MESA AIR GROUP INC
Form 424B3
November 24, 2003

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Prospectus

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-108490

MESA AIR GROUP, INC.

$252,000,000

SENIOR CONVERTIBLE NOTES DUE 2023

AND

10, 011,204 SHARES OF COMMON STOCK

ISSUABLE UPON CONVERSION THEREOF

The Notes

We issued up to an aggregate of $252,000,000 Senior Convertible Notes due 2023. This prospectus covers resales by holders of the notes and shares of common stock into which the notes are convertible. We will not receive any proceeds from the resale of the notes or the underlying shares of common stock. Interest on the notes is payable semiannually in arrears on June 16 and December 16 of each year at the rate of 2.4829% per year on the principal amount at maturity, beginning December 16, 2003 until June 16, 2008. After that date, we will not pay cash interest on the notes prior to maturity. Instead, on June 16, 2023, the maturity date of the notes, a holder will receive $1,000 per note. The rate of accrual of original issue discount represents a yield to maturity of 6.25% per year, computed on a semiannual bond equivalent basis and calculated from June 16, 2003. The notes are senior unsecured obligations and rank equally with our existing and future senior unsecured indebtedness. Each of our domestic subsidiaries, including any person that becomes a domestic subsidiary, guarantees the notes on an unsecured senior basis for so long as the subsidiary is a guarantor of any of our other indebtedness. In addition, our wholly-owned foreign subsidiary, MAGI Insurance, Ltd, is a guarantor of the notes on an unsecured senior basis and we may, in certain circumstances, add any newly formed or acquired wholly-owned foreign subsidiaries as guarantors in the future.

Convertibility of the Notes

Holders may convert their notes into 39.727 shares of our common stock, subject to adjustment, only if (1) the sale price of our common stock reaches, or the trading price of the notes falls below, specified thresholds, (2) the notes are called for redemption, or (3) specified corporate transactions have occurred. Upon conversion, we will have the right to deliver, in lieu of our

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common stock, cash or a combination of cash and common stock in an amount described herein. Our common stock currently trades on the Nasdaq National Market under the symbol MESA. On August 29, 2003, the last reported closing sale price of the common stock on the Nasdaq National Market was $11.87 per share. The shares issuable upon conversion of the notes will be approved for quotation on Nasdaq. For a description of certain federal income tax consequences to the holders of the notes, see Certain Federal Income Tax Consequences.

Purchase of Notes by the Company at the Option of the Holder

Holders may require us to purchase all or a portion of their notes on June 16, 2008 at a price of $397.27 per note plus accrued cash interest, if any, on June 16, 2013 at a price of $540.41 per note plus accrued cash interest, if any, and on June 16, 2018 at a price of $735.13 per note plus accrued cash interest, if any. We may choose to pay the purchase price of such notes in cash or common stock or a combination of cash and common stock. In addition, if a change of control of the Company occurs, each holder may require us to purchase, for cash, all or a portion of such holder s notes at a price equal to the sum of the issue price plus accrued original issue discount and accrued cash interest, if any, to the date of purchase.

Redemption of the Notes at Our Option

We may redeem for cash all or a portion of the notes at any time on or after June 16, 2008, at a price equal to the sum of the issue price, plus accrued original issue discount and accrued cash interest, if any, to the redemption date.

The notes were originally issued by us in a private placement on June 16, 2003 to the initial purchasers and were simultaneously sold by the initial purchasers in transactions exempt from registration under the Securities Act, in the United States to persons reasonably believed to be qualified institutional buyers as defined in Rule 144A under the Securities Act.

Prior to this offering, the notes have been eligible for trading on the PORTAL Market of the Nasdaq Stock Market. The notes sold by means of this prospectus are not expected to remain eligible for trading on the PORTAL Market. We do not intend to list the notes for trading on any national securities exchange or on the Nasdaq National Market.

The selling securityholders may offer the notes, the shares of common stock issuable upon conversion of the notes, or the shares of common stock underlying the warrants from time to time to purchasers directly or through underwriters, dealers or agents. Such notes or the underlying common shares may be sold at market prices prevailing at the time of sale or at negotiated prices. Each selling securityholder will be responsible for payment of any and all commissions to brokers, which will be negotiated on an individual basis.

Common Stock Issuable Upon Exercise of Warrant

In February 2002, in connection with an agreement we entered into with Raytheon Aircraft Company, we issued a warrant to purchase shares of our common stock and granted certain registration rights to Raytheon. Pursuant to Raytheon s registration rights, Raytheon has elected to have us register the resale of 129,935 shares of common stock that are currently vested and issuable upon exercise of the warrant.

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We will pay the expenses of preparing and filing the registration statement to which this prospectus relates and all post-effective amendments, except Raytheon is obligated to pay its pro-rata share of the registration expenses and reasonable maintenance cost incurred in connection with the registration. See Plan of Distribution for a description of the indemnification arrangements between us and the selling securityholders.

Consider carefully the risk factors beginning on page 9 of this prospectus before investing.

Neither the SEC nor any state securities commission has approved or disapproved of the securities or passed upon the accuracy or adequacy of the disclosures in this prospectus. Any representation to the contrary is a criminal offense.

Neither the fact that a registration statement or an application for a license has been filed under Chapter 421-B of the New Hampshire Revised Statutes Annotated, 1955, as amended (RSA) with the state of New Hampshire nor the fact that a security is effectively registered or a person is licensed in the state of New Hampshire constitutes a finding by the secretary of state that any document filed under RSA 421-B is true, complete and not misleading. Neither any such fact nor the fact that an exemption or exception is available for a security or a transaction means that the secretary of state has passed in any way upon the merits or qualifications of, or recommended or given approval to, any person, security or transaction. It is unlawful to make, or cause to be made, to any prospective purchaser, customer or client any representation inconsistent with the provisions of this paragraph.

The date of this Prospectus is December 20, 2003

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WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended. You may read and copy this information at the following locations of the SEC:

Public Reference Room	North East Regional Office	Midwest Regional Office
450 Fifth Street, N.W.	233 Broadway	500 West Madison Street
Room 1024	New York, New York 10279	Suite 1400
Washington, D.C. 20549		Chicago, Illinois 60661

You may also obtain copies of this information by mail from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Room 1024, Washington, DC 20549, at prescribed rates.

