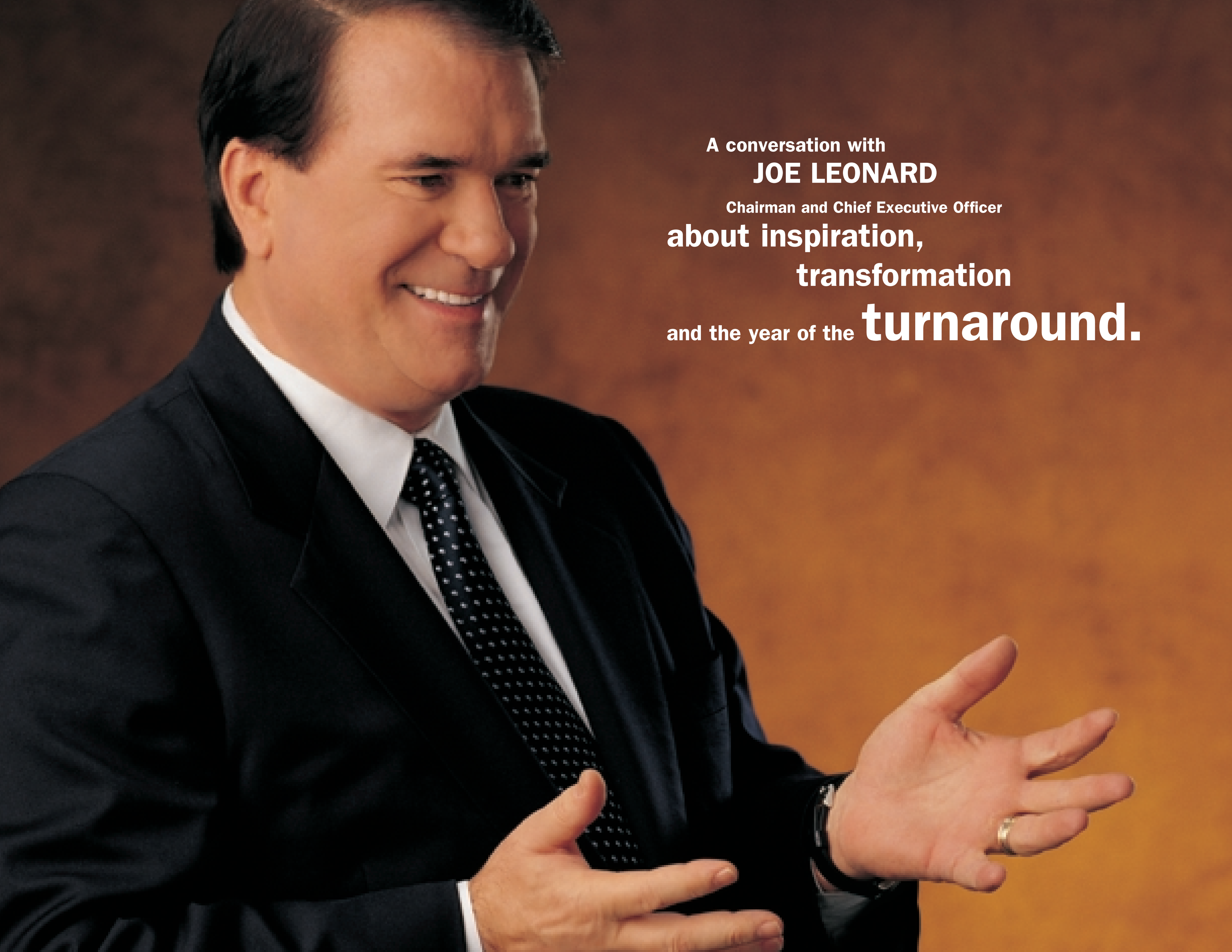
turn around 1999

AirTran Holdings, Inc.
Annual Report

1999



A conversation with

JOE LEONARD

Chairman and Chief Executive Officer

about inspiration, transformation and the year of the turnaround.

How would you describe the company's performance last year?

To put it simply, 1999 was an amazing year for our company. It marked an unequivocal turnaround in operational and financial health. Our plans to reduce costs, boost revenues and sustain profitability were tremendously successful. Our strategies not only produced solid results last year, they created a strong foundation upon which we will build even greater value for our employees, our customers and our shareholders for years to come.

