to the public for Securities linked to the underlying asset. The range of the estimated initial value of the Securities was determined on the date of this preliminary terms supplement by reference to UBS' internal pricing models, inclusive of the internal funding rate. For more information about secondary market offers and the estimated initial value of the Securities, see "Key Risks - Fair value considerations" and "Key Risks - Limited or no secondary market and secondary market price considerations" in this preliminary terms supplement.

Notice to investors: the Securities are significantly riskier than conventional debt instruments. The issuer is not necessarily obligated to repay the full principal amount of the Securities at maturity, and the Securities may have the same downside market risk as the underlying asset. This market risk is in addition to the credit risk inherent in purchasing a debt obligation of UBS. You should not purchase the Securities if you do not understand or are not comfortable with the significant risks involved in investing in the Securities.

You should carefully consider the risks described under "Key Risks" in this preliminary terms supplement, under "Key Risks" beginning on page 3 of the prospectus supplement and under ''Risk Factors'' beginning on page PS-9 of the accompanying product supplement before purchasing any Securities. Events relating to any of those risks, or other risks and uncertainties, could adversely affect the market value of, and the return on, your Securities. You may lose a significant portion or all of your initial investment in the Securities. The Securities will not be listed or displayed on any securities exchange or any electronic communications network.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these Securities or passed upon the adequacy or accuracy of this preliminary terms supplement, the previously delivered prospectus supplement, the accompanying product supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

The Securities are not bank deposits and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

See "Additional Information about UBS and the Securities" in this preliminary terms supplement. The Securities we are offering will have the terms set forth in the Prospectus Supplement dated November 1, 2018 relating to the Securities, the accompanying product supplement, the accompanying prospectus and this preliminary terms supplement.

Offering of Securities	**Issue Price to Public Total**	**Underwriting Discount Total**	**Proceeds to UBS AG Total**

		Per Security		Per Security		Per Security
Securities linked to the shares of SPDR® S&P® Oil & Gas Exploration & Production ETF	$	100%	$	1.50%	$	98.50%

UBS Financial Services Inc. **UBS Investment Bank**

Additional Information About UBS and the Securities

UBS has filed a registration statement (including a prospectus, as supplemented by a product supplement and a prospectus supplement for the Securities) with the Securities and Exchange Commission, or SEC, for the offering for which this preliminary terms supplement relates. Before you invest, you should read these documents and any other documents relating to the Securities that UBS has filed with the SEC for more complete information about UBS and this offering. You may obtain these documents for free from the SEC website at www.sec.gov. Our Central Index Key, or CIK, on the SEC website is 0001114446.

You may access these documents on the SEC website at www.sec.gov as follows:

- Prospectus supplement dated November 1, 2018:
  http://www.sec.gov/Archives/edgar/data/1114446/000091412118002132/ub46175276-424b2.htm
- Market-Linked Securities product supplement dated October 31, 2018:
  http://www.sec.gov/Archives/edgar/data/1114446/000091412118002085/ub47016353-424b2.htm
- Prospectus dated October 31, 2018:
  http://www.sec.gov/Archives/edgar/data/1114446/000119312518314003/d612032d424b3.htm

References to "UBS," "we," "our" and "us" refer only to UBS AG and not to its consolidated subsidiaries. In this document, "Trigger Phoenix Autocallable Optimization Securities" or the "Securities" refer to the Securities that are offered hereby. Also, references to the "prospectus supplement" mean the UBS prospectus supplement, dated November 1, 2018, references to "Market-Linked Securities product supplement" mean the UBS product supplement, dated October 31, 2018, relating to the Securities generally, and references to the "accompanying prospectus" mean the UBS prospectus titled "Debt Securities and Warrants", dated October 31, 2018.

This preliminary terms supplement, together with the documents listed above, contains the terms of the Securities and supersedes all other prior or contemporaneous oral statements as well as any other written materials including preliminary or indicative pricing terms, correspondence, trade ideas, structures for implementation, sample structures, brochures or other educational materials of ours. You should carefully consider, among other things, the matters set forth in "Key Risks" and in "Risk Factors" in the accompanying product supplement, as the Securities involve risks not associated with conventional debt securities. We urge you to consult your investment, legal, tax, accounting and other advisors before deciding to invest in the Securities

UBS reserves the right to change the terms of, or reject any offer to purchase, the Securities prior to their issuance. In the event of any changes to the terms of the Securities, UBS will notify you and you will be asked to accept such changes in connection with your purchase. You may also choose to reject such changes in which case UBS may reject your offer to purchase.

Key Risks

An investment in the Securities involves significant risks. Some of the risks that apply to the Securities are summarized here and are comparable to the corresponding risks discussed in the "Key Risks" section of the prospectus supplement, but we urge you to read the more detailed explanation of risks relating to the Securities generally in ‘‘Risk Factors’’ section of the accompanying product supplement. We also urge you to consult your investment, legal, tax, accounting and other advisors before you invest in the Securities.

- **Risk of loss at maturity -** The Securities differ from ordinary debt securities in that UBS will not necessarily pay the full principal amount of the Securities at maturity. If the Securities are not called, UBS will repay you the principal amount of your Securities in cash only if the final price of the underlying asset is equal to or greater than the trigger price and will only make such payment at maturity. If the Securities are not called and the final price is less than the trigger price, you will be fully exposed to the negative underlying return and lose a significant portion or all of your initial investment in an amount proportionate to the decline in the price of the underlying asset.
- **The contingent repayment of your principal applies only at maturity -** You should be willing to hold your Securities to maturity. If you are able to sell your Securities prior to maturity in the secondary market, you may have to sell them at a loss relative to your initial investment even if the then-current underlying asset price is equal to or greater than the trigger price at that time.
- **You may not receive any contingent coupons -** UBS will not necessarily pay periodic contingent coupons on the Securities. If the closing price of the underlying asset on an observation date is less than the coupon barrier, UBS will not pay you the contingent coupon applicable to such observation date. If the closing price of the underlying asset is less than the coupon barrier on each of the observation dates, UBS will not pay you any contingent coupons during the term of, and you will not receive a positive return on, your Securities. Generally, this non-payment of the contingent coupon coincides with a period of greater risk of principal loss on your Securities.
- **Your potential return on the Securities is limited and you will not participate in any appreciation of the underlying asset** - The return potential of the Securities is limited to the contingent coupon rate, regardless of the appreciation of the underlying asset. In addition, the total return on the Securities will vary based on the number of observation dates on which the requirements of the contingent coupon have been met prior to maturity or an automatic call. Further, if the Securities are called due to the automatic call

feature, you will not receive any contingent coupons or any other payment in respect of any observation dates after the applicable call settlement date. Since the Securities could be called as early as the first observation date, the total return on the Securities could be minimal. If the Securities are not called, you will not participate in any appreciation in the price of the underlying asset even though you will be subject to the underlying asset's risk of decline. As a result, the return on an investment in the Securities could be less than the return on a direct investment in the underlying asset.

- **Higher contingent coupon rates are generally associated with a greater risk of loss -** Greater expected volatility with respect to the underlying asset reflects a higher expectation as of the trade date that the price of such underlying asset could close below its trigger price on the final valuation date of the Securities. This greater expected risk will generally be reflected in a higher contingent coupon rate for that Security. However, an underlying asset's volatility can change significantly over the term of the Securities and the price of the underlying asset for your Securities could fall sharply, which could result in a significant loss of principal.
- **Reinvestment risk -** The Securities will be called automatically if the closing price of the underlying asset is equal to or greater than the initial price on any observation date. In the event that the Securities are called prior to maturity, there is no guarantee that you will be able to reinvest the proceeds from an investment in the Securities at a comparable rate of return for a similar level of risk. To the extent you are able to reinvest such proceeds in an investment comparable to the Securities, you will incur transaction costs and the original issue price for such an investment is likely to include certain built-in costs such as dealer discounts and hedging costs.
- **Greater expected volatility generally indicates an increased risk of loss at maturity -** "Volatility" refers to the frequency and magnitude of changes in the price of the underlying asset. The greater the expected volatility of the underlying asset as of the trade date, the greater the expectation is as of the trade date that the closing price of the underlying asset could be less than the coupon barrier on any observation date and that the final price of the underlying asset could be less than the trigger price on the final valuation date and, as a consequence, indicates an increased risk of loss. However, the underlying asset's volatility can change significantly over the term of the Securities, and a relatively lower coupon barrier and/or trigger price may not necessarily indicate that the Securities have a greater likelihood of a return of principal at maturity. You should be willing to accept the downside market risk of the underlying asset and the potential to lose a significant portion or all of your initial investment.
- **Credit risk of UBS -** The Securities are unsubordinated, unsecured debt obligations of the issuer, UBS, and are not, either directly or indirectly, an obligation of any third party. Any payment to be made on the Securities, including any repayment of principal, depends on the ability of UBS to satisfy its obligations as they come due. As a result, the actual and perceived creditworthiness of UBS may affect the market value of the Securities and, in the event UBS were to default on its obligations, you may not receive any amounts owed to you under the terms of the Securities and you could lose your entire investment.
- **Market risk** - The price of the underlying asset can rise or fall sharply due to factors specific to that underlying asset and (i) in the case of common stock or

American depositary receipts, its issuer (the "underlying asset issuer") or (ii) in the case of an exchange traded fund, the securities, futures contracts or physical commodities constituting the assets of that underlying asset. These factors include price volatility, earnings, financial conditions, corporate, industry and regulatory developments, management changes and decisions and other events, as well as general market factors, such as general market volatility and levels, interest rates and economic and political conditions. You, as an investor in the Securities, should make your own investigation into the underlying asset issuer and the underlying asset for your Securities. **We urge you to review financial and other information filed periodically by the underlying asset issuer with the SEC.**

- **Fair value considerations.**

- **The issue price you pay for the Securities will exceed their estimated initial value** - The issue price you pay for the Securities will exceed their estimated initial value as of the trade date due to the inclusion in the issue price of the underwriting discount, hedging costs, issuance costs and projected profits. As of the close of the relevant markets on the trade date, we will determine the estimated initial value of the Securities by reference to our internal pricing models and it will be set forth in the final terms supplement. The pricing models used to determine the estimated initial value of the Securities incorporate certain variables, including the price, volatility and expected dividends on the underlying asset, prevailing interest rates, the term of the Securities and our internal funding rate. Our internal funding rate is typically lower than the rate we would pay to issue conventional fixed or floating rate debt securities of a similar term. The underwriting discount, hedging costs, issuance costs, projected profits and the difference in rates will reduce the economic value of the Securities to you. Due to these factors, the estimated initial value of the Securities as of the trade date will be less than the issue price you pay for the Securities.

- **The estimated initial value is a theoretical price; the actual price that you may be able to sell your Securities in any secondary market (if any) at any time after the trade date may differ from the estimated initial value** - The value of your Securities at any time will vary based on many factors, including the factors described above and in “- Market risk” above and is impossible to predict. Furthermore, the pricing models that we use are proprietary and rely in part on certain assumptions about future events, which may prove to be incorrect. As a result, after the trade date, if you attempt to sell the Securities in the secondary market, the actual value you would receive may differ, perhaps materially, from the estimated initial value of the Securities determined by reference to our internal pricing models. The estimated initial value of the Securities does not represent a minimum or maximum price at which we or any of our affiliates would be willing to purchase your Securities in any secondary market at any time.

- **Our actual profits may be greater or less than the differential between the estimated initial value and the issue price of the Securities as of the trade date** - We may determine the economic terms of the Securities, as well as hedge our obligations, at least in part, prior to pricing the Securities on the trade date. In addition, there may be ongoing costs to us to maintain and/or adjust any hedges and such hedges are often imperfect. Therefore, our actual profits (or potentially, losses) in issuing the Securities cannot be determined as of the trade date and any such differential between the estimated initial value and the issue price of the Securities as of the trade date does not reflect our actual profits. Ultimately, our actual profits will be known only at the maturity of the Securities.

• **Limited or no secondary market and secondary market price considerations.**

• **There may be little or no secondary market for the Securities** - The Securities will not be listed or displayed on any securities exchange or any electronic communications network. There can be no assurance that a secondary market for the Securities will develop. UBS Securities LLC and its affiliates may make a market in each offering of the Securities, although they are not required to do so and may stop making a market at any time. If you are able to sell your Securities prior to maturity, you may have to sell them at a substantial loss. The estimated initial value of the Securities does not represent a minimum or maximum price at which we or any of our affiliates would be willing to purchase your Securities in any secondary market at any time.