The SEC also maintains an Internet web site that contains reports, proxy statements and other information about issuers that file electronically with the SEC. The address of that site is *www.sec.gov*.

This prospectus is a part of a registration statement on Form S-3 that we are filing with the SEC, but the registration statement includes additional information and also attaches exhibits that are referenced in this prospectus.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

We are incorporating by reference into this prospectus certain information we file with the SEC, which means that we are disclosing important information to you by referring you to those documents. The information incorporated by reference is deemed to be part of this prospectus, except for any information superseded by information contained directly in this prospectus. This prospectus incorporates by reference:

our annual report on Form 10-K for the fiscal year ended September 30, 2002, updated by financial information included in the current report on Form 8-K dated June 10, 2003;

our quarterly reports on Form 10-Q for the quarterly periods ended December 31, 2002, March 31, 2003 and June 30, 2003;

our proxy statement relating to our 2003 annual meeting of shareholders;

our current reports on From 8-K dated May 1, 2003, June 10, 2003, October 6, 2003, and October 14, 2003, each of which we previously filed with the SEC. These documents contain important information about us and our finances;

our filings made pursuant to Rule 425 under the Securities Act and deemed to be filed pursuant to Rules 14a-12 and 14d-2 of the Exchange Act, dated October 6, 2003, October 7, 2003, October 14, 2003, October 24, 2003, and October 29, 2003;

our preliminary consent statements filed with the SEC on October 15, 2003 and October 23, 2003; and

the description of our common stock set forth in our Registration Statement on Form 8-A filed on March 16, 1987, including any amendments or reports filed for the purpose of updating such description.

All documents we file with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 from the date of this prospectus to the end of the offering of the notes and common stock under this document shall also be deemed to be incorporated herein by reference and will automatically update information in this prospectus.

You may request a copy of these filings, at no cost, by writing or calling us at the following address or telephone number:

Corporate Secretary
Mesa Air Group, Inc.
410 North 44th Street, Suite 700
Phoenix, Arizona 85008
(602) 685-4000

Exhibits to the filings will not be sent, however, unless those exhibits have specifically been incorporated by reference in this document.

Any statements contained in a document incorporated by reference in this prospectus shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus (or in any other subsequently filed document which also is incorporated by reference in this prospectus) modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed to constitute a part of this prospectus except as so modified or superseded.

Important Notice About the Information Presented In This Prospectus

You should rely only on the information provided in this prospectus and the information incorporated by reference. We have not authorized anyone to provide you with different information. The selling securityholders are not offering to sell, or seeking offers to buy, the notes or underlying shares in any state where offers or sales are not permitted. We do not claim the accuracy of the information in this prospectus as of any date other than the date stated on the cover.

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PROSPECTUS SUMMARY

This summary highlights selected information from this prospectus and does not contain all of the information that you need to consider in making your investment decision. You should carefully read the entire prospectus, including the risks of investing discussed under Risk Factors beginning on page 9, the information incorporated by reference, including our financial statements, and the notes to those statements, and the exhibits to the registration statement of which this prospectus is a part.

References in this prospectus to Mesa Air, the Company, we, us, and our refer to Mesa Air Group, Inc. and its subsidiaries, unless otherw specified.

Mesa Air Group, Inc.

Mesa Air Group, Inc., together with its subsidiaries, is an independently owned regional airline serving 162 cities in 41 states, the Bahamas, Canada and Mexico. At June 30, 2003, we operated a fleet of 141 aircraft and had approximately 1,079 daily departures.

Approximately 98% of our consolidated passenger revenues for the fiscal year ended September 30, 2002 and the fiscal nine months ended June 30, 2003 were derived from operations associated with code-share agreements. Our subsidiaries have code-share agreements with America West Airlines, Inc., Frontier Airlines, Inc., Midwest Airlines, Inc., and US Airways, Inc. These code-share agreements allow use of the code-share partner s reservation system and flight designator code to identify flights and fares in computer reservation systems, permit use of logos, service marks, aircraft paint schemes and uniforms similar to the code-share partner s and provide coordinated schedules and joint advertising. The financial arrangement between us and our code-share partners involves either a revenue-guarantee or pro-rate arrangement. Under the terms of our revenue-guarantee flying agreements, we receive a guaranteed payment based upon a fixed minimum monthly amount plus additional amounts related to departures and block hours flown in addition to direct reimbursement for expenses such as fuel, landing fees and insurance. Revenue-guarantee arrangements reduce our exposure to fluctuations in passenger traffic and fare levels, as well as fuel prices. Under the terms of our pro-rate agreements, we receive an allocated portion of the passengers fare and are at risk for all of the costs of transporting the passengers. For the 2002 fiscal year and the fiscal quarter ended June 30, 2003, 75% and 84%, respectively, of our consolidated passenger revenues were derived from our revenue-guarantee code-share agreements.

Our airline operations are conducted by three wholly-owned regional airline subsidiaries: Mesa Airlines, Inc., Air Midwest, Inc. and Freedom Airlines, Inc. Mesa Airlines operates as America West Express under a revenue-guarantee code-share agreement with America West Airlines, Inc., as US Airways Express under a revenue-guarantee code-share agreement with US Airways, Inc., and as Frontier JetExpress under a revenue-guarantee code-share agreement with Frontier Airlines, Inc. On July 6, 2003, Mesa Airlines began operating as United Express out of Denver under a revenue-guarantee code-share agreement with United Airlines, Inc. Air Midwest operates as US Airways Express under a pro-rate code-share agreement with US Airways, Inc., as America West Express under a pro-rate code-share agreement with America West Airlines, Inc. and also operates an independent division, doing business as Mesa Airlines, Inc., from Albuquerque,

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New Mexico and Dallas, Texas. Air Midwest also has a pro-rate code-share agreement with Midwest Airlines, Inc. in Kansas City on flights operated as US Airways Express. Freedom Airlines operates as America West Express pursuant to the Company s revenue-guarantee code-share agreement with America West.