What were the key financial results of the turnaround?

For starters, AirTran Airways, Inc., produced operating profits in each quarter of 1999. Excluding a non-cash fleet disposition charge and the gain from a litigation settlement, we generated net earnings for the year of $29.1 million on operating revenues of $523.5 million, up 19.2 percent from 1998. AirTran Airways ended the year with $76.2 million in cash, an improvement of $51.8 million from the end of 1998.

And, how about traffic?

We attracted greater passenger traffic without sacrificing yield. In fact, yield increased 8.0 percent over 1998. Our revenue per available seat mile (RASM) rose 15.1 percent, higher than any major airline in the industry, while operating cost per available seat mile rose only 3.5 percent. And, we did all this in the face of fierce competition, higher fuel prices, Hurricane Floyd and a variety of other challenges.

What did the company do to get such positive results?

By focusing on our established routes from our Atlanta hub last year, we were able to achieve all-time record traffic, capacity and passenger enplanements. Load factor for 1999 rose to 63.5 percent, an increase of 3.9 points over 1998. That's a 7.1 percent gain in revenue passenger miles (RPMs), to 3.5 billion RPMs, on 0.5 percent more capacity, or 5.5 billion available seat miles (ASMs). More than 6.4 million passengers flew with us in 1999, up from 5.5 million in 1998.

By virtually any measure, our 1999 numbers are solid. But the impression from 1999 that will endure, that best signified the company's turnaround, was that of AirTran Airways' first Boeing 717-200 touching down at Hartsfield Atlanta International Airport on the 24th of September. After years of anticipation, that new aircraft and the 49 Boeing 717s that follow, embody AirTran Airways' transformation into an airline of the future.

How does the Boeing 717 benefit the company?

As the most passenger-friendly aircraft in its class, the Boeing 717 will add dramatic operating efficiencies to our already low cost structure. Despite impressive power, its engines burn as much as 23 percent less fuel per hour than the DC-9. With up to 60 percent fewer parts in its environmental, avionics and electrical systems, the Boeing 717 will also significantly lower our fleet's maintenance and inventory costs. The new aircraft should reduce our overall seat-mile costs.

How did the company finance the new aircraft?

First, let me say that our Boeing 717 financing marks our successful re-entry into the capital markets since 1997 and demonstrates that the financial community believes in AirTran Airways' turnaround. We financed our first ten Boeing 717s with proceeds from the private placement of $178.9 million aggregate principal amount of enhanced equipment trust certificates (EETCs).

As part of our fleet disposition strategy, we have also sold a total of thirteen DC-9-30 aircraft in 1999. AirTran Airways will continue to operate seven of those DC-9s through lease financing arrangements. We will continue to retire our older aircraft, as conditions dictate, while we bring more Boeing 717s into service—eight new 717s are expected in 2000, sixteen in 2001, and eighteen in 2002. At that point, we will have one of the youngest jet fleets in the nation.

In addition to Boeing 717s, what else contributed to the operational and financial turnaround?

Throughout 1999, we accomplished several other key strategic goals outlined at the beginning of last year. We strengthened our hub operations at Hartsfield Atlanta International Airport in September by restructuring our connecting banks. Recently, we also increased the number of AirTran Airways' gates from 18 to 22. We improved customer-service training by implementing an extensive and ongoing program aimed at further developing an environment of Caring Customer Service. And we expanded our route system to serve Newark and the new Beau Rivage Resort in Gulfport/Biloxi, entering only those markets that offered attractive returns.

But, the biggest reason for our tremendous success in 1999 is our people. We have nearly 4,000 of the most dedicated and enthusiastic employees in the industry. Without them, we could not have achieved our extraordinary turnaround.

What does the future hold for the company?

We have a simple long-term vision for our success. We will strive to grow by being an industry leader. After all, the world doesn't need another ordinary airline. But, millions of people will value an airline that changes things for the better. That means constantly working to be the best in safety, technology and Caring Customer Service.

We achieved things in 1999 few people thought possible. Our leadership team and employees are ready and eager to continue the good fight and make more airline history in 2000.