• **The price at which UBS Securities LLC and its affiliates may offer to buy the Securities in the secondary market (if any) may be greater than UBS' valuation of the Securities at that time, greater than any other secondary market prices provided by unaffiliated dealers (if any) and, depending on your broker, greater than the valuation provided on your customer account statements** - For a limited period of time following the issuance of the Securities, UBS Securities LLC or its affiliates may offer to buy or sell such Securities at a price that exceeds (i) our valuation of the Securities at that time based on our internal pricing models, (ii) any secondary market prices provided by unaffiliated dealers (if any) and (iii) depending on your broker, the valuation provided on customer account statements. The price that UBS Securities LLC may initially offer to buy such Securities following issuance will exceed the valuations indicated by our internal pricing models due to the inclusion for a limited period of time of the aggregate value of the underwriting discount, hedging costs, issuance costs and theoretical projected trading profit. The portion of such amounts included in our price will decline to zero on a straight line basis over a period ending no later than the date specified under "Supplemental Plan of Distribution (Conflicts of Interest); Secondary Markets (if any)." Thereafter, if UBS Securities LLC or an affiliate makes secondary markets for the Securities, it will do so at prices that reflect our estimated value determined by reference to our internal pricing models at that time. The temporary positive differential relative to our internal pricing models arises from requests from and arrangements made by UBS Securities LLC with the selling agents of structured debt securities such as the Securities. As described above, UBS Securities LLC and its affiliates are not required to make a market for the Securities and may stop making a market at any time. The price at which UBS Securities LLC or an affiliate may make secondary markets at any time (if at all) will also reflect its then current bid-ask spread for similar sized trades of structured debt securities. UBS Financial Services Inc. and UBS Securities LLC reflect this temporary positive differential on their customer statements. Investors should inquire as to the valuation provided on customer account statements provided by unaffiliated dealers.

• **Price of Securities prior to maturity** - The market price of the Securities will be influenced by many unpredictable and interrelated factors, including the price of the underlying asset; the volatility of the underlying asset; the dividend rate paid on the underlying asset; the time remaining to the maturity of the Securities; interest rates in the markets; geopolitical conditions and economic, financial, political, force majeure and regulatory or judicial events; the creditworthiness of UBS and the then current bid-ask spread for the Securities.

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Impact of fees and the use of internal funding rates rather than secondary market credit spreads on secondary market prices - All other things being equal, the use of the internal funding rates described above under "- Fair value considerations" as well as the inclusion in the issue price of the underwriting discount, hedging costs, issuance costs and any projected profits are, subject to the temporary mitigating effect of UBS Securities LLC's and its affiliates' market making premium, expected to reduce the price at which you may be able to sell the Securities in any secondary market.

- **Owning the Securities is not the same as owning the underlying asset -** The return on your Securities may not reflect the return you would realize if you actually owned the underlying asset. For instance, you will not receive or be entitled to receive any dividend payments or other distributions on the underlying asset over the term of your Securities. Furthermore, the underlying asset may appreciate substantially during the term of your Securities and you will not participate in such appreciation.
- **No assurance that the investment view implicit in the Securities will be successful -** It is impossible to predict whether and the extent to which the price of the underlying asset will rise or fall. The price of the underlying asset will be influenced by complex and interrelated political, economic, financial and other factors that affect the underlying asset issuer. You should be willing to accept the risks of owning equities in general and the underlying asset in particular, and the risk of losing a significant portion or all of your initial investment.
- **There is no affiliation between the underlying asset issuer, or for Securities linked to exchange traded funds, the issuers of the constituent stocks comprising the underlying asset (the "underlying asset constituent stock issuers"), and UBS, and UBS is not responsible for any disclosure by such issuer(s)** - We and our affiliates may currently, or from time to time in the future engage in business with the underlying asset issuer or, if applicable, any underlying asset constituent stock issuers. However, we are not affiliated with the underlying asset issuer or any underlying asset constituent stock issuers and are not responsible for such issuer's public disclosure of information, whether contained in SEC filings or otherwise. You, as an investor in the Securities, should make your own investigation into the underlying asset issuer or, if applicable, each underlying asset constituent stock issuer. Neither the underlying asset issuer nor any underlying asset constituent stock issuer is involved in the Securities offered hereby in any way and has no obligation of any sort with respect to your Securities. Such issuer(s) have no obligation to take your interests into consideration for any reason, including when taking any corporate actions that might affect the value of, and any amounts payable on, your Securities.
- **The calculation agent can make adjustments that affect the payment to you at maturity-** For certain corporate events affecting the underlying asset, the calculation agent may make adjustments to the initial price, the coupon barrier, the trigger price and/or the final price of the underlying asset. However, the calculation agent will not make an adjustment in response to all events that could affect the underlying asset. If an event occurs that does not require the calculation agent to make an adjustment, the value of the Securities may be materially and adversely affected. In addition, all determinations and calculations concerning any such adjustments will be made by the calculation agent. You should be aware that the calculation agent may make any such adjustment, determination or calculation in a manner that differs from that discussed in the accompanying product supplement as necessary to achieve an equitable result. In the case of common stock or American depositary receipts, following certain corporate events relating to the issuer of the underlying asset where the issuer is not the surviving entity, the amount of cash you receive at maturity may be based on the common stock or American depositary receipts of a successor to the underlying asset issuer in combination with any cash or any other assets distributed to holders of the underlying asset in such corporate event. Additionally, if the issuer of the underlying asset becomes subject to (i) a reorganization event whereby the underlying asset is exchanged solely for cash, (ii) a merger or consolidation with UBS or any of its affiliates or (iii) an underlying asset is delisted or otherwise suspended from trading, the amount you receive at maturity may be based on the common stock or American depositary receipts issued by another company. In the case of an exchange traded fund, following a suspension from trading or if an exchange traded fund is discontinued, the amount you receive at maturity may be based on a share of another exchange traded fund. The occurrence of these corporate events and the consequent adjustments may materially and adversely affect the value

of the Securities. For more information, see the sections "General Terms of the Securities -- Antidilution Adjustments for Securities Linked to an Underlying Asset or Equity Basket Asset" and " --Reorganization Events for Securities Linked to an Underlying Asset or Equity Basket Asset" in the accompanying product supplement. Regardless of the occurrence of one or more dilution or reorganization events, you should note that at maturity UBS will pay you an amount in cash equal to your principal amount, unless the final price of the underlying asset is below the trigger price (as such trigger price may be adjusted by the calculation agent upon occurrence of one or more such events). Regardless of any of the events discussed above, any payment on the Securities is subject to the creditworthiness of UBS.

- **The value of the underlying equity may not completely track the value of the securities in which such exchange traded fund invests** — The underlying equity may be an exchange traded fund, and although the trading characteristics and valuations of such underlying equity will usually mirror the characteristics and valuations of the securities in which such exchange traded fund invests, its value may not completely track the value of such securities. The value of the underlying equity will reflect transaction costs and fees that the securities in which that exchange traded fund invests do not have. In addition, although the underlying equity may be currently listed for trading on an exchange, there is no assurance that an active trading market will continue for such underlying equity or that there will be liquidity in the trading market.
- **Fluctuation of NAV** — The net asset value (the "NAV") of an exchange traded fund may fluctuate with changes in the market value of such exchange traded fund's securities holdings. The market prices of the underlying equity may fluctuate in accordance with changes in NAV and supply and demand on the applicable stock exchanges. In addition, the market price of the underlying equity may differ from its NAV per share; the underlying equity may trade at, above or below its NAV per share.
- **Failure of the underlying equity to track the level of the underlying index** — The underlying equity may be an exchange traded fund. Such underlying equity may be designed and intended to track the level of a specific index (an "underlying index"), but various factors, including fees and other transaction costs, may prevent the underlying equity from correlating exactly with changes in the level of such underlying index. Accordingly, the performance of the underlying equity may not be equal to the performance of its underlying index.
- **Potential UBS impact on the market price of the underlying asset** - Trading or transactions by UBS or its affiliates in the underlying asset and/or over-the-counter options, futures or other instruments with returns linked to the performance of the underlying asset may adversely affect the market price of the underlying asset and, therefore, the market value of, and any amounts payable on, your Securities.
- **Potential conflict of interest -** UBS and its affiliates may engage in business with the issuer of the underlying asset, which may present a conflict between the obligations of UBS and you, as a holder of the Securities. There are also potential conflicts of interest between you and the calculation agent, which will be an affiliate of UBS. The calculation agent will determine whether the final price is below the trigger price and accordingly the payment at maturity on your Securities. The calculation agent may also postpone the determination of the final price and the maturity date if a market disruption event occurs and is continuing on the final valuation date and may make adjustments to the initial price, the trigger price, the coupon barrier, the final price and/or the underlying asset itself for certain corporate events affecting the underlying asset. For more information, see the sections "General Terms of the Securities -- Antidilution Adjustments for Securities Linked to an Underlying Asset or Equity Basket Asset" and " --Reorganization Events for Securities Linked to an Underlying Asset or Equity Basket Asset" in the accompanying product supplement. As UBS determines the economic terms of the Securities, including the contingent coupon rate, trigger price and coupon barrier, and such terms include the underwriting discount, hedging costs, issuance costs and projected profits, the Securities represent a package of economic terms. There are other potential conflicts of interest insofar as an investor could potentially get better economic terms if that investor entered into exchange-traded and/or OTC derivatives or other instruments with third parties, assuming that such instruments were available and the investor had the ability to assemble and enter into such instruments.
- **Potentially inconsistent research, opinions or recommendations by UBS -** UBS and its affiliates publish research from time to time on financial markets and other matters that may influence the value of the Securities, or express opinions or provide recommendations that are inconsistent with purchasing or holding the Securities. Any research, opinions or recommendations expressed by UBS or its affiliates may not be consistent with each other and may be modified from time to time without notice. Investors should make their own independent investigation of

the merits of investing in the Securities and the underlying asset to which the Securities are linked.

- **The Securities are not bank deposits -** An investment in the Securities carries risks which are very different from the risk profile of a bank deposit placed with UBS or its affiliates. The Securities have different yield and/or return, liquidity and risk profiles and would not benefit from any protection provided to deposits.
- **If UBS experiences financial difficulties, FINMA has the power to open restructuring or liquidation proceedings in respect of, and/or impose protective measures in relation to, UBS, which proceedings or measures may have a material adverse effect on the terms and market value of the Securities and/or the ability of UBS to make payments thereunder -** The Swiss Financial Market Supervisory Authority ("FINMA") has broad statutory powers to take measures and actions in relation to UBS if (i) it concludes that there is justified concern that UBS is over-indebted or has serious liquidity problems or (ii) UBS fails to fulfil the applicable capital adequacy requirements (whether on a standalone or consolidated basis) after expiry of a deadline set by FINMA. If one of these pre-requisites is met, FINMA is authorized to open restructuring proceedings or liquidation (bankruptcy) proceedings in respect of, and/or impose protective measures in relation to, UBS. The Swiss Banking Act grants significant discretion to FINMA in connection with the aforementioned proceedings and measures. In particular, a broad variety of protective measures may be imposed by FINMA, including a bank moratorium or a maturity postponement, which measures may be ordered by FINMA either on a stand-alone basis or in connection with restructuring or liquidation proceedings. The resolution regime of the Swiss Banking Act is further detailed in the FINMA Banking Insolvency Ordinance ("BIO-FINMA"). In a restructuring proceeding, FINMA, as resolution authority, is competent to approve the resolution plan. The resolution plan may, among other things, provide for (a) the transfer of all or a portion of UBS's assets, debts, other liabilities and contracts (which may or may not include the contractual relationship between UBS and the holders of Securities) to another entity, (b) a stay (for a maximum of two business days) on the termination of contracts to which UBS is a party, and/or the exercise of (w) rights to terminate, (x) netting rights, (y) rights to enforce or dispose of collateral or (z) rights to transfer claims, liabilities or collateral under contracts to which UBS is a party, (c) the conversion of UBS's debt and/or other obligations, including its obligations under the Securities, into equity (a "debt-to-equity" swap), and/or (d) the partial or full write-off of obligations owed by UBS (a "write-off"), including its obligations under the Securities. The BIO-FINMA provides that a debt-to-equity swap and/or a write-off of debt and other obligations (including the Securities) may only take place after (i) all debt instruments issued by UBS qualifying as additional tier 1 capital or tier 2 capital have been converted into equity or written-off, as applicable, and (ii) the existing equity of UBS has been fully cancelled. While the BIO-FINMA does not expressly address the order in which a write-off of debt instruments other than debt instruments qualifying as additional tier 1 capital or tier 2 capital should occur, it states that debt-to-equity swaps should occur in the following order: first, all subordinated claims not qualifying as regulatory capital; second, all other claims not excluded by law from a debt-to-equity swap (other than deposits); and third, deposits (in excess of the amount privileged by law). However, given the broad discretion granted to FINMA as the resolution authority, any restructuring plan in respect of UBS could provide that the claims under or in connection with the Securities will be partially or fully converted into equity or written-off, while preserving other obligations of UBS that rank pari passu with, or even junior to, UBS's obligations under the Securities. Consequently, holders of Securities may lose all of some of their investment in the Securities. In the case of restructuring proceedings with respect to a systemically important Swiss bank (such as UBS), the creditors whose claims are affected by the restructuring plan will not have a right to vote on, reject, or seek the suspension of the restructuring plan. In addition, if a restructuring plan has been approved by FINMA, the rights of a creditor to seek judicial review of the restructuring plan (e.g., on the grounds that the plan would unduly prejudice the rights of holders of Securities or otherwise be in violation of the Swiss Banking Act) are very limited. In particular, a court may not suspend the implementation of the restructuring plan. Furthermore, even if a creditor successfully challenges the restructuring plan, the court can only require the relevant creditor to be compensated ex post and there is currently no guidance as to on what basis such compensation would be calculated or how it would be funded.
- **Dealer incentives -** UBS and its affiliates act in various capacities with respect to the Securities. We and our affiliates may act as a principal, agent or dealer in connection with the sale of the Securities. Such affiliates, including the sales representatives, will derive compensation from the distribution of the Securities and such compensation may serve as an incentive to sell these Securities instead of other investments. We will pay total underwriting compensation of 1.50% per Security to any of our affiliates acting as agents or dealers in connection

with the distribution of the Securities. Given that UBS Securities LLC and its affiliates temporarily maintain a market making premium, it may have the effect of discouraging UBS Securities LLC and its affiliates from recommending sale of your Securities in the secondary market.