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

Recent Developments

On October 18, 2002, we reached agreement with US Airways to expand our regional jet agreement with them by adding twenty 50-seat regional jets to our existing US Airways Express fleet of 32 regional jet aircraft. As of July 31, 2003, the Company has placed 17 of the twenty additional regional jets into the US Airways Express network.

On February 27, 2003, we signed a memorandum of understanding with United Airlines to operate as United Express under a revenue-guarantee code-share agreement. Under the agreement that was finalized on July 24, 2003, the Company will provide ten 37-passenger de Havilland Dash 8-200 aircraft to be utilized in support of United s operations in Denver. Four of the ten aircraft have been placed into service as of July 31, 2003 for an initial term of five years.

On March 1, 2003, Mesa amended its code-share agreement with Frontier Airlines to change it from a pro-rate agreement to a revenue-guarantee agreement through August 31, 2003. The Company operates five CRJ-200 aircraft under this agreement. On July 1, 2003, the Company amended its agreement with Frontier Airlines to extend its revenue-guarantee code-share agreement through January 1, 2004.

On March 18, 2003, we reached an agreement for a new contract with the Air Line Pilots Association (ALPA), which represents our 1,300 pilots. The new contract, among other things, provides for participation in the US Airways Jets for Jobs regional jet expansion program. The contract, which has a duration of 54 months, was subsequently ratified by the Company s pilots in March 2003.

On June 13, 2003, the Company entered into a letter of intent with LogisTechs Inc. (LogisTechs), an affiliate of GE Capital Aviation Services, for the sale, repair and management of the Company s aircraft spare parts inventory. Under the terms of the letter of intent, LogisTechs is expected to purchase $45.0 million in existing spare parts inventory from the Company and provide funding for up to $40.0 million of additional inventory required for the Company s planned regional jet fleet growth. LogisTechs will also provide overall management, planning and logistics support for the Company s spare parts requirements and Rockwell Collins Aviation Services will be responsible for managing the spare parts repair process. The arrangement will cover all of the Company s regional jets as well as its Dash 8-200 turboprop aircraft. The transaction, which remains subject to final documentation, will have a term of ten years.

On July 1, 2003, the Company signed a memorandum of understanding with United Airlines to operate 35 regional jets as a United Express carrier, significantly expanding its current code-share

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agreement with United. The 35 regional jets include 20 larger 70-seat and 15 50-seat aircraft. United also has the option to add an additional 25 regional jets, the timing and mix to be determined at a later date. The expanded agreement, which remains subject to final documentation, is expected to be effective in August 2003, and unless extended, has a final expiration of December 2013.

On July 9, 2003, the Company signed a letter of intent with US Airways for a minimum of 25 and a maximum of 55 CRJ-700 regional jets. Under the terms of the letter of intent, the aircraft would be provided by US Airways from its previously announced order from Bombardier. Under the letter of intent, the aircraft are anticipated to be put in service no later than December 31, 2004. The transaction contemplated by the letter of intent is subject to reaching a definitive agreement on terms and conditions with US Airways. The agreement, if finalized, is expected to conform to the Jets for Jobs provisions of the US Airways collective bargaining agreement with ALPA.

On October 6, 2003, the Company announced that it had made an unsolicited proposal to the board of directors Atlantic Coast Airlines Holdings, Inc. to acquire all the outstanding stock of Atlantic Coast whereby the Company would issue 0.9 of a share of its common stock for each Atlantic Coast share. In connection with such proposal, the Company, on October 15, 2003, filed with the SEC the necessary documents to commence a shareholder consent solicitation to replace Atlantic Coast s current board of directors with independent directors who we believe will give fair consideration to our proposal and announced its intention to make an exchange offer for all the outstanding shares of common stock of Atlantic Coast subject to certain conditions. We believe that our nominees, if elected, would take such action, to the extent that it is in the best interest of the Atlantic Coast stockholders to (i) remove the impediments to the consideration of the Company s exchange offer/merger proposal and any alternative proposals arising pursuant to that certain Rights Agreement, dated as of January 27, 1999, between Atlantic Coast and Continental Stock Transfer & Trust Company, and (ii) exempt the Company s exchange offer/merger proposal, or any other alternative transaction from the restrictions of Section 203 of the Delaware General Corporation Law. We also intend to file with the SEC a Registration Statement on Form S-4 with respect to the issuance of our common stock in connection with the offer to exchange Mesa shares directly with Atlantic Coast shareholders.

In connection with our proposal, several lawsuits have been filed. On October 28, 2003, Atlantic Coast filed a complaint against Mesa Air in the United States District Court for the District of Columbia alleging that Mesa Air has made materially false and misleading statements and omissions in violation of the federal securities laws in connection with its proposed consent solicitation and potential exchange offer. Atlantic Coast s complaint alleges, among other things, that (i) Mesa Air failed to disclose United Airlines as a participant in its consent solicitation and proposed transaction; (ii) Mesa Air s bid to acquire all of Atlantic Coast s outstanding stock is motivated by its desire to use Atlantic Coast s cash on hand to resolve Mesa Air s difficulties in obtaining financing for additional aircraft purchases; (iii) Mesa Air CEO Jonathan Ornstein and other Mesa Air insiders sold a substantial number of Mesa shares in September 2003, shortly before Mesa Air announced its takeover bid of Atlantic Coast; (iv) other stock transactions produced short-swing profits subject to Section 16(b) of the Securities Exchange Act of 1934, as amended, which requires a corporate insider to disgorge any profit from such transactions; (v) Mesa Air s directors, who have determined that an acquisition of Atlantic Coast would be in Mesa Air s best interest and are proposing a transaction in which the stockholders of Atlantic Coast would receive shares of Mesa Air common stock, are not sufficiently independent and have engaged in

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self-dealing; and (vi) several of Mesa Air s nominees to Atlantic Coast s board of directors are subject to conflicts of interest that would impair their ability to fulfill their fiduciary obligations to Atlantic Coast. Atlantic Coast in its complaint seeks injunctive relief with respect to its allegations. We believe the Atlantic Coast lawsuit is without merit, and we intend to contest the allegations set forth in Atlantic Coast s complaint.