“Turnaround Team”

From left to right: David Lancelot, VP-Finance & Controller; Steve Rossum, VP-Treasurer;
Klaus Goersch, VP-Flight Operations; Bob Fornaro, President & CFO; Loral Blinde, VP-Human Resources;
Steve Kolski, Sr. VP-Operations; Joe Leonard, Chairman & CEO; Barry Carter, VP-Information Services & CIO;
Marilyn Rogers, Sr. VP-Customer Service; Leslie Head, VP-General Counsel; Kevin Healy, VP-Planning

Delivery schedule

NUMBER OF 717s	8	8	16	18	(24)	(26)
YEAR OF DELIVERY	1999	2000	2001	2002	2003	2004

( ) denotes option aircraft

BOEING 717: EQUIPPED FOR THE FUTURE

AirTran Airways took delivery of not only its first new Boeing 717-200 in September, but also the first-ever Boeing 717 aircraft, making us one of the youngest carriers to be a launch customer for a new aircraft.

In May, the first Boeing 717-200 production-configured airplane, painted in AirTran Airways' livery, successfully completed a simulated airline tour. The tour, known as the Pre-Aircraft Certification Airline Simulated Operation (PACASO), was used to demonstrate the Boeing 717's operational performance as well as our ground support capabilities. During this ten-day tour, the plane made stops in each of our markets and was part of media events in Atlanta, Orlando and New York.

After the successful completion of this tour, we began pilot, flight attendant, dispatch and maintenance training. When it was time to bring the first plane home, a group of employees with perfect attendance records flew to Boeing's Long Beach, California, facility for a delivery ceremony before returning to Atlanta for a press conference. Georgia Governor Roy Barnes joined Joe Leonard, chairman and CEO, Bob Fornaro, president and CFO, and Boeing officials in welcoming the new plane to Hartsfield Atlanta International Airport and the AirTran Airways' fleet. The plane entered revenue service on October 14 and flew its first flight between Hartsfield Atlanta International Airport and Dulles International Airport near Washington, D.C.

Designed for AirTran Airways

The new Boeing 717 was designed specifically for efficient, short-haul service, fast turnaround at airport gates and the ability to sustain eight to ten one-hour flights each day. With a range of more than 1,500 statute miles, the Boeing 717 gives us the opportunity to serve markets not previously feasible. In addition to the performance reliability and flexibility this plane brings to our fleet, it is among the most modern, quiet, comfortable and safe airplanes available today. It is the cornerstone of our future growth.

Smart Interior

The Boeing 717's all-new, spacious interior provides considerable improvement in passenger comfort.

- 117 seats in mixed class configuration–12 Business Class, 105 coach class
- 18 percent increased capacity in *EasyFit* overhead bins (same storage capacity per person as Boeing's 747 aircraft)
- 100 percent fresh air circulation throughout the cabin
- Quiet, in-cabin experience
- Five-across coach class seating, reducing the number of middle seats to only 21
- Three lavatories with baby-changing stations
- Moveable armrests on 85 percent of the aisle seats, for passengers with special needs
- Backlit handrails along the *EasyFit* overhead bins

Flight Deck Advancements

The Boeing 717's two-crew flight deck was created for the 21st century with the most modern and proven avionics technology of any airplane in its class. Pilots from AirTran Airways, as well as other airlines, met with Boeing engineers for nearly two years to design a flight deck that would be as modern tomorrow as it is today.

- Six interchangeable liquid crystal display units, enabling convenient replacements
- Global Positioning System
- Honeywell flight guidance system
- Dual flight management system
- Enhanced ground proximity warning system
- Predictive windshear detection and guidance

Financially Superior

The new aircraft eventually will replace most of our DC-9s and all of our Boeing 737 fleet. The 717s are expected to impact our bottom line by:

- Increasing average seats per departure by more than eight percent (106 to 117)
- Dramatically reducing costs due to:
  - *Increased fuel efficiency of the BRR-715 engine, created by BMW/Rolls-Royce, allowing it to fly nearly 400 miles farther on the same amount of fuel*
  - *Lower maintenance efforts*
  - *14 percent lower operating costs (estimated)*

It is estimated that if AirTran Airways were to fly an entire fleet of Boeing 717s today, we could save as much as $65 million in operating costs annually.