- **Uncertain tax treatment -** Significant aspects of the tax treatment of the Securities are uncertain. You should read carefully the sections entitled "What are the Tax Consequences of the Securities" herein and in the prospectus supplement and "Material U.S. Federal Income Tax Consequences" in the accompanying product supplement, and consult your tax advisor about your tax situation.
- **Energy Sector Risk** - The assets of the XOP Fund are also concentrated in the energy sector, and therefore the XOP Fund may be more volatile than a fund with more diversified components. Energy companies develop and produce oil, gas and consumable fuels and provide drilling and other energy resources production and distribution related services. Stock prices for these types of companies are affected by supply and demand, exploration and production spending, world events and economic conditions, swift price and supply fluctuations, energy conservation, the success of exploration projects, liabilities for environmental damage and general civil liabilities and tax and other governmental regulatory policies. Weak demand for energy companies' products or services or for energy products and services in general, as well as negative developments in these other areas, including natural disasters or terrorist attacks, would adversely impact the XOP Fund's performance.
- **Oil and Gas Sector Risk** - The assets of the XOP Fund are concentrated in the oil and gas exploration and production industry, and therefore the XOP Fund may be more volatile than a fund with more diversified components. Companies in the oil and gas sector develop and produce crude oil and natural gas and provide drilling and other energy resources production and distribution related services. Stock prices for these types of companies are affected by supply and demand both for their specific product or service and for energy products in general. The price of oil and gas, exploration and production spending, government regulation, world events and economic conditions will likewise affect the performance of these companies. Correspondingly, securities of companies in the energy field are subject to swift price and supply fluctuations caused by events relating to international politics, energy conservation, the success of exploration projects, and tax and other governmental regulatory policies. Weak demand for the companies' products or services or for energy products and services in general, as well as negative developments in these and other areas, would adversely impact the performance of the XOP Fund. Oil and gas exploration and production can be significantly affected by natural disasters as well as changes in exchange rates, interest rates, government regulation, world events and economic conditions. These companies also may be at risk for environmental damage claims.
- **The SPDR® S&P® Oil & Gas Exploration & Production ETF utilizes a passive indexing investment approach** - The SPDR® S&P® Oil & Gas Exploration & Production ETF (the "XOP Fund") is not managed according to traditional methods of "active" investment management, which involve the buying and selling of securities based on economic, financial and market analysis and investment judgment. Instead, the XOP Fund, utilizing a "passive" or indexing investment approach, attempts to approximate the investment performance of the target index by investing in a portfolio of stocks that generally replicate such target index. Therefore, unless a specific stock is removed from the target index, the XOP Fund generally would not sell a stock because the stock's issuer was in financial trouble. In addition, the XOP Fund is subject to the risk that the investment strategy of the XOP Fund's investment adviser may not produce the intended results.

Information about the Underlying Asset

All disclosures regarding the underlying asset are derived from publicly available information. UBS has not conducted any independent review or due diligence of any publicly available information with respect to the underlying asset. **You should make your own investigation into the underlying asset.**

The underlying asset will be registered under the Securities Act of 1933, the Securities Exchange Act of 1934 (as amended, the "Exchange Act") and/or the Investment Company Act of 1940, each as amended. Companies with securities registered with the SEC are required to file financial and other information specified by the SEC periodically. Information filed by the underlying asset issuer with the SEC can be reviewed electronically through a website maintained by the SEC. The address of the SEC’s website is http://www.sec.gov. Information filed with the SEC by the underlying asset issuer can be located by reference to its SEC file number provided below. In addition, information filed with the SEC can be inspected and copied at the Public Reference Section of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Copies of this material can also be obtained from the Public Reference Section, at prescribed rates.

SPDR® S&P® Oil & Gas Exploration & Production ETF

"We have derived all information contained herein regarding the SPDR® S&P® Oil & Gas Exploration & Production ETF (the "XOP Fund") from publicly available information. Such information reflects the policies of, and is subject to change by, SSgA Funds Management, Inc., the investment adviser (the "Adviser") of the XOP Fund. UBS has not undertaken an independent review or due diligence of any publicly available information regarding the XOP Fund.

The XOP Fund seeks to provide investment results that, before fees and expenses, correspond generally to the total return performance of the S&P Oil & Gas Exploration & Production Select Industry Index (the "target index"). The XOP Fund employs a sampling strategy, which means that the XOP Fund is not required to purchase all of the securities represented in the target index. Instead, the XOP Fund may purchase a subset of the securities in the target index in an effort to hold a portfolio of securities with generally the same risk and return characteristics of the target index. Under normal market conditions, the XOP Fund generally invests substantially all, but at least 80%, of its total assets in the securities comprising the target index. In addition, the XOP Fund may invest in equity securities that are not included in the target index, cash and cash equivalents or money market instruments, such as repurchase agreements and money market funds (including money market funds advised by the Adviser).

The target index represents the oil and gas exploration and production industry group of the S&P Total Market Index that satisfy the following criteria: (i) have a float-adjusted market capitalization above $500 million with a float-adjusted liquidity ratio (defined by dollar value traded over the previous 12 months divided by the float-adjusted market capitalization as of the index rebalancing reference date) above 90% or have a floatadjusted market capitalization above $400 million with a float-adjusted liquidity ratio (as defined above) above 150%; and (ii) are U.S. based companies. The market capitalization threshold and the liquidity threshold are each reviewed from time to time based on market conditions. Rebalancing occurs on the third Friday of the quarter ending month.

As of September 30, 2017, ordinary operating expenses of the XOP Fund are expected to accrue at an annual rate of 0.35% of the XOP Fund's daily net asset value. Expenses of the XOP Fund reduce the net value of the assets held by the XOP Fund.

As of September 30, 2017, the XOP Fund's five largest company holdings include: Carrizo Oil & Gas Inc. (2.58%), Whiting Petroleum Corporation (2.34%), SM Energy Company (2.23%), Oasis Petroleum Inc. (2.20%) and PDC Energy Inc. (2.11%).

In making your investment decision you should review the prospectus supplement and the prospectus related to the XOP Fund, dated October 31, 2017, filed by the SPDR® Series Trust (the "XOP Fund Prospectus") available at:

sec.gov/Archives/edgar/data/1064642/000119312517323271/d413018d485bpos.htm#fdcdc933-a5d9-43c9-b52b-4db44a17f80a

In addition, the XOP Fund Prospectus is available on the XOP Fund's website as indicated below. In making your investment decision you should pay particular attention to the sections of the XOP Fund Prospectus entitled "Principal Risks of Investing in the Fund" and "Additional Risk Information." UBS has not undertaken an independent review or due diligence of any publicly available information regarding the XOP Fund Prospectus, and such information is not incorporated by reference in, and should not be considered part of, this document or any accompanying prospectus.

The XOP Fund's website is us.spdrs.com/en/etf/spdr-sp-oil-gas-exploration-production-etf-XOP. Shares of the XOP Fund are listed on the NYSE Arca under ticker symbol "XOP."

Information filed by the XOP Fund with the SEC can be found by reference to its SEC file numbers: 333-57793 and 811-08839.

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Information from outside sources is not incorporated by reference in, and should not be considered part of, this preliminary terms supplement or any accompanying prospectus. UBS has not conducted any independent review or due diligence of any publicly available information with respect to the underlying asset.

Historical Information

The following table sets forth the quarterly high and low closing prices for XOP Fund's shares, based on daily closing prices on the primary exchange for XOP Fund. We obtained the closing prices below from Bloomberg Professional service ("Bloomberg"), without independent verification. UBS has not undertaken an independent review or due diligence of any publicly available information obtained from Bloomberg. XOP Fund's closing price on April 23, 2019 was $32.94. The actual initial price will be the closing price of XOP Fund's shares on the trade date. **Past performance of the underlying asset is not indicative of the future performance of the underlying asset.**

Quarter Begin	Quarter End	Quarterly High	Quarterly Low	Quarterly Close
07/01/2014	09/30/2014	$82.08	$68.83	$68.83
10/01/2014	12/31/2014	$66.84	$42.75	$47.86
01/02/2015	03/31/2015	$53.94	$42.55	$51.66
04/01/2015	06/30/2015	$55.63	$46.43	$46.66
07/01/2015	09/30/2015	$45.22	$31.71	$32.84
10/01/2015	12/31/2015	$40.53	$28.64	$30.22
01/04/2016	03/31/2016	$30.96	$23.60	$30.35
04/01/2016	06/30/2016	$37.50	$29.23	$34.81

07/01/2016	09/30/2016	$39.12	$32.75	$38.46
10/03/2016	12/30/2016	$43.42	$34.73	$41.42
01/03/2017	03/31/2017	$42.21	$35.17	

Current portion of long-term debt and capital leases	$	149,842	$155,170
Accounts payable ($2,046 and $1,330 to related party)		40,439	54,307
Accrued compensation		9,920	12,208
Other accrued expenses		31,017	29,696
Total current liabilities		231,218	251,381
Noncurrent liabilities:			
Long-term debt and capital leases, excluding current portion		727,839	760,177
Deferred credits ($7,366 and $7,702 to related party)		14,412	15,393
Deferred income taxes		45,750	39,797
Other noncurrent liabilities		29,584	31,173
Total noncurrent liabilities		817,585	846,540
Total liabilities		1,048,803	1,097,921
Commitments and contingencies (Note 13 and Note 14)			
Stockholders' equity:			
Preferred stock of no par value, 5,000,000 shares authorized; no shares issued and outstanding		—	—
Common stock of no par value and additional paid-in capital,		236,294	234,683

125,000,000 shares authorized; 23,902,903 shares issued and outstanding, 10,614,990 warrants issued and outstanding			
Retained earnings		158,865	139,784
Total stockholders' equity		395,159	374,467
Total liabilities and stockholders' equity	$	1,443,962	$1,472,388

See accompanying notes to these condensed consolidated financial statements.

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MESA AIR GROUP, INC.

Condensed Consolidated Statements of Operations

(In thousands, except per share amounts) (Unaudited)

	Three Months Ended December 31, 2018	2017
Operating revenues:		
Contract revenue ($93,631 and $85,994 from related party)	$ 170,449	$ 154,389
Pass-through and other ($1,659 and $1,687 from related party)	7,707	10,295
Total operating revenues	178,156	164,684
Operating expenses:		
Flight operations	53,245	49,160
Fuel	121	68
Maintenance	39,802	54,347
Aircraft rent	14,119	18,263
Aircraft and traffic servicing	934	961
General and administrative	12,214	10,930
Depreciation and amortization	18,491	15,932
Total operating expenses	138,926	149,661
Operating income	39,230	15,023
Other (expenses) income, net:		
Interest expense	(14,842)	(14,131)
Interest income	156	9
Other (expense) income, net	486	(66)
Total other (expense), net	(14,200)	(14,188)
Income before taxes	25,030	835
Income tax expense (benefit)	5,949	(21,789)
Net income	$ 19,081	$ 22,624
Net income per share attributable to common shareholders		
Basic	$ 0.80	$ 2.00
Diluted	$ 0.55	$ 0.96
Weighted-average common shares outstanding		
Basic	23,903	11,294
Diluted	34,821	23,559

See accompanying notes to these condensed consolidated financial statements.

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MESA AIR GROUP, INC.

Condensed Consolidated Statement of Stockholders' Equity

(In thousands, except share amounts) (Unaudited)

	Three Months Ended December 31, 2017				
	Number of Shares	Number of Warrants	Common Stock and Additional Paid-In Capital	Retained Earnings	Total
Balance at September 30, 2017	11,294,083	12,230,625	$ 114,456	$ 107,768	$ 222,224
Stock compensation expense	—	—	428	—	428
Cumulative effect of change in accounting principle (See note 3)	—	—	—	665	665
Net income	—	—	—	22,624	22,624
Balance at December 31, 2017	11,294,083	12,230,625	$ 114,884	$ 131,057	$ 245,941

	Three Months Ended December 31, 2018				
	Number of Shares	Number of Warrants	Common Stock and Additional Paid-In Capital	Retained Earnings	Total
Balance at September 30, 2018	23,902,903	10,614,990	$ 234,683	$ 139,784	$ 374,467
Stock compensation expense	—	—	1,454	—	1,454
Stock issuance costs	—	—	157	—	157
Net income	—	—	—	19,081	19,081
Balance at December 31, 2018	23,902,903	10,614,990	$ 236,294	$ 158,865	$ 395,159

See accompanying notes to these condensed consolidated financial statements.

MESA AIR GROUP, INC.