On October 29, 2003, Mesa Air filed a lawsuit in the Court of Chancery of the State of Delaware seeking to require the Atlantic Coast board to comply with the proper procedures under Delaware law and the Atlantic Coast by-laws with respect to fixing a record date for the consent solicitation and commencing the 60-day solicitation period. The lawsuit alleges that the action taken by the Atlantic Coast board to set a record date of October 23, 2003 impedes Atlantic Coast s shareholders ability to exercise their voting rights and right to receive superior value for their shares.

On November 12, 2003, the Company reached agreement with United Airlines on terms for regional jet service to United should the Company succeed in its bid to acquire Atlantic Coast Airlines.

We were incorporated in Nevada in 1996, and our principal executive offices are located at 410 North 44th Street, Suite 700, Phoenix, Arizona 85008. Our telephone number is (602) 685-4000. Our website address is www.mesa-air.com. Information on our website does not constitute part of this prospectus.

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THE NOTES

Notes	$252,000,000 aggregate principal amount at maturity of Senior Convertible Notes due 2023. Each note was issued at a price of $397.27 per note and has a principal amount at maturity of $1,000.
Maturity	June 16, 2023.
Cash Interest	2.4829% per year on the principal amount at maturity, payable semiannually in arrears in cash on June 16 and December 16 of each year, beginning December 16, 2003, until June 16, 2008. This cash interest is taxable to holders as part of the original issue discount for United States federal income tax purposes and accordingly, is taxed to a holder as it accrues regardless of the holder s method of tax accounting. However, a holder will not recognize any income upon the actual payment of such cash interest. See Certain United States Federal Income Tax Considerations.
Yield-to-Maturity of Notes	6.25% per year, computed on a semiannual bond equivalent basis and calculated from June 16, 2003.
Original Issue Discount	We offered our notes at an issue price significantly below the principal amount at maturity of the notes. As a result, the notes are treated as issued with original issue discount, which accrues daily at a rate of 6.25% per year beginning on June 16, 2008, calculated on a semiannual bond equivalent basis using a 360-day year comprised of twelve 30-day months. For United States federal income tax purposes, U.S. holders will be required to include original issue discount in their gross income as it accrues regardless of their method of tax accounting. See Certain United States Federal Income Tax Considerations.
Conversion Rights	For each note surrendered for conversion, if the conditions for conversion are satisfied, a holder will receive 39.727 shares of our common stock subject to adjustment. In lieu of delivering shares of our common stock upon conversion of all or any portion of our notes, we may elect to pay holders surrendering notes cash or a combination of cash and shares of our common stock for the notes surrendered. If we elect to pay holders cash for their notes, the payment will be based on the average sale price of our common stock for the five consecutive trading days

immediately following either:

- the date of our notice of our election to deliver cash, which we must give within two business days after receiving a conversion notice, unless we have earlier given notice of redemption as described in this prospectus; or
- the conversion date, if we have given notice of redemption specifying that we intend to deliver cash upon conversion thereafter.

The conversion rate may be adjusted for certain reasons, but will not be adjusted for accrued original issue discount, cash interest or interest payable upon the occurrence of a tax event. Upon conversion, a holder will not receive any cash payment representing accrued original issue discount or any accrued cash interest. Instead, accrued original issue discount or accrued cash interest will be deemed paid by the shares of common stock received by the holder on conversion.

Holders may surrender notes for conversion into our shares of common stock in any fiscal quarter commencing after June 30, 2003, if, as of the last day of the preceding fiscal quarter, the closing sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of such preceding fiscal quarter is more than 110% of the accreted conversion price per share of common stock on the last day of such preceding fiscal quarter. If the foregoing condition is satisfied, then the notes will be convertible at any time at the option of the holder, through maturity. The accreted conversion price per share as of any day will equal the issue price of a note plus accrued original issue discount to that day, divided by the conversion rate, subject to any adjustments to the conversion rate through that day. The conversion rate is calculated by dividing the original issue price by $10.00.

On or before June 16, 2018, a holder also may convert its notes into shares of our common stock at any time after a 10 consecutive trading-day period in which the average of the trading prices for the notes for that 10 trading-day period was less than 103% of the average conversion value for the notes during that period. Conversion value is equal to the product of the closing sale price for our shares

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	of common stock on a given day multiplied by the then current conversion rate.
	Notes or portions of notes in integral multiples of $1,000 principal amount at maturity called for redemption may be surrendered for conversion until the close of business on the second business day prior to the redemption date. In addition, if we make a distribution to our stockholders with a per share value of more than 15% of the sale price of our common stock on the date immediately preceding the declaration of such distribution, or if we are a party to certain consolidations, mergers or binding share exchanges, in addition to any adjustment to the conversion rate as a result of distribution, consolidation, merger or exchange, notes may be surrendered for conversion, as provided in Description of the Notes Conversion Rights. The ability to surrender notes for conversion will expire at the close of business on June 16, 2023.
Ranking	The notes are senior unsecured obligations and will rank equal in right of payment to all of our other unsecured and unsubordinated indebtedness. The notes are effectively subordinated to our secured indebtedness to the extent of the security.
	As of June 30, 2003, we had $210.6 million of senior indebtedness outstanding, which consisted of $102.1 million of notes payable related to the Company s fleet of Beechcraft l900D turboprop aircraft, $100.1 million related to the issuance of the senior convertible notes, $4.1 million related to the settlement of past contractual claims of an aircraft manufacturer, $1.8 million related to the Department of Transportation note payable, $1.0 million related to a mortgage note payable on one of our real estate properties and other miscellaneous debt totaling $1.5 million. We also had $18.5 million in letters of credit outstanding at June 30, 2003.
Guarantees	Each of our existing subsidiaries is a guarantor of the notes and all future wholly-owned domestic subsidiaries will be required to guarantee the notes on a senior unsecured basis. Each of our non-domestic subsidiaries and non-wholly-owned domestic subsidiaries is required to guarantee the notes only so long as such subsidiary guarantees other indebtedness of ours, except MAGI Insurance, Ltd, which has guaranteed the notes. Each