Financing

The end of 1999 brought an important milestone in the turnaround of AirTran Airways' completion of the financing for ten of the new Boeing 717 aircraft. We completed the private placement of $178.9 million aggregate principal amount of enhanced equipment trust certificates (EETCs), and the proceeds from the offering will finance the first ten airplanes.

Our unique Business Class seating continues its incredible success as usage doubled from 1998 to 1999. Our Business Class passengers enjoy two-by-two, extra-wide seating, seven inches more legroom than coach, double A-Plus Rewards credits and two complimentary drinks.

THE BUSINESS OF BUSINESS

Business travelers are our most valued customers. When choosing an airline, they look for more than low fares. They look for, and come back for, the best value. And they find it in AirTran Airways.

Since its introduction nearly three years ago, Business Class seating continues to set our airline apart from other affordable-fare carriers. In all of our aircraft, Business Class passengers enjoy two-by-two seating in the front cabin, an extra-wide seat and seven inches more legroom than coach seating. Thanks to these innovations, Business Class usage doubled from 308,671 segments in 1998 to 630,665 segments in 1999.

We also continue to provide unique upgrade options to appeal to these customers. This year, AirTran Airways customers could upgrade to Business Class at the gate for just $25 over regular fares. Due to the popularity and wide acceptance of this program, we also developed our "J4COACH" fare, which allows customers connecting through Atlanta to fly Business Class for the price of a full coach fare. These passengers are confirmed in Business Class at the time of booking and receive one A-Plus Rewards® credit toward our frequent flier program.

As an added convenience for business travelers, we began accepting the Air Travel Card as a form of payment for AirTran Airways flights. The Air Travel Card, or Universal Airline Travel Plan, is widely used by major U.S. corporations for greater control and flexibility over air travel expenses. More than 75 Fortune 100 companies use the card. The card will be cost-effective for AirTran Airways due to its lower interchange fee as compared to other credit cards.

Actively increasing our corporate accounts has also helped us further establish ourselves with the business flier. By year-end 1999, we had close to 1,000 signed corporate accounts, including agreements with companies ranging from Fortune 500 companies to small- and medium-sized businesses.

All of the above attributes have contributed to the development of a loyal customer base for our unique Business Class seating.

A-PLUS REWARDS®

Our innovative frequent flier program, A-Plus Rewards,® still offers "the fastest free ticket on earth." In addition, the past two years we have partnered with American Express® to allow card members to earn additional flight credits even faster when they purchase travel with their American Express Card.

The A-Plus Rewards® program allows travelers redemption without having to worry about becoming a member of a club or reaching outrageous mileage requirements. While most airlines' frequent flier rewards programs start at 25,000 miles, just three roundtrips in our Business Class, or six in coach, earn fliers a free roundtrip coach ticket on AirTran Airways to any of our 30 destinations. And just six Business Class roundtrips, or 12 in coach, earn a free roundtrip coach ticket on one of 14 other airlines from Atlanta to cities in the continental U.S. not served by AirTran Airways.

During 1999, more than 42,000 free tickets were issued to customers participating in the A-Plus Rewards® program.

AN INTERNET LEADER

The Internet has allowed AirTran Airways to communicate more directly with customers than ever before. Our Internet site has been recognized as one of the most functional, user-friendly sites on the Net. Special deals on last-minute, unsold seats, called Net Escapes, offer tremendous discounts to different destinations each week for last-minute travelers. Due to the overwhelmingly positive response our Net Escapes promotional fares program received in 1998, we continued the weekly Web-based promotions throughout 1999. Outstanding site functionality and product offerings have made AirTran Airways an industry leader in passenger bookings through our site—16.7 percent as of the fourth quarter 1999.


Gate
C14
Gate
C16

Nearly six and a half million passengers flew with us in 1999. We achieved all-time record traffic, capacity and passenger enplanements as we focused on improving existing routes and adding flights to include new markets.