Condensed Consolidated Statements of Cash Flows

(In thousands) (Unaudited)

	Three Months Ended December 31, 2018	2017
Cash flows from operating activities:		
Net income	$ 19,081	$ 22,624
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	18,491	15,932
Stock compensation expense	1,454	428
Deferred income taxes	5,953	(19,253)
Amortization of unfavorable lease liabilities and deferred credits	(2,736)	(2,695)
Amortization of debt financing costs and accretion of interest on non-interest-bearing subordinated notes	1,042	1,769
(Gain) loss on disposal of assets	(1)	82
Provision for obsolete expendable parts and supplies	122	62
Changes in assets and liabilities:		
Receivables	8,275	(1,442)
Expendable parts and supplies	(1,866)	(286)
Prepaid expenses and other current assets	(2,042)	6,890
Accounts payable	(2,829)	2,705
Accrued liabilities	(799)	1,296
Net cash provided by operating activities	44,145	28,112
Cash flows from investing activities:		
Capital expenditures	(26,036)	(10,312)
Sales of investment securities	4,947	—
Net returns of lease and equipment deposits	760	85
Net cash used in investing activities	(20,329)	(10,227)
Cash flows from financing activities:		
Proceeds from long-term debt	—	76,903
Principal payments on long-term debt and capital leases	(38,605)	(69,840)
Debt financing costs	(258)	(2,476)
Stock issuance costs	157	—
Net cash (used in) provided by financing activities	(38,706)	4,587
Net change in cash, cash equivalents and restricted cash	(14,890)	22,472
Cash, cash equivalents and restricted cash at beginning of period	107,134	60,347
Cash, cash equivalents and restricted cash at end of period	$ 92,244	$ 82,819
Supplemental cash flow information		
Cash paid for interest	$ 12,266	$ 8,760

Cash paid for income taxes, net	$ —	$ 21
Supplemental non-cash investing and financing activities		
Accrued capital expenditures	$ 5,635	$ —

See accompanying notes to these condensed consolidated financial statements.

MESA AIR GROUP, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Organization and Operations
About Mesa Air Group, Inc.

Headquartered in Phoenix, Arizona, Mesa Air Group, Inc. ("Mesa" or the "Company") is a holding company whose principal subsidiary, Mesa Airlines, Inc. ("Mesa Airlines"), operates as a regional air carrier providing scheduled passenger service to 121 cities in 40 states, the District of Columbia, Canada, Mexico, Cuba, and the Bahamas. As of December 31, 2018, Mesa operated a fleet of 145 aircraft with approximately 628 daily departures and 3,400 employees. Mesa operates all of its flights as either American Eagle or United Express flights pursuant to the terms of the capacity purchase agreements entered into with American Airlines, Inc. and United Airlines, Inc.

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

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

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

The sale of the Firm Shares and Option Shares raised gross proceeds of approximately $124.2 million. The Company did not receive any proceeds from the sale of the Option Shares by the selling shareholders. The Company received $111.7 million in net proceeds after deducting $8.7 million of underwriting discounts and commissions and $3.8 million in offering costs.

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

American Capacity Purchase Agreement

As of December 31, 2018, the Company operated 64 CRJ-900 aircraft for American under a capacity purchase agreement (the "American Capacity Purchase Agreement"). Unless otherwise extended or amended, the capacity purchase agreement for the aircraft expires between 2021 and 2025. In exchange for providing flights and all other services under the agreement, the Company receives a fixed monthly minimum amount per aircraft, plus certain additional amounts based upon the number of flights and block hours (the number of hours during which the aircraft is in revenue service, measured from the time of gate departure before take-off until the time of gate arrival at the destination) flown during the month. In addition, the Company may also receive incentives or pay penalties based upon the Company's operational performance, including controllable on-time departure and controllable completion percentages. American also reimburses the Company for the actual amount incurred for certain items such as passenger liability and hull insurance, and aircraft property taxes. In addition, American also provides, at no cost to the Company, certain ground

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handling and customer service functions, as well as airport-related facilities and fuel. The Company also receives a monthly profit margin payment from American based on the number of aircraft operating. The capacity purchase agreement is subject to early termination for cause under specified circumstances and subject to the Company's right to cure under certain conditions. American had a 7.2% ownership interest in the Company, calculated on a fully-diluted basis as of December 31, 2018, and September 30, 2018. The related party amounts presented on the condensed consolidated balance sheets and statements of operations pertain to American.

United Capacity Purchase Agreement

As of December 31, 2018, the Company operated 20 CRJ-700 and 60 E-175 aircraft for United under a capacity purchase agreement (the "United Capacity Purchase Agreement"). Subject to certain early termination rights, the capacity purchase agreement for each of the 20 CRJ-700 aircraft expires between August and December 2019. Subject to early termination rights, the capacity purchase agreement for 30 of the E-175 aircraft (owned by United) expires between June 2019 and August 2020, subject to United's right to extend for four additional two-year terms (maximum of eight years). Subject to early termination rights, the capacity purchase agreement for 18 of the E-175 aircraft (owned by Mesa) expires between January 2028 and November 2028. During fiscal 2017, the Company and United expanded the capacity purchase agreement to include, subject to early termination rights, an additional 12 E-175 aircraft (purchased by United) with the aircraft entering service through January 2018 for five-year terms, subject to United's right to extend for four additional two-year terms (maximum of eight years). In exchange for performing the flight services under such agreement, the Company receives from United a fixed monthly minimum amount per aircraft, plus certain additional amounts based upon the number of flights and block hours flown during the month. Additionally, certain costs incurred by the Company in performing the flight services are "pass-through" costs, whereby United agrees to reimburse the Company for the actual amounts incurred for the following items: property tax per aircraft, passenger liability insurance, and additionally for the E-175 aircraft owned by United, heavy airframe and engine maintenance, landing gear, auxiliary power units ("APU") and component maintenance. The Company also receives a profit margin based upon certain reimbursable costs under the agreement, as well as its operational performance in addition to a fixed profit margin. The capacity purchase agreement is also subject to early termination for cause under specified circumstances and subject to the Company's right to cure under certain circumstances. United is also permitted, subject to certain conditions, to terminate the agreement early in its discretion by giving us notice of 90 days or more.

In February 2018, the Company mutually agreed with United to temporarily remove two aircraft from service under its United capacity purchase agreement until the Company was able to fully staff flight operations. During the temporary removal, the Company agreed to pay the lease costs associated with the two E-175 aircraft, which totaled $1.9 million. In June 2018, the Company was able to fully staff flight operations and these two E-175 aircraft were placed back into service under the United capacity purchase agreement.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

These condensed consolidated financial statements should be read in conjunction with, the Company's audited consolidated financial statements and notes thereto as of and for the year ended September 30, 2018 included in the Company's Annual Report on Form 10-K for the year ended September 30, 2018 on file with the U.S. Securities and Exchange Commission (the "SEC"). Information and footnote disclosures normally included in financial statements have been condensed or omitted in these condensed consolidated financial statements pursuant to the rules and regulations of the SEC and GAAP. These condensed consolidated financial statements reflect all adjustments that, in the opinion of management, are necessary to present fairly the results of operations for the interim periods presented.

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

Adoption of New Revenue Standard

On October 1, 2018, the Company adopted ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09" or "Topic 606") using the modified retrospective method. See Note 3: "Recent Accounting Pronouncements" for more information. To conform to Topic 606, the Company modified its revenue recognition policy as described below.

Revenue Recognition

The Company recognizes revenue when the service is provided under its capacity purchase agreements. Under these agreements, the major airline partners generally pay a fixed monthly minimum amount per aircraft, plus certain additional amounts based upon the number of flights and block hours flown. The contracts also include reimbursement of certain costs incurred by the Company in performing flight services. These costs, known as "pass-through costs," may include passenger and hull insurance as well as aircraft property taxes. Additionally, for the E-175 aircraft owned by United, the capacity purchase agreement provides that United will reimburse the Company for heavy airframe and engine maintenance, landing gear, APUs and component maintenance. The Company also receives compensation under its capacity purchase agreements for heavy maintenance expenses at a fixed hourly rate or per aircraft rate for all aircraft in scheduled service other than the E-175 aircraft owned by United. The contracts also include a profit margin on certain reimbursable costs, as well as a profit margin, incentives and penalties based on certain operational benchmarks. The Company is eligible to receive incentive compensation upon the achievement of certain performance criteria defined in the capacity purchase agreements. At the end of each period during the term of an agreement, the Company calculates the incentives achieved during that period and recognizes revenue attributable to the agreement during the period accordingly, subject to the variable constraint guidance under Topic 606. All revenue recognized under these contracts is presented as the gross amount billed to the major airline partners.

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

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

A portion of the Company's compensation under its capacity purchase agreements with American and United is designed to reimburse the Company for certain aircraft ownership costs. The Company has concluded that a component of its revenue under these agreements is deemed to be lease revenue, as such agreements identify the "right of use" of a specific type and number of aircraft over a stated period-of-time. The lease revenue associated with the Company's capacity purchase agreements is accounted for as an operating lease and is reflected as contract revenue on the Company's condensed consolidated statements of operations. The Company recognized $54.9 million and $54.6 million of lease revenue for the three months December 31, 2018 and 2017, respectively. The Company has not separately stated aircraft rental income and aircraft rental expense in the condensed consolidated statements of operations because the use of the aircraft is not a separate activity of the total service provided.

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

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

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

Contract Liabilities

Contract liabilities consist of deferred credits for cost reimbursements from major airline partners related to aircraft modifications associated with capacity purchase agreements and pilot training. The deferred credits are recognized over time depicting the pattern of transfer of control of services resulting in ratable recognition of revenue over the remaining term of the capacity purchase agreements.

Current and non-current deferred credits are recorded to other accrued expenses and non-current deferred credits in the condensed consolidated balance sheets. The Company's total current and non-current deferred credit balances at December 31, 2018 and September 30, 2018 are $14.4 million and $15.4 million, respectively. The Company recognized $1.2 million and $1.0 million of the deferred credits to revenue in the condensed consolidated statement of operations during the three months ended December 31, 2018 and 2017, respectively.

Contract Assets

The Company recognizes assets from the costs incurred to fulfill a contract including aircraft painting and reconfiguration and flight service personnel training costs. These costs are amortized based on the pattern of transfer of the services in relation to flight hours over the term of the contract. Contract assets are recorded as other assets in the condensed consolidated balance sheets. The Company's contract assets balances at December 31, 2018 and

September 30, 2018 are $4.1 million and $4.6 million, respectively. Contract cost amortization was $0.5 million for the three months ended December 31, 2018 and 2017.

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Use of Estimates

The preparation of the Company's condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements. Actual results could differ from those estimates.

Maintenance Expense

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

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

Engine overhaul expense totaled $4.1 million, and $19.5 million for the three months ended December 31, 2018, and 2017, respectively, of which $1.5 million and $2.3 million, respectively, was pass-through expense. Airframe C-check expense totaled $1.5 million and $5.6 million for the three months ended December 31, 2018, and 2017, respectively, of which $0 million, and $3.0 million, respectively, was pass-through expense.

3. Recent Accounting Pronouncements

In May 2014, the FASB issued ASU ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("Topic 606"). Topic 606 establishes a new recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be entitled in exchange for those goods or services. On October 1, 2018, the Company adopted this ASU using the modified retrospective method. Under the new standard, the Company concluded that, in addition to the aircraft lease, the individual flights are distinct services and the flight services promised in the capacity purchase agreements represent a series of services that should be accounted for as a single performance obligation. Revenue is recognized over time as the flights are completed. The adoption of this ASU did not have an impact on recorded amounts when applied to the opening balance sheet as of October 1, 2018. The adoption did not impact the condensed consolidated financial statements presented other than the disclosures noted in Note 2.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments—Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"), which provides guidance related to the classification and measurement of financial instruments. The guidance primarily impacts the accounting for equity investments other than those accounted for using the equity method of accounting, financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. The accounting for other financial instruments, such as loans, investments in debt securities and financial liabilities is largely unchanged. The guidance is effective for fiscal years beginning after December 15, 2017 with early adoption permitted. The Company has adopted ASU 2016-01 effective October 1, 2018; the adoption of this standard did not have a material impact on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which was subsequently amended and clarified and provides guidance requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for substantially all leases, with the exception of short-term leases. Leases will be classified as either financing or operating, with classification affecting the pattern of expense recognition in the statement of income. The guidance is effective for annual periods beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the potential impact of adopting this new guidance on its condensed consolidated financial statements.

In March of 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). With this standard, all excess tax benefits and tax deficiencies are required to be recognized as income tax benefit or expense in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity also should recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company adopted ASU 2016-09 in the first quarter of the year ended September 30, 2018. This change in accounting principle has been applied on a modified retrospective transition method by means of a cumulative effect adjustment to equity as of the beginning of fiscal year 2018 as a cumulative-effect adjustment increasing deferred tax assets by $0.4 million, increasing income tax expense by $0.3 million, and increasing retained earnings by $0.7 million. Adoption of ASU 2016-09 did not have any other material effect on the Company's results of operations, financial position or cash flows.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force), which clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The new standard is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Company adopted the standard effective October 1, 2018; the adoption of this standard did not have a material impact on the financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force), that requires restricted cash and cash equivalents to be included with cash and cash equivalents on the statement of cash flows. The new standard is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Company adopted the standard effective October 1, 2018 and modified the presentation to include changes in restricted cash in the Company's Condensed Consolidated Statement of Cash Flows.