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	guarantee of a guarantor will be equal in right of payment to all existing and future unsecured and unsubordinated indebtedness of such guarantor. The guarantees are effectively subordinated to secured indebtedness of the guarantors to the extent of the security. As of June 30, 2003, the guarantors had an aggregate of $203.2 million of senior secured indebtedness outstanding, which consisted of $102.1 million of notes payable related to the Company s fleet of Beechcraft 1900D turboprop aircraft, $100.1 million related to the issuance of the senior convertible notes and $1.0 million related to a mortgage note payable on one of our real estate properties. The Company also had $18.5 million in letters of credit outstanding at June 30, 2003.
Sinking Fund	None.
Redemption of Notes at Our Option	We may redeem for cash all or a portion of the notes at any time on or after June 16, 2008, at redemption prices equal to the sum of the issue price plus accrued original issue discount and accrued cash interest, if any, to the applicable redemption date. See Description of the Notes Redemption of Notes at Our Option.
Purchase of the Notes by Mesa Air	Holders may require us to purchase all or a portion of their notes at the option of the Holder on each of the following dates at the following prices, plus accrued cash interest, if any, to the purchase date: on June 16, 2008 at a price of $397.27 per note; on June 16, 2013 at a price of $540.41 per note; and on June 16, 2018 at a price of $735.13 per note. We may pay the purchase price in cash or shares of our common stock or in a combination of cash and shares of our common stock. If we elect to pay the purchase price, in whole or in part, in shares of our common stock, the number of shares we deliver will be equal to the portion of the purchase price to be paid in common stock divided by the market price of a share of common stock.
Change of Control	Upon a change of control of Mesa Air, the holders may

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	require us to purchase for cash all or a portion of their notes at a price equal to the sum of the issue price plus accrued original issue discount and accrued cash interest, if any, to the date of purchase.
Optional Conversion to Semiannual Coupon Notes upon Tax Event	From and after the occurrence of a tax event, as described hereinafter, at our option, interest in lieu of future accrued original issue discount or cash interest will accrue on each note from the option exercise date at 6.25% per year, calculated on a semiannual bond equivalent basis, on the restated principal amount and will be payable semiannually. Any such interest in lieu of original issue discount or cash interest will be computed in the same manner and payable at the same time as the cash interest and will accrue from the most recent date to which cash interest, if payable, has been paid or provided for or, if no cash interest is payable or has been paid or provided for, the option exercise date. In such event, the redemption price, purchase price and change of control purchase price will be adjusted, as described herein. However, there will be no change in the holder s conversion rights. See Description of the Notes Optional Conversion to Semiannual Coupon Notes upon Tax Event.
DTC Eligibility	The notes were issued in fully registered book-entry form and are represented by one or more permanent global notes without coupons. Global notes have been deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company in New York, New York. Beneficial interests in global notes are shown on, and transfers thereof are effected only through, records maintained by DTC and its direct and indirect participants, and your interest in any global note may not be exchanged for certificated notes, except in limited circumstances described herein. See Description of the Notes Book-Entry System.
Trading	We do not intend to list the notes on any national securities exchange. However, the notes are eligible for trading in PORTAL. The notes are new securities for which there is currently no public market.

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THE COMMON STOCK

This prospectus covers, and the registration statement of which it is a part, registers the 10,011,204 shares of common stock issuable upon conversion of the notes, plus the 129,935 shares of common stock issuable upon exercise of the warrant we issued to Raytheon.

The shares issued upon the conversion of the notes or the exercise of the Raytheon warrant are subject to specified anti-dilution provisions set forth in the indenture relating to the notes and the warrant purchase agreement.

As of November 11, 2003, we had 31,719,074 shares of common stock outstanding. Our common stock is traded on the Nasdaq National Market under the symbol MESA.

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Forward-Looking Statements

This prospectus contains certain forward-looking statements that involve a number of risks and uncertainties. These statements include, without limitation, information regarding the replacement, deployment, acquisition and financing of certain numbers and types of aircraft, and projected expenses associated therewith; costs of compliance with Federal Aviation Administration regulations and other rules and acts of Congress; the ability to pass taxes, fuel costs, inflation, and various expenses to our customers; the resolution of litigation in a favorable manner; and certain projected financial obligations. These statements, in addition to statements made in conjunction with the words expect, anticipate, intend, plan, believe, seek, estimate and similar expressions, are forward-looking statements within the meaning of the Safe Harbor provision of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to future events or the future financial performance of the Company and only reflect management s expectations and estimates. The following is a list of factors, among others, that could cause actual results to differ materially from the forward-looking statements:

- changing business conditions in certain market segments and industries;
- changes in our code-share relationships;
- the inability of our code-share partners to pay their respective obligations under their revenue-guarantee code-share agreements;
- an increase in competition along the routes we operate or plan to operate;
- material delays in completion by the manufacturer of the ordered and yet-to-be delivered aircraft;
- our ability to profitably manage our turboprop fleet;
- adverse reaction and publicity that might result from any future incidents;
- availability and cost of funds for financing new aircraft;
- changes in general and/or regional economic conditions;
- changes in fuel price or fuel supplies;
- our relationship with employees and the terms of future collective bargaining agreements;
- the impact of current and future laws;
- additional terrorist attacks;
- Congressional investigations, and governmental regulations affecting the airline industry and our operations;

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bureaucratic delays;

amendments to existing legislation;

consumer unwillingness to incur greater costs for flights;

unfavorable resolution of negotiations with municipalities for the leasing of facilities; and

risks associated with litigation outcomes.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this prospectus to conform them to actual results. We do not, nor does any other person, assume responsibility for the accuracy and completeness of those statements. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed under the caption Risk Factors.

We caution the reader that these risk factors may not be exhaustive. We operate in a continually changing business environment, and new risk factors emerge from time to time. Management cannot predict such new risk factors, nor can it assess the impact, if any, of such new risk factors on our businesses or the extent to which any factor or combination of factors, may cause actual results to differ materially from those projected in any forward-looking statements. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur.

For these statements, we claim the protection of the safe harbor for forward-looking statements contained in Section 21E of the Securities Act.

You should carefully read this prospectus and the documents incorporated by reference in their entirety. They contain information that you should consider when making your investment decision.

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RISK FACTORS

In addition to the other information contained in this prospectus and in the documents incorporated herein by reference, including our consolidated financial statements and the related notes, you should carefully consider the following factors. If any of the following risks actually occurs, our business could be harmed.