FIDS IN ATLANTA

One example of our increasing presence as the number two airline at the Hartsfield Atlanta International Airport, the world's busiest airport, was the introduction of AirTran Airways' FIDS, or Flight Information Display System. Displaying all of our flights for a three- to four-hour time window, these digital screens are located throughout the "C" Concourse, behind our main ticket counter and near the security check point. In addition to public areas, there are also mini-displays at each AirTran Airways' gate, in the AirTran Airways' crew lounge, maintenance facility, station agent break room and some supervisor and administrative offices. These screens keep our customers informed and our employees better equipped to help our passengers get where they need to go.

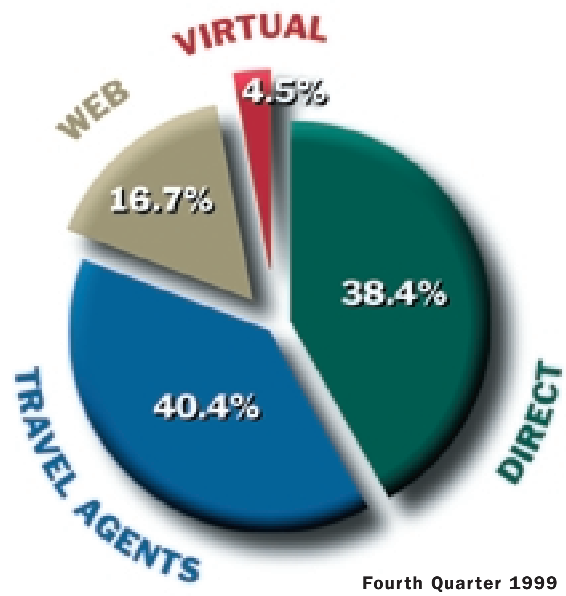
COMPETITIVE PRICING

AirTran Airways has consistently maintained its competitive edge by offering our customers low fares and a variety of choices in travel times. By understanding that time and money often determine how and when our customers travel, we have been able to successfully cater to the needs of cost-conscious business and leisure travelers.

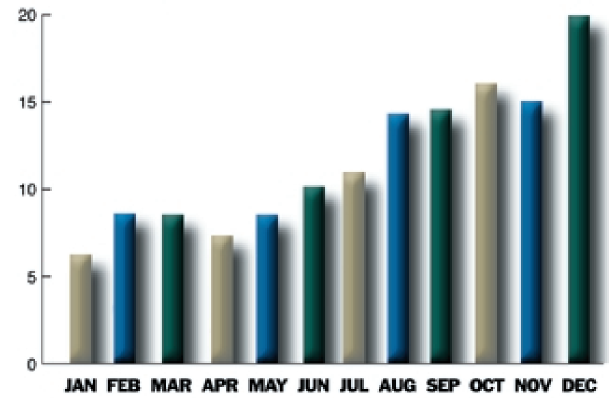
In 1999, we continued to provide passengers with low fares by reintroducing our Grade "A" Deals for limited periods. These special sale fares enabled customers to fly between AirTran Airways' markets for $37 to $109 each way. We also continued our policy of never requiring a roundtrip purchase or Saturday night stay. In addition to low fares, AirTran Airways prides itself on providing travelers with assigned seating, one more attribute that sets us apart from other affordable-fare carriers.

CHANGING DISTRIBUTION CHANNELS

The past year brought change in the way AirTran Airways distributes our product for sale to customers. In 2000, we expect the shift in distribution channels to continue. In 1997, 92 percent of passenger bookings came direct (i.e., through Reservations Sales) while 8 percent came through travel agents. By the end of 1999, 38.4 percent of total passenger bookings came direct, 4.5 percent came through virtual agencies (i.e., Expedia, Travelocity, Preview Travel, etc.), 16.7 percent came through our Web site, www.airtran.com, and 40.4 percent came through travel agents.



Fourth Quarter 1999 Bookings by Distribution



1999 Percent of Internet Booking by Month: (airtran.com)

Bookings Via Our Web Site

Booking travel on our Internet site, we believe, is faster and easier than booking through sites operated by competitors and online travel services. In fact, *Travel Agent* magazine gave our Web site an "A" for the user friendliness of its online booking engine, reporting it as "simple" and "elegant," and praising the site's ability to vary travel dates by up to two days before or after the desired travel date.