4. Concentrations

At December 31, 2018, the Company had capacity purchase agreements with American and United. All of the Company's condensed consolidated revenue for the three months ended December 31, 2018 and 2017 and accounts receivable at the end of each of these periods was derived from these agreements. The terms of both the American and United capacity purchase agreements are not aligned with the lease obligations on the aircraft performing services under such agreements.

Amounts billed by the Company under capacity purchase agreements are subject to the Company's interpretation of the applicable capacity purchase agreement and are subject to audit by the Company's major airline partners. Periodically, the Company's major airline partners dispute amounts billed and pay amounts less than the amount billed. Ultimate collection of the remaining amounts not only depends upon the Company prevailing under the applicable audit, but also upon the financial well-being of the major airline partner. As such, the Company periodically reviews amounts past due and records a reserve for amounts estimated to be uncollectible. The allowance for doubtful accounts was $1.3 million at December 31, 2018 and September 30, 2018. If the Company's ability to collect these receivables and the financial viability of its partners is materially different than estimated, the Company's estimate of the allowance could be materially impacted.

American accounted for approximately 53% of the Company's total revenue for the three months ended December 31, 2018 and 2017. United accounted for approximately 47% of the Company's revenue for the three months ended December 31, 2018 and 2017. A termination of either the American or the United capacity purchase agreement would have a material adverse effect on the Company's business prospects, financial condition, results of operations, and cash flows.

5. Intangible Assets

Information about the intangible assets of the Company at December 31, 2018 and September 30, 2018, were as follows (in thousands):

	December 31, 2018	September 30, 2018
Customer relationship	$ 43,800	$ 43,800
Accumulated amortization	(32,911)	(32,459)
	$ 10,889	$ 11,341

Total amortization expense recognized was approximately $0.5 million and $0.1 million for the three months ended December 31, 2018 and 2017, respectively. The Company expects to record amortization expense of $1.4 million for the remainder of 2019, and $1.5 million, $1.2 million, $1.0 million, $0.9 million for fiscal years 2020, 2021, 2022, and 2023 respectively.

6. Balance Sheet Information

Certain significant amounts included in the Company's condensed consolidated balance sheet as of December 31, 2018 and September 30, 2018, consisted of the following (in thousands):

	December 31, 2018	September 30, 2018
Expendable parts and supplies, net		
Expendable parts and supplies	$ 20,830	$ 18,907
Less obsolescence and other	(3,428)	(3,249)
	$ 17,402	$ 15,658
Prepaid expenses and other current assets		
Prepaid aircraft rent	$ 33,849	$ 30,267
Unutilized manufacturer credits	4,500	4,500
Deferred offering and reimbursed costs	1,925	1,945
Other	2,744	4,202
	$ 43,018	$ 40,914
Property and equipment—net		
Aircraft and other flight equipment substantially pledged	$ 1,516,680	$ 1,502,940
Other equipment	3,707	3,721
Leasehold improvements	2,836	2,754
Vehicles	842	692
Building	699	699
Furniture and fixtures	287	287
Total property and equipment	1,525,051	1,511,093
Less accumulated depreciation	(277,267)	(260,264)
	$ 1,247,784	$ 1,250,829

Other accrued expenses		
Accrued property taxes	$ 7,272	$ 6,981
Accrued interest	7,742	6,118
Accrued vacation	5,557	5,470
Accrued wheels, brakes and tires	1,459	1,452
Other	8,987	9,675
	$ 31,017	$ 29,696

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Depreciation expense totaled approximately $18.0 million and $15.8 million for the three months ended December 31, 2018 and 2017, respectively.

The Company recorded amortization of the unfavorable lease liability for approximately $1.5 million and $1.7 million for the three months ended December 31, 2018 and 2017, respectively, as a reduction to lease expense.

7. Fair Value Measurements

The carrying values reported in the condensed consolidated balance sheets for cash and cash equivalents, accounts receivable, and accounts payable approximate fair value because of the immediate or short-term maturity of these financial instruments. Marketable securities are reported at fair value based on market quoted prices in the condensed consolidated balance sheets.

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

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

	December 31, 2018		September 30, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current maturities[1]	$ 891.7	$ 889.2	$ 930.2	$ 926.2

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

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8. Long-Term Debt and Other Borrowings

Long-term debt as of December 31, 2018 and September 30, 2018, consisted of the following (in thousands):

	December 31, 2018	September 30, 2018
Notes payable to financial institution, collateralized by the underlying aircraft, due 2019[(1)(2)]	$ 1,780	$ 4,428
Notes payable to financial institution, collateralized by the underlying aircraft, due 2022[(3)(4)]	63,784	69,340
Notes payable to financial institution, collateralized by the underlying aircraft, due 2024[(5)]	69,231	72,438
Senior and subordinated notes payable to secured parties, collateralized by the underlying aircraft, due 2027[(6)]	119,701	122,591
Notes payable to secured parties, collateralized by the underlying aircraft, due 2028[(7)]	209,240	209,240
Senior and subordinated notes payable to secured parties, collateralized by the underlying aircraft, due 2028[(8)]	163,734	167,269
Senior and subordinated notes payable to secured parties, collateralized by the underlying aircraft, due 2022[(17)]	89,440	95,060
Notes payable to financial institution, collateralized by the underlying equipment, due 2022[(9)]	84,872	88,162
Senior and subordinated notes payable to secured parties, collateralized by the underlying aircraft, due 2022[(10)]	59,467	63,403
Notes payable to financial institution, collateralized by the underlying equipment, due 2020[(11)]	2,903	3,318
Notes payable to financial institution due 2020[(12)]	3,852	4,360
Notes payable to financial institution, collateralized by the underlying equipment, due 2020[(13)]	12,159	14,971
Notes payable to financial institution due 2019[(14)]	2,088	5,896
Working capital draw loan, collateralized by certain flight equipment and spare parts[(15)]	—	—
Other obligations due to financial institution, collateralized by the underlying equipment, due 2023[(16)]	9,441	9,731
Total long-term debt	891,692	930,207
Less current portion	(149,842)	(155,170)
Less unamortized debt issuance costs	(14,011)	(14,860)
Long-term debt—excluding current portion	$ 727,839	$ 760,177

(1) In fiscal 2005, the Company financed five CRJ-900 aircraft with $118 million in debt. The debt bears interest at the monthly London Inter-bank Offered Rate ("LIBOR"), plus 3% (5.503% at December 31, 2018) and requires monthly principal and interest payments.

(2) In fiscal 2004, the Company financed five CRJ-700 and nine CRJ 900 aircraft with $254.7 million in debt. The debt bears interest at the monthly LIBOR plus 3% (5.503% at December 31, 2018) and requires monthly principal and interest payments.

(3) In fiscal 2007, the Company financed three CRJ-900 and three CRJ-700 aircraft for $120.3 million. The debt bears interest at the monthly LIBOR plus 2.25% (4.753% at December 31, 2018) and requires monthly principal and interest payments.

(4)

In fiscal 2014, the Company financed 10 CRJ-900 aircraft for $88.4 million. The debt bears interest at the monthly LIBOR plus a spread ranging from 1.95% to 7.25% (4.453% to 9.753% at December 31, 2018) and requires monthly principal and interest payments.

(5) In fiscal 2014, the Company financed eight CRJ-900 aircraft with $114.5 million in debt. The debt bears interest at 5% and requires monthly principal and interest payments.

(6) In fiscal 2015, the Company financed seven CRJ-900 aircraft with $170.2 million in debt. The senior notes payable of $151 million bear interest at monthly LIBOR plus 2.71% (5.213% at December 31, 2018) and require monthly principal and interest payments. The subordinated notes payable are noninterest-bearing and become payable in full on the last day of the term of the notes. The Company has imputed an interest rate of 6.25% on the subordinated notes payable and recorded a related discount of $8.1 million, which is being accreted to interest expense over the term of the notes.

(7) In fiscal 2016, the Company financed 10 E-175 aircraft with $246 million in debt under an EETC financing arrangement (see discussion below). The debt bears interest ranging from 4.75% to 6.25% and requires semi-annual principal and interest payments.

(8) In fiscal 2016, the Company financed eight E-175 aircraft with $195.3 million in debt. The senior notes payable of $172 million bear interest at the three-month LIBOR plus a spread ranging from 2.20% to 2.32% (5.008% to 5.128% at December 31, 2018) and require quarterly principal and interest payments. The subordinated notes payable bear interest at 4.50% and require quarterly principal and interest payments.

(9) In fiscal 2017, the Company financed certain flight equipment with $99.1 million in debt. The debt bears interest at the monthly LIBOR (rounded to the nearest 16th) plus 7.25% (9.753% at December 31, 2018) and requires monthly principal and interest payments.

(10) In December 2017, the Company refinanced nine CRJ-900 aircraft with $74.9 million in debt. The senior notes payable of $46.9 million bear interest at the three-month LIBOR plus 3.50% (6.308% at December 31, 2018) and require quarterly principal and interest payments. The subordinated notes payable bear interest at the three-month LIBOR plus 4.50% (7.308% at December 31, 2018) and require quarterly principal and interest payments.

(11) In fiscal 2015, the Company financed certain flight equipment with $8.3 million in debt. The debt bears interest at 5.163% and requires monthly principal and interest payments.

(12) In fiscal 2015 and 2016, the Company financed certain flight equipment maintenance costs with $10.2 million in debt. The debt bears interest at the monthly LIBOR plus 3.07% (5.878% at December 31, 2018) and requires quarterly principal and interest payments.

(13) In fiscal 2016 and 2017, the Company financed certain flight equipment maintenance costs with $11.9 million in debt. The debt bears interest at the three-month LIBOR plus a spread ranging from 2.93% to 2.96% (5.738% to 5.768% at December 31, 2018) and requires quarterly principal and interest payments. The debt is subject to a fixed charge ratio covenant. As of December 31, 2018, the Company was in compliance with this covenant.

(14) In fiscal 2017, the Company financed certain flight equipment maintenance costs with $25 million in debt. The debt bears interest at the three-month LIBOR plus 3.30% (6.108% at December 31, 2018) and requires quarterly principal and interest payments. The debt is subject to a fixed charge ratio covenant. As of December 31, 2018, the Company was in compliance with this covenant.

(15) In fiscal 2016, the Company obtained a $35 million working capital draw loan, which terminates in August 2019. Interest is assessed on drawn amounts at one-month LIBOR plus 4.25% (6.753% at December 31, 2018). As of December 31, 2018, there were no borrowings outstanding under this facility. The working capital draw loan is subject to an interest and rental coverage ratio covenant. As of December 31, 2018, the Company was in compliance with this covenant.

(16) In February 2018, the Company leased two spare engines. The leases were determined to be capital as the leases contain a bargain purchase option at the end of the term. Imputed interest is 9.128% and the leases requires monthly payments.

(17) In June 2018, the Company refinanced six CRJ-900 aircraft with $27.5 million in debt and financed nine CRJ-900 aircraft, which were previously leased, with $69.6 million in debt. The senior notes payable of $67.3 million bear interest at the three-month LIBOR plus 3.50% (6.308% at December 31, 2018) and require quarterly principal and interest payments. The subordinated notes payable bear interest at three month LIBOR plus 7.50% (10.308% at December 31, 2018) and require quarterly principal and interest payments.

Principal maturities of long-term debt as of December 31, 2018, and for each of the next five years are as follows (in thousands):

Periods Ending September 30,	Total Principal Amount
Remainder of 2019	$ 117,339
2020	150,467
2021	144,919
2022	141,917
2023	69,232
Thereafter	267,818
	$ 891,692

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The net book value of collateralized aircraft and equipment as of December 31, 2018 was $1,140.7 million.

In December 2015, an Enhanced Equipment Trust Certificate ("EETC") pass-through trust was created to issue pass-through certificates to obtain financing for new E-175 aircraft. At December 31, 2018 Mesa has $209.2 million of equipment notes outstanding issued under the EETC financing included in long-term debt on the condensed consolidated balance sheets. The structure of the EETC financing consists of a pass-through trust created by Mesa to issue pass-through certificates, which represent fractional undivided interests in the pass-through trust and are not obligations of Mesa.

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

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

On June 27, 2018, the Company refinanced $16.0 million of debt on six CRJ-900 aircraft (due in 2019), with $27.5 million of debt, resulting in net cash proceeds to the Company of $10.4 million after transaction related fees. The notes payable require quarterly payments of principal and interest through fiscal 2022 bearing interest at LIBOR plus 3.50%.

On June 28, 2018, the Company purchased nine CRJ-900 aircraft, which were previously leased under its aircraft lease facility with Wells Fargo Bank Northwest, National Association, as owner trustee and lessor (the "GECAS Lease Facility"), for $76.5 million. The Company financed the aircraft purchase with $69.6 million in new debt and proceeds from the June 2018 refinancing of six CRJ-900 aircraft. The notes payable of $69.6 million require quarterly payments of principal and interest through fiscal 2022 bearing interest at LIBOR plus a spread ranging from 3.50% for the senior promissory notes to 7.50% for the subordinated promissory notes. The Company recorded non-cash lease termination expense of $15.1 million in connection with the lease buyout. Also, as part of the transaction, the Company (i) received $4.5 million of future goods and services credits and $5.6 million of loan forgiveness for loans with a maturity date in 2027 from the aircraft manufacturer, and (ii) mutually agreed with GE Capital Aviation Services LLC to terminate the GE Warrant to purchase 250,000 shares of common stock.