Risks Related to the Offering of the Notes

We have a significant amount of fixed obligations that could impair our ability to make principal and interest payments on our debt obligations, including the notes, and lease payments on our lease obligations.

We have, and will continue to have, a significant amount of fixed obligations. Due to our high fixed costs, including aircraft lease obligations and debt service, a decrease in revenues results in a disproportional greater percentage decrease in earnings. As of June 30, 2003, we had approximately $2.0 billion of future lease obligations payable over the next 16 years and, after giving pro forma effect to the offering and the application of our net proceeds from the offering, we would have had approximately $210.6 million of indebtedness outstanding (including current maturities), comprised of $102.1 million outstanding under notes payable related to the Company s fleet of Beechcraft 1900D turboprop aircraft, $100.1 million outstanding related to the issuance of the senior convertible notes, $4.1 million related to the settlement of past contractual claims of an aircraft manufacturer, $1.8 million related to Department of Transportation note payable, $1.0 million related to a mortgage note on one of our real estate properties and other miscellaneous debt totaling $1.5 million. In addition, we had $18.5 million in letters of credit outstanding at June 30, 2003 under our credit facility with Fleet Capital Corporation.

Our outstanding indebtedness and lease obligations could have important consequences to you. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to these notes;
- limit our ability to obtain additional financing for funding the expansion of our aircraft fleet, capital expenditures, acquisitions, working capital or other purposes;
- require us to dedicate a material portion of our operating cash flow to fund interest payments on our indebtedness, thereby reducing funds available for the expansion of our aircraft fleet, capital expenditures, acquisitions, working capital and other purposes; and
- reduce our flexibility in responding to changing business and economic conditions, including reacting to any changes in the relationships we have with our code-share partners.

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Your right to receive payments on the notes is effectively subordinated to the rights of our and the guarantors existing and future secured creditors. The notes, in certain other circumstances, may effectively be subordinated to any existing and future liabilities of Mesa Air and its subsidiaries.

Holders of our secured indebtedness and the secured indebtedness of the guarantors will have claims that are senior to your claims as holders of the notes to the extent of the value of the assets securing that other indebtedness. Notably, we and our subsidiaries are parties to the revolving line of credit agreement with Fleet Capital Corporation, which is secured by, among other things, inventory, receivables and equipment of Mesa Air and our subsidiaries. The notes are effectively subordinated to our revolving line of credit and other secured indebtedness. In the event of any distribution or payment of our assets in any foreclosure, dissolution, winding-up, liquidation, reorganization, or other bankruptcy proceeding, holders of secured indebtedness will have prior claim to those assets that constitute their collateral. Holders of the notes will participate ratably with all holders of our unsecured indebtedness that is deemed to be of the same class as the notes, and potentially with all of our other general creditors, based upon the respective amounts owed to each holder or creditor, in our remaining assets. In any of the foregoing events, we cannot assure you that there will be sufficient assets to pay amounts due on the notes. As a result, holders of notes may receive less, ratably, than holders of secured indebtedness.

As of June 30, 2003, the aggregate amount of our and our subsidiaries senior secured indebtedness was $203.2 million, which consisted of $102.1 million outstanding under notes payable related to the Company s fleet of Beechcraft 1900D turboprop aircraft, $100.1 million outstanding related to issuance of the senior convertible notes, and $1.0 million related to a mortgage note on one of our real estate properties. In addition, the Company had $18.5 million in letters of credit outstanding at June 30, 2003. Our revolving line of credit agreement provides for revolving credit borrowings of up to $35 million aggregate principal amount.

In addition, the notes effectively are subordinated to all existing and future liabilities, including claims with respect to trade payables, of any subsidiary which is not a guarantor of the notes. All of our existing wholly-owned domestic subsidiaries are guarantors of the notes and all future wholly-owned domestic subsidiaries will be required to guarantee the notes. In addition, our wholly-owned foreign subsidiary, MAGI Insurance, Ltd, is a guarantor of the notes on an unsecured senior basis and we may, in certain circumstances, add any newly formed or acquired wholly-owned foreign subsidiaries as guarantors in the future. Each of our other non-domestic subsidiaries and non-wholly-owned domestic subsidiaries is required to guarantee the notes only so long as such subsidiary guarantees other indebtedness of ours. As a result, in the future, we may have subsidiaries that are not guarantors of the notes.

Furthermore, if we fail to deliver our common stock upon conversion of a note and thereafter become the subject of bankruptcy proceedings, a holder s claim for damages arising from such failure could be subordinated to all of our and our subsidiaries existing and future obligations.

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Our financial results may be adversely impacted if we are subsequently held liable for the obligations of our former subsidiary CCAir, Inc.

In the fourth quarter of fiscal 2002 we established a reserve related to CCAir of $19.8 million for restructuring and impairment charges. Of these restructuring charges, $12.0 million was subsequently reversed in the second quarter of fiscal 2003, upon the Company s determination, after consultation with counsel, that the Company is not liable for the aircraft lease obligations and aircraft related return costs incurred solely by CCAir and not guaranteed by the Company. In the event this determination is challenged and the Company is subsequently determined to be liable for such CCAir obligations, our financial results and our ability to make payments on the notes could be adversely impacted.

We are a holding company, and we may not have access to the cash flow and other assets of the subsidiaries that may be needed to make payment on the notes.

Although substantially all of our business is conducted through our subsidiaries, none of our subsidiaries is obligated to make funds available to us for payment on our indebtedness, including the notes. Accordingly, our ability to make payments on the notes is dependent on the earnings and the distribution of funds from our subsidiaries. Furthermore, the guarantors are permitted under the terms of our indebtedness to incur additional indebtedness that may severely restrict or prohibit the making of distributions, the payment of dividends or the making of loans by the guarantors to us. We cannot assure you that the agreements governing the current and future indebtedness of the guarantors will permit the guarantors to provide us with sufficient dividends, distributions or loans to fund payments on these notes when due.

The notes have been issued at a substantial discount from their principal amount and, therefore, trigger certain U.S. federal income tax consequences for the holders of the notes.

The notes have been issued at a substantial discount from their principal amount. Consequently, the notes are treated as issued with original issue discount for U.S. federal income tax purposes and you will be required to include such original issue discount in your gross income as it accrues for U.S. federal income tax purposes in advance of receipt of any payment on the notes to which the original issue discount is attributable. To understand how this may affect you, you should seek advice from your own tax advisor prior to purchasing these notes. See Certain Federal United States Income Tax Considerations for a more detailed discussion of the U.S. federal income tax consequences to the holders of the notes of the purchase, ownership and disposition of the notes.

Our existing debt includes restrictive and financial covenants that limit our operating flexibility.

Our revolving line of credit agreement contains covenants that, among other things, restrict our ability to take specific actions in certain situations, even if we believe them to be in our best interest. These covenants include restrictions on our ability to:

- incur additional debt, pay dividends or distributions on, or redeem or repurchase, our capital stock, if specified borrowing availability does not exist under the credit agreement;

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- create liens or negative pledges with respect to our assets;
- issue, sell or allow distributions on capital stock of our subsidiaries;
- enter into transactions with affiliates, on terms more favorable than an arm s length transaction;
- merge, consolidate or sell our assets; or
- make capital expenditure investments in excess of specified sums.

In addition, our revolving line of credit agreement contains financial covenants which require us to comply with specified financial ratios and tests relating to fixed charge coverage and total debt to equity. Our failure to meet these financial covenants may result in the accelerated repayment of debt or cash collateralization of our outstanding letters of credit under our revolving line of credit agreement.

We may not have the ability to purchase the notes at the option of the holders upon certain changes in control or to raise the funds necessary to finance such purchases.

Upon the occurrence of certain specific kinds of change of control events, we will be required to offer to purchase all outstanding notes. Such a change of control may be a default under the terms of our revolving line of credit agreement. In such event, the lenders under our revolving line of credit agreement could accelerate that indebtedness, causing an event of default under the notes. If the change of control were to cause a default under the revolving line of credit agreement, we would be required to repay our outstanding indebtedness and cash collateralize our outstanding letters of credit under our revolving credit facility, in addition to being required to repurchase notes at the option of the holders. As a result, we may not have or be able to raise sufficient funds to make the required purchase of notes, repay the outstanding indebtedness and cash collateralize our outstanding letters of credit under our revolving credit facility.

Federal and state statutes allow courts, under specific circumstances, to void guarantees and require note holders to return payments received from guarantors.

Under the federal bankruptcy law and comparable provisions of state fraudulent transfer laws, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that guarantor, if, among other things, at the time it incurred the indebtedness evidenced by its guarantee, the guarantor received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee and the guarantor

- was insolvent or rendered insolvent by reason of such incurrence;
- was engaged in a business or transaction for which the guarantor s remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

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In addition, any payment by that guarantor pursuant to its guarantee could be voided and required to be returned to the guarantor, or to a fund for the benefit of the creditors of the guarantor.

The measures of insolvency for purposes of these fraudulent transfer laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, a guarantor would be considered insolvent if:

- the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all of its assets;
- if the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or
- it could not pay its debts as they become due.

On the basis of historical financial information, recent operating history and other factors, we believe that each guarantor, after giving effect to its guarantee of these notes, will not be insolvent, will not have unreasonably small capital for the business in which it is engaged and will not have incurred debts beyond its ability to pay such debts as they mature. We cannot assure you, however, as to what standard a court would apply in making these determinations or that a court would agree with our conclusions in this regard.

An active trading market for the notes may not develop, and transfers of the notes may be restricted.

The notes comprise a new issue of securities for which there is currently no public market. The notes will not be listed on any securities exchange or included in any automated quotation system. We do not know whether an active trading market will develop for the notes. If the notes are traded after their initial issuance, they may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, the price of our common stock, the performance of our common stock in the marketplace, our performance as a company and other factors. We do not intend to apply for listing of the notes on any securities exchange or other stock market.

After we have registered the notes and the shares of underlying common stock, we will have the right, pursuant to the registration rights agreement, to suspend the use of the shelf registration statement in certain circumstances. In the event of such a suspension, you would not be able to sell any notes or shares of common stock issuable upon conversion of the notes.

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Risks Related to Our Business

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

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

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

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

- The adverse impact that terrorist attacks, and the resulting government responses, will have on the travel industry and the economy in general;
- The potential increase in fuel costs and decrease in availability of fuel if oil-producing countries are affected by the aftermath of the terrorist attacks, including the government s responses, and our ability to manage this risk in connection with that part of our operations where our fuel costs are not reimbursed by our code-share partners under the terms of our code-share agreements;
- Our ability to reduce our operating costs and conserve financial resources, taking into account the cost increases (including significant increases in the cost of aviation insurance) expected to result from the aftermath of the terrorist attacks and the government s responses;
- Any resulting decline in the value of the aircraft in our fleet;
- Our ability to raise additional financing, if necessary, taking into account our current leverage and the limitations imposed by the terms of our existing indebtedness;

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The number of crew members who may be called for duty in the reserve forces of the armed services and the resulting impact on our ability to operate as planned; and

The scope and nature of any future terrorist attacks.

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

We depend on relationships created by our code-share agreements. We derive a significant portion of our consolidated passenger revenues from our revenue-guarantee code-share agreements with America West and US Airways. Our code-share partners have certain rights to cancel the applicable code-share agreement upon the occurrence of certain events or the giving of appropriate notice, subject to certain conditions. Although no notice has been given to date that any party intends to cancel these contracts, there can be no assurance that they will not serve notice at a later date of their intention to cancel, forcing us to stop selling those routes with the applicable partner s code and potentially reducing our traffic and revenue. In addition, our code-share agreement with America West allows America West, subject to certain restrictions, to reduce the number of aircraft covered by the code-share agreement, provided the requisite notice provisions are met. America West has used this provision to reduce the number of aircraft covered by the code-share agreement and there can be no assurance that they will not continue to further reduce the number of covered aircraft.