On August 14, 2018 the Company paid down the outstanding balance on the CIT Revolving Credit Facility of $25.7 million.

9. Earnings Per Share and Equity

Calculations of net income per common share attributable to Mesa Air Group were as follows (in thousands, except per share data):

	Three Months Ended December 31,	
	2018	2017
Net income attributable to Mesa Air Group	$ 19,081	$ 22,624
Basic weighted average common shares outstanding	23,903	11,294

Add: Incremental shares for:		
Dilutive effect of warrants	10,609	12,076
Dilutive effect of restricted stock	309	189
Diluted weighted average common shares outstanding	34,821	23,559
Net income per common share attributable to Mesa Air Group:		
Basic	$ 0.80	$ 2.00
Diluted	$ 0.55	$ 0.96

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Basic income per common share is computed by dividing net income attributable to Mesa Air Group by the weighted average number of common shares outstanding during the period.

The number of incremental shares from the assumed issuance of shares relating to restricted stock and exercise of warrants is calculated by applying the treasury stock method. Share-based awards and warrants whose impact is considered to be anti-dilutive under the treasury stock method were excluded from the diluted net income or loss per share calculation. In loss periods, these incremental shares are excluded from the calculation of diluted loss per share, as the inclusion of unvested restricted stock and warrants would have an anti-dilutive effect. There were no anti-dilutive shares relating to restricted stock and exercise of warrants that were excluded from the calculation of diluted loss per share for the three months ended December 31, 2018 and 2017.

10. Common Stock

The Company previously issued warrants to third parties, which had a five-year term to be converted to common stock at an exercise price of $0.004 per share. Certain persons who are not U.S. citizens currently hold outstanding warrants to purchase shares of the Company's common stock. The warrants are not exercisable due to restrictions imposed by federal law requiring that no more than 24.9% of the Company's stock be voted, directly or indirectly, or controlled by persons who are not U.S. citizens. The warrants can be converted to common stock upon warrant holders demonstrating U.S. citizenship. During June 2018, the Company extended the term of outstanding warrants set to expire by five years (through fiscal year 2023). Any warrants that were not extended were forfeited.

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

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

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

The Company's shares of common stock were listed on The NASDAQ Global Select Market under the symbol "MESA" effective August 10, 2018. On August 14, 2018, the Company completed its IPO, in which it issued and sold 9,630,000 shares of common stock, no par value, at a public offering price of $12.00 per share (the "Firm Shares"). Additionally, in connection with the IPO, the Company granted the underwriters an option to purchase up to an additional 1,444,500 shares of common stock at the same price. On September 11, 2018, the Company closed the sale of 1,344,500 shares ("Option Shares") of its common stock, in connection with the partial exercise of the overallotment option granted to the underwriters in its IPO. Of the 1,344,500 Option Shares sold, 723,985 were purchased directly from the Company and the remaining 620,515 shares were purchased directly from the selling shareholders. The Firm Shares and Option Shares were sold to the public for a price of $12.00 per share. The aggregate gross proceeds to us from the IPO were approximately $124.2 million. The Company received $111.7 million in net proceeds after deducting $8.7 million of underwriting discounts and commissions and $3.8 million in offering costs.

The Company has not historically paid dividends on shares of its common stock. Additionally, the Company's aircraft lease facility (the "RASPRO" Lease Facility) with RASPRO Trust 2005, a pass-through trust and its aircraft lease facility with Wells Fargo Bank Northwest, National Association, as owner trustee and lessor (the "GECAS Lease Facility") each contain restrictions that limit the Company's ability to or prohibit it from paying dividends to holders of its common stock.

11. Income Taxes

The Company's effective tax rate (ETR) from continuing operations was 23.8% for the three months ended December 31, 2018, and (2,609.5)% for the three months ended December 31, 2017. The quarterly ETR was significantly different from the Company's prior year ETR primarily as a result of the comprehensive tax legislation commonly referred

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to as the Tax Cuts and Jobs Act (the "Tax Act") enacted by the U.S. government on December 22, 2017, which reduced the Company's statutory federal tax rate from 35% to 21%. In addition, the Company's rate varied slightly from prior years as a result of state taxes, changes in the valuation allowance against state net operating losses, and changes in state apportionment and state statutory rates.

The Tax Act made broad and complex changes to the U.S. tax code that affected the Company's fiscal year ended September 30, 2018, including but not limited to (1) reducing the U.S. federal corporate tax rate, (2) changing rules related to uses and limitations of NOL carryforwards created in tax years beginning after December 31, 2017, (3) eliminating the corporate alternative minimum tax ("AMT") and changing how existing AMT credits can be realized, and (4) altering bonus depreciation rules that will allow for full expensing of qualified property. The Tax Act reduced the federal corporate tax rate to 21% in the Company's fiscal year ended September 30, 2018 for the period beginning after December 31, 2017. For the fiscal year ending September 30, 2019, and onward, the applicable federal corporate tax rate is 21%.

The SEC staff issued SAB 118, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete, but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act. The one year measurement period ended during the Company's first quarter ended December 31, 2018. As a result, the Company has finalized provisional amounts originally recorded in connection with the Tax Act.

In connection with the Company's initial analysis of the impact of the Tax Act, it has recorded a discrete net tax benefit of $22.4 million in the period ended September 30, 2018. The Company recorded the $22.4 million impact for the three months ended December 31, 2017, the first quarter of the fiscal year ended September 30, 2018. The Company has completed its accounting for the income tax effects of the Tax Act.

The Company's accounting for the Tax Act was completed as follows:

Reduction of U.S. federal corporate tax rate: The Act reduces the corporate tax rate to 21%, effective January 1, 2018. In the fourth quarter of the period ended September 30, 2018, the Company completed its analysis to determine the effect of the reduction of the U.S. federal corporate tax rate and recorded an adjustment of $0.9 million from the amount recorded in the first quarter of the fiscal year. Consequently, the effect for the fiscal year ended September 30, 2018 was a decrease related to the Company's net deferred tax liabilities of $22.0 million, excluding the valuation allowance. The Company also calculated an increase to its valuation allowance of $0.5 million due to the rate change. The Company recorded a corresponding net adjustment to its deferred income tax benefit of $21.5 million for the period ended September 30, 2018 as part of its completion of the accounting for Tax Act.

Elimination of Corporate AMT and Refund of AMT Credits: For tax years beginning after December 31, 2017, the corporate AMT was repealed. The Act allows the use of existing corporate AMT credits to offset regular tax liability for tax years after December 31, 2017. AMT credits in excess of regular liability are refundable in the years 2018 through 2021. At December 31, 2018, the Company had $2.5 million of AMT credits, all of which is expected to be refunded. The Company has reclassified the AMT credits to long-term receivable. In the fourth quarter of the year ended September 30, 2018, the Company had accounted for a potential sequestration of its AMT credit receivable by recording a provisional tax expense of $0.1 million for the estimated sequestration amounts withheld from its AMT credit carryovers. As a result of the IRS's recent announcement regarding Section 53(e), the Company is no longer subject to the sequestration previously mandated, and has reversed the estimated $0.1 million sequestration accrual recorded for the tax year ended September 30, 2018, resulting in an income tax benefit of $0.1 million for the tax year ended September 30, 2019. This benefit was recorded in the three months ended December 31, 2018.

Valuation allowances: The Company determined whether the federal and state valuation allowance assessments were affected by various aspects of the Tax Act. Any corresponding determinations relating to changes in valuation allowances have, likewise, been completed with no changes identified with respect to the provisional amounts recorded.

As of September 30, 2018, the Company had aggregate federal and state net operating loss carryforwards of approximately $415.1 million and $199.6 million, respectively, which expire in 2027-2037 and 2019-2038, respectively. Approximately $0.9 million of state net operating loss carryforwards are expiring in 2019.

12. Share-Based Compensation
Restricted Stock

The restricted stock activity for the three months ended December 31, 2018 were summarized as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Restricted shares unvested at September 30, 2018	1,250,625	$ 9.59
Granted	—	—
Vested	—	—
Forfeited	(14,217)	$ 12.00
Restricted shares unvested at December 31, 2018	1,236,408	$ 9.56

As of December 31, 2018, there was $11.9 million, of total unrecognized compensation cost related to unvested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 1.6 years.

Compensation cost for share-based awards are recognized on a straight-line basis over the vesting period. Share-based compensation expense for the three months ended December 31, 2018 and 2017 was $1.5 million and $0.5 million, respectively. Share-based compensation expenses are recorded in general and administrative expenses in the condensed consolidated statements of operations.

13. Commitments
At December 31, 2018, the Company leased 28 aircraft under noncancelable operating leases with remaining terms of up to 5.25 years. The Company has the option to terminate certain leases at various times throughout the lease. The Company headquarters and other facility noncancelable operating leases have remaining terms of up to 7.00 years. The leases require the Company to pay all taxes, maintenance, insurance, and other operating expenses. Rental expense is recognized on a straight-line basis over the lease term, net of lessor rebates and other incentives. Aggregate rental expense under all operating aircraft, equipment and facility leases totaled approximately $19.1 million and $21.7 million for the three months ended December, 2018 and 2017, respectively.

Future minimum lease payments as of December 31, 2018, under noncancelable operating leases are as follows (in thousands):

Periods Ending September 30,	Aircraft	Other	Total
Remainder of 2019	45,882	2,548	48,430
2020	45,534	1,943	47,477
2021	44,314	1,375	45,689
2022	29,751	1,339	31,090
2023	12,418	1,308	13,726
Thereafter	11,849	2,704	14,553
Total	$189,748	$11,217	$200,965

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

14. Contingencies

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

15. Supplemental Disclosure

The Company adopted ASU 2016-18 on a retrospective basis during the quarter ended December 31, 2018. The following is a reconciliation of the captions in the Condensed Consolidated Balance Sheets to the Condensed Consolidated Statements of Cash Flows (in thousands):

	December 31, 2018	December 31, 2017
Condensed Consolidated Balance Sheets		
Cash and cash equivalents	$ 88,600	$ 78,991
Restricted cash	3,644	3,828
Cash, cash equivalents, and restricted cash in Condensed Consolidated Statement of Cash Flows	$ 92,244	$ 82,819

The restricted cash balance primarily includes deposits in trust accounts to collateralize letters of credit and to fund workers' compensation claims, landing fees, and other business needs.

16. Subsequent Events

On January 28, 2019, the Company entered into a Term Loan Agreement (the "Term Loan") pursuant to which the lenders committed to lend to the Company term loans in the aggregate principal amount of $91,200,000. Borrowings under the Term Loan will bear interest at LIBOR plus 3.10%. This interest rate applicable to the Term Loan is significantly lower than the Company's Spare Engine Facility (defined below), which the Term Loan refinances and replaces. The Spare Engine Facility accrued interest at LIBOR plus 7.25% plus a Yield Enhancement of 1.50% applied to scheduled principal repayments. The Term Loan has a term of five years, with principal and interest payments due monthly over the term of the loan in accordance with an amortization schedule.

Proceeds from the Term Loan were used to (1) repay amounts outstanding under its spare engine financing facility entered into in fiscal year 2017 (the "Spare Engine Facility"); (2) pay prepayment fees under the Spare Engine Facility; (3) pay accrued and unpaid interest expenses; and (4) finance six engines acquired in 2018. The obligations under the Term Loan are secured by a first priority lien on 27 aircraft engines (21 used engines securing the obligations under the Spare Engine Facility and the six new and used engines acquired by the Company in calendar year 2018) and related collateral, including engine warranties and proceeds of the foregoing.

On January 29, 2019, the Board of Directors of the Company ratified the entry by its wholly owned subsidiary, Mesa Airlines, into a term sheet (the "Term Sheet") with American Airlines, Inc. ("American"), which sets forth certain proposed amendments to the American Capacity Purchase Agreement. The parties agreed that the Term Sheet will remain in effect until the earliest to occur of the following: (1) the execution a definitive amendment to the American Capacity Purchase Agreement; (2) the date American provides a withdrawal notice with respect to six additional aircraft in connection with the Company's failure to meet certain performance criteria (as discussed below); (3) the date the Company exercises its option to withdraw aircraft from the American Capacity Purchase Agreement (as discussed below); and (4) the expiration or termination of such Capacity Purchase Agreement.

The amendments to the American Capacity Purchase Agreement include the following:

The conversion of two aircraft to be utilized by Mesa Airlines as operational spares in Mesa's sole discretion throughout its system, resulting in a decrease in the number of aircraft operated by the Company under the American Capacity Purchase Agreement from 64 to 62, effective April 1, 2019. American has agreed to make certain additional monthly payments to the Company related to the two aircraft during the period April 2019 through December 2020.

The parties also agreed to new and revised operational performance criteria under the American Capacity Purchase Agreement, which if exceeded, will result in the payment of additional incentive compensation to Mesa Airlines and, if not met, could result in up to six additional aircraft being removed from the American Capacity Purchase Agreement (as discussed below). The new and revised performance criteria will be measured on a rolling 60-day period (effective May 1, 2019) and 45-day period (effective September 1, 2019 and thereafter).

The parties agreed that if at any time during the term of the Term Sheet the Company fails to comply with such revised/new operational performance metrics (as determined over the applicable rolling measurement periods), American will have the right to permanently withdraw one aircraft from the American Capacity Purchase

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Agreement and may not in any event withdraw more than two aircraft in any calendar month or six aircraft in total. In addition to American's rights, if at any time during the term of the Term Sheet the Company fails to comply with an applicable performance metric on two or more occasions, then upon the second occurrence and each subsequent failure, the Company has the right, exercisable in its discretion, to elect to permanently withdraw six aircraft from the American Capacity Purchase Agreement.

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

The following discussion and analysis of our financial condition and results of operations should be read together with our condensed consolidated financial statements, the accompanying notes, and the other financial information included elsewhere in this Quarterly Report on Form 10-Q. The following discussion contains forward looking statements that involve risks and uncertainties such as our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements below. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report on Form 10-Q, particularly in the sections titled "Cautionary Notes Regarding Forward-Looking Statements" above and "Risk Factors" below.

Overview

Mesa Airlines is a regional air carrier providing scheduled passenger service to 121 cities in 40 states, the District of Columbia, Canada, Mexico, Cuba and the Bahamas. All of our flights are operated as either American Eagle or United Express flights pursuant to the terms of capacity purchase agreements we entered into with American Airlines, Inc. (" American") and United Airlines, Inc. ("United") (each, our "major airline partner"). We have a significant presence in several of our major airline partners' key domestic hubs and focus cities, including Dallas, Houston, Phoenix and Washington-Dulles.

As of December 31, 2018, we operated a fleet of 145 aircraft with approximately 628 daily departures. We operate 64 CRJ-900 aircraft under our capacity purchase agreement with American (our "American Capacity Purchase Agreement") and 20 CRJ-700 and 60 E-175 aircraft under our capacity purchase agreement with United (our "United Capacity Purchase Agreement"). For the three months ended December 31, 2018, approximately 56% of our aircraft in scheduled service were operated for United and approximately 44% were operated for American. All of our operating revenue in our fiscal year ended September 30, 2018 (our "2018 fiscal year") and the three months ended December 31, 2018 was derived from operations associated with our American and United Capacity Purchase Agreements.

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

Components of Results of Operations

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

Operating Revenues

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

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

Pass-Through and Other. Pass-through and other revenue consists of passenger and hull insurance, aircraft property taxes, and certain maintenance costs related to our E-175 aircraft.

Operating Expenses

Our operating expenses consist of the following items:

Flight Operations. Flight operations expense includes costs related to salaries, bonuses and benefits earned by our pilots, flight attendants, and dispatch personnel, as well as costs related to technical publications, lodging of our flight crews and pilot training expenses.

Fuel. Fuel expense includes fuel and related fueling costs for flying we undertake outside of our capacity purchase agreements, including aircraft repositioning and maintenance. As of December 31, 2018, all aircraft fuel and related fueling costs for flying under our capacity purchase agreements were directly paid and supplied by our major airline partners. Accordingly, we do not record an expense or the related revenue for fuel supplied by American and United for flying under our capacity purchase agreements.

Maintenance. Maintenance includes costs related to engine overhauls, airframe, landing gear and normal recurring maintenance, which includes pass-through maintenance costs related to our E-175 aircraft, as well as maintenance lease return obligations on our leased aircraft when the expense is probable and can be reasonably estimated. We record these expenses using the direct expense method of accounting, wherein the expense is recognized when the maintenance work is completed, or over the repair period, if materially different. As a result of using the direct expense method, the timing of maintenance expense reflected in the financial statements may vary significantly period to period.

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

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

General and Administrative. General and administrative expense includes insurance and taxes, non-operational administrative employee wages and related expenses, building rents, real property leases, utilities, legal, audit and other administrative expenses.

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

Other (Expense) Income, Net

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

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

Other Expense. Other expense includes expense derived from activities not classified in any other area of the condensed consolidated statements of income, including write-offs of miscellaneous third-party fees.

Segment Reporting

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

While we operate under two separate capacity purchase agreements, we do not manage our business based on any performance measure at the individual contract level. Additionally, our chief operating decision maker uses condensed consolidated financial information to evaluate our performance, which is the same basis on which he communicates our results and performance to our Board of Directors. He bases all significant decisions regarding the allocation of our resources on a consolidated basis. Based on the information described above and in accordance with the applicable literature, management has concluded that we are organized and operated as one operating and reportable segment.

Cautionary Statement Regarding Non-GAAP Measures

We present EBITDA and EBITDAR in this Quarterly Report on Form 10-Q, which are not recognized financial measures under accounting principles generally accepted in the United States of America ("GAAP"), as supplemental disclosures because our senior management believes that they are well recognized valuation metrics in the airline industry that are frequently used by companies, investors, securities analysts and other interested parties in comparing companies in our industry.

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EBITDA. We define EBITDA as net income or loss before interest, income taxes, and depreciation and amortization.

EBITDAR. We define EBITDAR as net income or loss before interest, income taxes, depreciation and amortization, and aircraft rent.

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

Results of Operations

Three Months Ended December 31, 2018 Compared to Three Months Ended December 31, 2017

We had operating income of $39.2 million in our three months ended December 31, 2018 compared to operating income of $15.0 million in our three months ended December 31, 2017. In our three months ended December 31, 2018, we had net income of $19.1 million compared to net income of $22.6 million in our three months ended December 31, 2017. Our operating results for the three months ended December 31, 2018 reflected an increase in contract revenue primarily related to the addition of 12 E-175 aircraft under our United Capacity Purchase Agreement as well as increased flying on our CRJ fleet. We also experienced an increase in flight operations expense driven by an increase in pilot and flight attendant wages due to the additional block hours.

Our maintenance expense decreased due to the timing of significant engine overhaul events, which occurred less frequently during the three months ended December 31, 2018 than during the three months ended December 31, 2017. Our aircraft rent decreased in the three months ended December 31, 2018 compared to the same period in 2017 mainly as a result of purchasing nine CRJ-900 aircraft that were previously leased under our GECAS Lease Facility. We also saw an increase in depreciation expense primarily due to the purchase of nine CRJ-900 aircraft that were previously leased under our GECAS Lease Facility.

Operating Revenues

	Three Months Ended December 31,			
	2018	2017	Change	
Operating revenues ($ in thousands):				
Contract	$ 170,449	$ 154,389	$16,060	10.4 %
Pass-through and other	7,707	10,295	(2,588)	(25.1)%
Total operating revenues	$ 178,156	$ 164,684	$13,472	8.2 %

Operating data:				
Available seat miles—ASMs (thousands)	2,708,899	2,308,312	400,587	17.4 %
Block hours	115,000	97,705	17,295	17.7 %
Revenue passenger miles—				
RPMs (thousands)	2,111,193	1,833,459	277,734	15.1 %
Average stage length (miles)	578	548	30	5.5 %
Contract revenue per available seat				
mile—CRASM (in cents)	¢ 6.29	¢ 6.69	¢ (0.40)	(6.0)%
Passengers	3,620,115	3,311,007	309,108	9.3 %

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

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"Average stage length" means the average number of statute miles flown per flight segment.

"CRASM" means contract revenue divided by ASMs.

"RPM" means the number of miles traveled by paying passengers

Total operating revenue increased by $13.5 million, or 8.2%, during our three months ended December 31, 2018 as compared to our three months ended December 31, 2017. Contract revenue increased by $16.1 million, or 10.4%, primarily due to an increase in flying with our expanded E-175 fleet as well our CRJ-900 and CRJ-700 fleets and a decrease in credits given to our major airline partners based on contractual utilization levels. Our block hours flown during our three months ended December 31, 2018 increased 17.7% compared to the three months ended December 31, 2017 primarily due to increased flying on our E175 fleet and our CRJ-900 and CRJ-700 fleets. Our pass-through and other revenue decreased during our three months ended December 31, 2018 by $2.6 million, or 25.1%, primarily due to pass-through maintenance revenue related to our E-175 fleet.

Operating Expenses

	Three Months Ended December 31,			
	2018	2017	Change	
Operating expenses ($ in thousands):				
Flight operations	$ 53,245	$ 49,160	$4,085	8.3 %
Fuel	121	68	53	77.9 %
Maintenance	39,802	54,347	(14,545)	(26.8)%
Aircraft rent	14,119	18,263	(4,144)	(22.7)%
Aircraft and traffic servicing	934	961	(27)	(2.8)%
General and administrative	12,214	10,930	1,284	11.7 %
Depreciation and amortization	18,491	15,932	2,559	16.1 %
Total operating expenses	$ 138,926	$ 149,661	$(10,735)	7.2 %
Operating data:				
Available seat miles—ASMs (thousands)	2,708,899	2,308,312	400,587	17.4 %
Block hours	115,000	97,705	17,295	17.7 %
Average stage length (miles)	578	548	30	5.5 %
Departures	61,534	55,364	6,170	11.1 %

Flight Operations. Flight operations expense increased $4.1 million, or 8.3%, to $53.2 million for our three months ended December 31, 2018 compared to the same period in 2017. The increase was primarily driven by an increase in pilot and flight attendant wages due to the additional flying as well as a decrease in premium pilot pay to incentivize pilots to fly additional routes until additional pilots complete their training.

Fuel. Fuel expense increased $0.05 million, or 77.9%, to $0.1 million for our three months ended December 31, 2018 compared to the same period in 2017. The increase was primarily driven by an increase in controllable ferry flights, offset by a decrease in c-check fuel. All fuel costs related to flying under our capacity purchase agreements during our three months ended December 31, 2018 and 2017 were directly paid to suppliers by our major airline partners.

Maintenance. Aircraft maintenance costs decreased $14.5 million, or 26.8%, to $39.8 million for our three months ended December 31, 2018 compared to the same period in 2017. This decrease was primarily driven by a decrease in engine overhaul expense and pass through c-check expense and partially offset by an increase in component contract and rotable and expendable parts expense. During our three months ended December 31, 2018, $1.5 million of engine overhaul expenses were reimbursable by our major airline partners. Total pass-through maintenance expenses reimbursed by our major airline partners decreased by $3.2 million during our three months ended December 31, 2018.

The following table presents information regarding our maintenance costs during our three months ended December 31, 2018 and 2017 (in thousands):

	Three Months Ended December 31,			
	2018	2017	Change	
Engine overhaul	$ 2,621	$ 17,181	$(14,560)	(84.7)%
Pass-through engine overhaul	1,541	2,327	(786)	(33.8)%
C-check	1,511	2,589	(1,078)	(41.6)%
Pass-through C-check	—	3,023	(3,023)	(100.0)%
Component contracts	9,196	7,759	1,437	18.5 %
Rotable and expendable parts	7,184	5,108	2,076	40.6 %
Other pass-through	2,368	1,763	605	34.3 %
Labor and other	15,381	14,597	784	5.4 %
Total	$ 39,802	$ 54,347	$(14,545)	26.8 %

Aircraft Rent. Aircraft rent expense decreased $4.1 million, or 22.7%, to $14.1 million from for our three months ended December 31, 2018 compared to the same period in 2017. The decrease is attributable to a $3.7 million decrease in aircraft lease expense due to purchasing nine CRJ-900 which were previously leased under the GECAS Lease Facility in June 2018, and a $0.4 million decrease in engine rent.

Aircraft and Traffic Servicing. Aircraft and traffic servicing expense decreased $0.03 million, or 2.8%, to $0.9 million for our three months ended December 31, 2018 compared to the same period in 2017. The decrease is primarily due to a decrease in interrupted trip expense and partially offset by higher pass-through regulatory charges. For our three months ended December 31, 2018 and 2017, 53.4% and 47.1%, respectively, of our aircraft and traffic servicing expenses were reimbursed by our major airline partners.

General and Administrative. General and administrative expense increased $1.3 million, or 11.7%, to $12.2 million for our three months ended December 31, 2018 compared to the same period in 2017. The increase is primarily due to an increase in the amortization of our restricted stock compensation as well as an increase in property tax expense.

Depreciation and Amortization. Depreciation and amortization expense increased $2.6 million, or 16.1%, to $18.5 million for our three months ended December 31, 2018 compared to the same period in 2017. The increase is primarily attributable to an increase in depreciation expense related to the purchase of nine CRJ-900 which were previously leased under the GECAS Lease Facility. The increase was also partially related to the purchase of six spare engines and an increase in the amortization of intangibles.

Other Expense

Other expense increased $0.01 million, or 0.1%, to $14.2 million for our three months ended December 31, 2018, compared to the same period in 2017. The increase is primarily due to an increase in interest expense of $1.4 million related to the financing of nine CRJ-900 which were previously leased under the GECAS Lease Facility, financing of 23 spare engines, refinancing of fifteen CRJ-900 aircraft, our line of credit with CIT, and a deferment of certain payments under our aircraft lease facility (the "RASPRO Lease Facility") with RASPRO Trust 2005, a pass-through trust ("RASPRO"). Our expenses related to debt financing amortization decreased by $0.7 million, attributable mainly to the write-off of financing fees related to four aircraft that were refinanced in December 2017. Additionally, interest income and gains on our investments increased in the three months ended December 31, 2018, compared to the same period in 2017.