In addition, because a majority of our operating revenues are currently generated under revenue-guarantee code-share agreements, if any one of them is terminated, our operating revenues and net income could be materially adversely affected unless we are able to enter into satisfactory substitute arrangements or, alternatively, fly under our own flight designator code, including obtaining the airport facilities and gates necessary to do so. In 2002 and for the nine months ended June 30, 2003, our America West code-share agreement accounted for 40% and 45%, respectively, of our consolidated passenger revenues and our US Airways code-share agreement accounted for 55% and 50%, respectively, of our consolidated passenger revenues. Any material modification to, or termination of, our code-share agreements with any of these partners could have a material adverse effect on our financial condition, the results of our operations and the price of our common stock. In addition, in July 2003, Mesa Airlines began operating as United Express out of Denver in July 2003 under a revenue-guarantee code-share agreement with United Airlines, Inc. Should any of our revenue-guarantee code-share agreements be terminated, we cannot assure you that we would be able to enter into substitute code-share arrangements, that any such arrangements would be as favorable to us as the current code-share agreements or that we could successfully fly under our own flight designator code.

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

We are directly affected by the financial and operating strength of our code-share partners. Any events that negatively impact the financial strength of our code-share partners or have a long-term effect on the use of our code-share partners by airline travelers would likely have a material adverse effect on our business, financial condition and results of operations. In the event of a decrease in the financial or operational strength of any of our code-share partners, such partner may seek to reduce, or be unable to make, the payments due to us under their code-share agreement.

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In addition, they may reduce utilization of our aircraft. Although there are certain monthly guaranteed payment amounts, there are no minimum levels of utilization specified in the code-share agreements. Further, it is possible that if any of our code-share partners becomes bankrupt, our code-share agreement with such partner may not be assumed in bankruptcy and would be terminated. Any such event could have an adverse effect on our business, financial condition and results of operations. In addition, any negative events that occur to other regional carriers and that affect public perception of such carriers generally could also have a material adverse effect on our business, financial condition and results of operations.

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

We depend on major airlines like US Airways and America West electing to contract with us instead of purchasing and operating their own regional jets. However, these major airlines possess the resources to acquire and operate their own regional jets instead of entering into contracts with us or other regional carriers. We have no guarantee that in the future our code-share partners will choose to enter into contracts with us instead of purchasing their own regional jets or entering into relationships with competing regional airlines. A decision by US Airways, America West or any other code-share partners to phase out our contract-based code-share relationships or to enter into similar agreements with one or more of our competitors could have a material adverse effect on our business, financial condition or results of operations. As part of its bankruptcy restructuring, US Airways and Mesa Airlines entered into an agreement to increase the number of regional jets Mesa Airlines operates as US Airways Express from 32 to 52 regional jets. In addition to Mesa Airlines and certain of our other wholly-owned subsidiaries, US Airways has similar code-share agreements with Midway Airlines, TransStates Airlines, Chautauqua Airlines and Republic Airlines. Mesa Airlines is currently America West s only code-share partner.

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

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

At June 30, 2003, we had approximately 3,400 employees, a significant number of whom are members of various labor unions, including the Air Line Pilots Association and the Association of Flight Attendants. Our collective bargaining agreement with the Air Line Pilots Association expires in August 2007 and our collective bargaining agreement with the Association of Flight Attendants expires in June 2006. The inability to negotiate acceptable contracts with existing unions as agreements expire or with new unions could result in work stoppages by the affected workers, lost revenues resulting from the cancellation of flights and increased operating costs as a result of higher wages or benefits paid to union members. We cannot predict which, if any, other employee groups

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may seek union representation or the outcome or the terms of any future collective bargaining agreement and therefore the effect, if any, on our financial condition and results of operations. If negotiations with unions over collective bargaining agreements prove to be unsuccessful, following specified cooling off periods, the unions may initiate a work action, including a strike, which could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

The price and supply of jet fuel is unpredictable and fluctuates based on events outside our control, including geopolitical developments, regional production patterns and environmental concerns. Although approximately 87% of our fuel costs for the fiscal quarter ended June 30, 2003 were reimbursed by our code-share partners, price escalations or reductions in the supply of jet fuel will increase our operating expenses and, to the extent such fuel costs are not reimbursed by our code-share partners, could cause our operating results and net income to decline.

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

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

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

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

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aircraft. We believe that the cost to maintain our aircraft in the long-term will be consistent with industry experience for these aircraft types and ages used by comparable airlines.

We believe that our aircraft are mechanically reliable based on the percentage of scheduled flights completed and currently the average age of our regional jet fleet is 2.7 years. However, there can be no assurance that such aircraft will continue to be sufficiently reliable over longer periods of time. Furthermore, any public perception that our aircraft are less than completely reliable could have a material adverse effect on our business, financial condition and results of operations.

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

The airline business is very capital intensive and, as a result, many airline companies are highly leveraged. During the fiscal years ended September 30, 2001 and 2002, our debt service payments totaled $25.8 million and $17.4 million, respectively, and our lease payments totaled $87.4 million and $109.1 million, respectively. During the nine months ended June 30, 2002 and 2003, our debt service payments totaled $15.1 million and $11.7 million, respectively, and our lease payments totaled $62.9 million and $94.7 million, respectively. We have significant lease obligations with respect to our aircraft and ground facilities, which aggregated approximately $2.0 billion at June 30, 2003. As of June 2003, we have taken delivery of 15 Bombardier CRJ-700 and CRJ-900s. Our current growth strategy involves the acquisition of 75 more Bombardier and 4 more Embraer regional jets between 2003 and 2004. We have permanently financed 11 of the 15 Bombardier CRJ-700 and CRJ-900 aircraft already delivered. The other four aircraft are the subject of interim financing, and we have a commitment in place for interim financing for the next eight Bombardier CRJ-700 and CRJ-900 deliveries. In addition, we have commitments in place from Bombardier to provide the permanent debt financing on leveraged leases of 20 aircraft and from Embraer to provide the permanent debt financing on leveraged leases of four aircraft. After that, there is no assurance that we will be able to obtain permanent financing on the interim financed aircraft or that we will be able to obtain financing for future aircraft deliveries. If we are able to obtain financing for these aircraft, it will significantly increase our mandatory lease and debt service payments.

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

- increasing the cost, or limiting the availability of, additional financing for working capital, acquisitions or other purposes;
- limiting the ways in which we can use our cash flow, much of which may have to be used to satisfy debt and lease obligations; and

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

If we need funds and cannot