Income Taxes

In our three months ended December 31, 2018, our effective tax rate was 23.8% compared to (2,609.5)% in our three months ended December 31, 2017. Our tax rate can vary depending on changes in tax laws, adoption of accounting standards, the amount of income we earn in each state and the state tax rate applicable to such income, as well as any valuation allowance required on our state net operating losses.

The income tax provision for the three months ended December 31, 2018 results in an effective tax rate of 23.8%, which differs from the U.S. federal statutory rate of 21% due to state taxes, changes in the valuation allowance against state net operating losses, and from changes in state apportionment and state statutory rates.

The income tax provision for the three months ended December 31, 2017 results in an effective tax rate of (2,609.5)%, which differs from the U.S. federal statutory rate of 35% primarily as a result of the comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act") enacted by the U.S. government on December 22, 2017.

On December 22, 2017, the President signed into law the legislation colloquially known as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act incorporated several new provisions that will have an impact on our financial statements. Most notably, the Tax Act decreased the federal statutory rate to 24.5% for the year ending September 30, 2018, and 21% for the years ending September 30, 2019 and forward. The decrease in federal statutory rate resulted in a net tax benefit due to the remeasurement of our net deferred tax liability. The change in our future effective tax rate is not anticipated to have an effect on our taxes until all of our U.S. federal net operating losses and credits have been utilized.

Additional provisions of the Tax Act that may impact our financial statements include 100% expensing of qualified property placed in service after September 27, 2017 and before January 1, 2023, refundable minimum tax credits over a four year period, net interest expense deductions limited to 30% of earnings before interest, taxes, depreciation, and amortization through 2021 and of earnings before interest and taxes thereafter, and net operating losses incurred in tax years beginning after December 31, 2017 are only allowed to offset up to 80% of a taxpayer's taxable income. These net operating losses are allowed to be carried forward indefinitely.

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

As of September 30, 2018, we had aggregate federal and state net operating loss carryforwards of approximately $415.1 million and $199.6 million, respectively, which expire in 2027-2037 and 2019-2038, respectively. Approximately $0.9 million of state net operating loss carryforwards are expiring in 2019.

EBITDA and EBITDAR

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

	Three Months Ended December 31,	
	2018	2017
Reconciliation (in thousands):		
Net income	$ 19,081	$ 22,624
Income tax expense (benefit)	5,949	(21,789)
Income before taxes	$ 25,030	$ 835
Interest expense	14,842	14,131
Interest income	(156)	(9)
Depreciation and amortization	18,491	15,932
EBITDA	58,207	30,889
Aircraft rent	14,119	18,263
EBITDAR	72,326	49,152

Liquidity and Capital Resources

Sources and Uses of Cash

We require cash to fund our operating expenses and working capital requirements, including outlays for capital expenditures, aircraft pre-delivery payments, maintenance, aircraft rent and to pay debt service obligations, including principal and interest payments. Our cash needs vary from period to period primarily based on the timing and costs of significant maintenance events. Our principal sources of liquidity are cash on hand, cash generated from operations and funds from external borrowings. In the near term, we expect to fund our primary cash requirements through cash generated from operations and cash and cash equivalents on hand. We also have the ability to utilize our credit and guaranty agreement (the "CIT Revolving Credit Facility") pursuant to which the CIT Lenders committed to lend to Mesa Airlines and Mesa Air Group—Airline Inventory Management, LLC, ("MAG-AIM") revolving loans in the aggregate principal amount of up to $35.0 million, which was paid down with proceeds from the initial public offering ("IPO") of our common stock on August 14, 2018.

We believe that the key factors that could affect our internal and external sources of cash include:

- Factors that affect our results of operations and cash flows, including the impact on our business and operations as a result of changes in demand for our services, competitive pricing pressures, and our ability to achieve further reductions in operating expenses; and
- Factors that affect our access to bank financing and the debt and equity capital markets that could impair our ability to obtain needed financing on acceptable terms or to respond to business opportunities and developments as they arise, including interest rate fluctuations, macroeconomic conditions, sudden reductions in the general availability of lending from banks or the related increase in cost to obtain bank financing, and our ability to maintain compliance with covenants under our debt agreements in effect from time to time.

Our ability to service our long-term debt obligations, including our equipment notes, to remain in compliance with the various covenants contained in our debt agreements and to fund working capital, capital expenditures and business development efforts will depend on our ability to generate cash from operating activities, which is subject to, among other things, our future operating performance, as well as to other factors, some of which may be beyond our control.

If we fail to generate sufficient cash from operations, we may need to raise additional equity or borrow additional funds to achieve our longer-term objectives. There can be no assurance that such equity or borrowings will be available or, if available, will be at rates or prices acceptable to us.

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

Prior to our IPO, our operations had been financed primarily by cash flow from operating activities and funds from external borrowings. As of December 31, 2018, we had $88.6 million in cash and cash equivalents. In connection with our IPO, we issued and sold an aggregate of 9,630,000 shares of common stock as well as 723,985 shares of common stock from the exercise of the over-allotment option granted to the underwriters, which was exercised on September 11, 2018 at a price to the public of $12.00 per share. We received proceeds of $111.7 million, net of underwriting discounts and commissions and estimated offering costs.

During the ordinary course of business, we evaluate our cash requirements and, if necessary, adjust operating and capital expenditures to reflect the current market conditions and our projected demand. Our capital expenditures are primarily directed toward our aircraft fleet and flight equipment. In our three months ended December 31, 2018, we paid $26.0 million in capital expenditures primarily related to the purchase of five spare engines. Our capital expenditures, net of purchases of rotable spare parts and aircraft and spare engine financing, have historically been approximately 1.2% to 1.5% of annual revenues and we expect to continue to incur capital expenditures to support our business activities. Future capital expenditures may be impacted by events and transactions that are not currently forecasted.

As of December 31, 2018, our principal sources of liquidity were cash and cash equivalents of $88.6 million. In addition, we had restricted cash of $3.6 million as of December 31, 2018. Restricted cash includes certificates of deposit that secure letters of credit issued for particular airport authorities as required in certain lease agreements. Furthermore, as of December 31, 2018, we also had $776.4 million in secured indebtedness incurred in connection with our financing of 74 total aircraft. Primary uses of liquidity are capital expenditures, aircraft pre-delivery payments and debt repayments. As of December 31, 2018, we had $148.6 million of short-term debt, excluding capital leases, and $733.7 million of long-term debt excluding capital leases.

Sources of cash for the three months ended December 31, 2018 were primarily cash flows from operations of $44.1 million. This positive cash flow was driven by receipts from performance under our capacity purchase agreements.

Restricted Cash

As of December 31, 2018, we had $3.6 million in restricted cash. We have an agreement with a financial institution for a $6.0 million letter of credit facility and to issue letters of credit for landing fees, worker's compensation insurance and other business needs. Pursuant to the agreement, $3.6 million of outstanding letters of credit are required to be collateralized by amounts on deposit.

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Cash Flows

The following table presents information regarding our cash flows for each of the three months ended December 31, 2018 and 2017:

	Three Months Ended December 31,			
(in thousands)	2018		2017	
Net cash provided by operating activities	$ 44,145		$ 28,112	
Net cash used in investing activities	(20,329	)	(10,227	)
Net cash (used in) provided by financing activities	(38,706	)	4,587	
Net decrease in cash and cash equivalents	(14,890	)	22,472	
Cash and cash equivalents at beginning of period	107,134		60,347	
Cash and cash equivalents at end of period	$ 92,244		$ 82,819	

Net Cash Flow Provided By Operating Activities

During our three months ended December 31, 2018, cash flow provided by operating activities of $44.1 million reflects our growth and execution of our strategic initiatives. We had net income of $19.1 million adjusted for the following significant non-cash items: depreciation and amortization of $18.5 million, stock-based compensation of $1.5 million, deferred income taxes of $6.0 million, amortization of unfavorable lease liabilities and deferred credits of $(2.7) million and amortization of debt financing costs and accretion of interest on non-interest bearing subordinated notes of $1.0 million. We had a net change of $0.7 million within other net operating assets and liabilities largely driven by a decrease in accounts receivable primarily due to the timing of receipts from United during our three months ended December 31, 2018.

During our three months ended December 31, 2017, cash flow provided by operating activities of $28.1 million reflects our growth and execution of our strategic initiatives. We had net income of $22.6 million adjusted for the following significant non-cash items: depreciation and amortization of $15.9 million, stock-based compensation of $0.4 million, deferred income taxes of $(19.3) million, amortization of unfavorable lease liabilities and deferred credits of $(2.7) million and amortization of debt financing costs and accretion of interest on non-interest bearing subordinated notes of $1.8 million. We had net inflows of $9.2 million within other net operating assets and liabilities largely driven by aircraft lease payments during our three months ended December 31, 2017.

Net Cash Flows Used In Investing Activities

During our three months ended December 31, 2018, net cash flow used in investing activities totaled $(20.3) million. We invested $26.0 million in five spare engines and aircraft improvements offset by $4.9 from sales of investment securities.

During our three months ended December 31, 2017, net cash flow used in investing activities totaled $(10.2) million. We invested $10.3 million in two spare engines and aircraft improvements, offset partially by returns of equipment deposits.

Net Cash Flows Used In or Provided By Financing Activities

During our three months ended December 31, 2018, net cash flow used in financing activities was $(38.7) million. We made $38.6 million of principal repayments on long-term debt during the period. We also incurred $0.3 million of costs related to debt financing.

During our three months ended December 31, 2017, net cash flow provided by financing activities was $4.6 million. We received $76.9 million in proceeds from long-term debt primarily related to spare aircraft engine and aircraft engine kit financing. We made $69.8 million of principal repayments on long-term debt and incurred $2.5 million of costs related to debt financing.

Off-Balance Sheet Arrangements

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

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined in the rules and regulations of the Securities and Exchange Commission (the "SEC").

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

Critical Accounting Policies and Estimates

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

The accompanying discussion and analysis of our financial condition and results of operations is based upon our unaudited condensed consolidated interim financial statements included elsewhere in this Form 10-Q, which have been prepared in accordance with accounting principles generally accepted in the United States. We believe certain of our accounting policies are critical to understanding our financial position and results of operations. Except with respect to our revenue recognition practices included in Note 2: "Summary of Significant Accounting Policies" in the notes to our unaudited condensed consolidated financial statements included elsewhere in this Form 10-Q, there have been no changes to the critical accounting policies as explained in Part 1, Item 7 of the 2018 Form 10-K under the heading "Critical Accounting Policies."

Recently Issued Accounting Pronouncements

A description of recently issued accounting pronouncements that may potentially impact our financial position and results of operations is disclosed in Note 3: "Summary of Significant Accounting Policies" to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

As of December 31, 2018, we had $576.2 million of variable-rate debt including current maturities. A hypothetical 50 basis point change in market interest rates would have affected interest expense by approximately $2.9 million in the three months ended December 31, 2018.

As of December 31, 2018, we had $319.5 million of fixed-rate debt, including current maturities. A hypothetical 50 basis point change in market interest rates would not impact interest expense or have a material effect on the fair value of our fixed-rate debt instruments as of December 31, 2018.

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

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Quarterly Report on Form 10-Q. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and our management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

The effectiveness of any system of internal control over financial reporting, including ours, is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating, and evaluating the controls and procedures, and the inability to eliminate misconduct completely. Accordingly, in designing and evaluating the disclosure controls and procedures, management recognizes that any system of internal control over financial reporting, including ours, no matter how well designed and operated, can only provide reasonable, not absolute assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We intend to continue to monitor and upgrade our internal controls as necessary or appropriate for our business, but cannot assure you that such improvements will be sufficient to provide us with effective internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to commercial and employment litigation claims, FAA civil action proceedings and to other administrative and regulatory proceedings and reviews. We currently believe that the ultimate outcome of such claims, proceedings and reviews will not, individually or in the aggregate, have a material adverse effect on our financial position, liquidity or results of operations. Additionally, from time to time we are subject to legal proceedings and regulatory oversight in the ordinary course of our business.

Item 1A. Risk Factors

We refer you to documents filed by us with the SEC, specifically "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2018, which identify important risk factors that could materially affect our business, financial condition and future results. We also refer you to the factors and cautionary language set forth in the section entitled "Cautionary Statements Regarding Forward-looking Statements" of this Quarterly Report on Form 10-Q. This Quarterly Report on Form 10-Q, including the accompanying condensed consolidated financial statements and related notes, should be read in conjunction with such risks and other factors for a full understanding of our operations and financial condition. The risks described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2018 and herein are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

EXHIBIT INDEX

Exhibit No.	Exhibit Description
31.1	Certification of Principal Executive Officer pursuant to Rule 13(a)-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Rule 13(a)-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002
32.1*	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* This certification will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent specifically incorporated by reference into such filing.

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SIGNATURES

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

	MESA AIR GROUP, INC.
Date: February 13, 2019	By: /s/ Michael J. Lotz
	Michael J. Lotz
	President and Chief Financial Officer
	(Principal Financial Officer)

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