AirTran.com is an industry leader in terms of percentage of passengers booked through an airline-owned Web site. AirTran Airways' Internet vision continues to be focused solely on revenue generation. Travelers booking on our Web site are automatically presented with a range of departure-time and connection travel options, starting with the least expensive flights available. Business Class reservations are also available through the simple, easy-to-use site.

Intellimedia Commerce of Atlanta, Georgia, maintains the site for AirTran Airways while BellSouth, also of Atlanta, hosts the site at one of its many facilities.

Increase in Travel Agent Business

In addition to increases in Internet travel purchases, AirTran Airways' bookings via travel agents have increased from eight percent of total bookings in 1997 to 40.4 percent in the fourth quarter 1999. This substantial jump is due in large part to our continued efforts to meet the needs of the business traveler and to increase our volume of corporate business.

In the past few years, we've added a Business Class any business can afford, an innovative A-Plus Rewards® program and even assigned seating, where the best customers get the best seats. In 1999, we actively focused on obtaining more corporate business, as evidenced by our growth in corporate agreements, and will continue to maintain that focus throughout 2000.

To that end, AirTran Airways joined the four major CRS (computer reservation system) vendors so that our product is now displayed in all travel agencies, thus making it easier for our product to be sold.

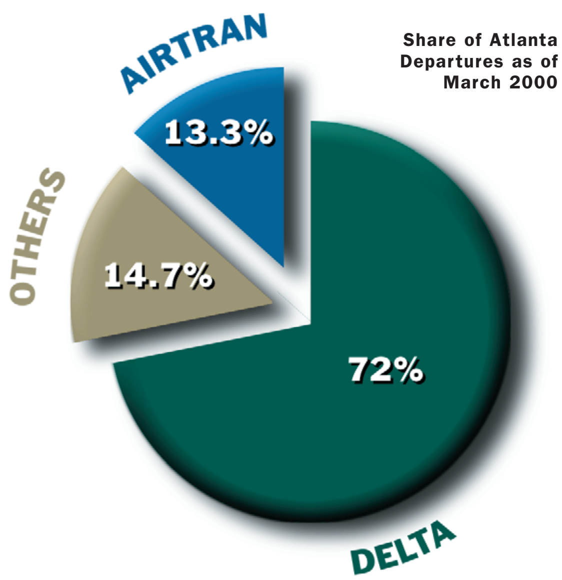
In late 1999, we further enhanced our relationship with travel agents by allowing them to book travel for their clients online at airtran.com. By booking on airtran.com, agencies and corporations deal directly with AirTran Airways, thus reducing our distribution costs, as there are neither ticketing nor CRS fees. By allowing travel agents to book reservations directly on our Web site, AirTran Airways saves money, allowing us to pass savings along to our customers.

Through this system, travel may be booked in all classes, and, most importantly, all fares booked through the travel agent section are eligible for the standard travel agent commission.

Our efforts did not go unnoticed. We are proud to have been named the "Best Domestic Airline" by the Southeast chapter of the American Society of Travel Agents (ASTA) at the 1999 ASTA World Congress in Strasbourg, France.

NEW GATES IN ATLANTA

Our success in Atlanta is obvious, as we have already outgrown our original 18 gates. Since some of our current gates were designed for wide-body aircraft, we were able to innovatively reconfigure our space more efficiently in order to include four new gates, bringing us to a total of 22 gates on the same real estate footprint.



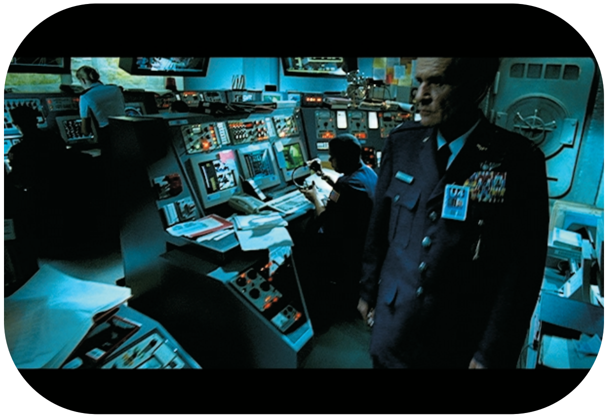
INVESTOR RELATIONS ON THE WEB

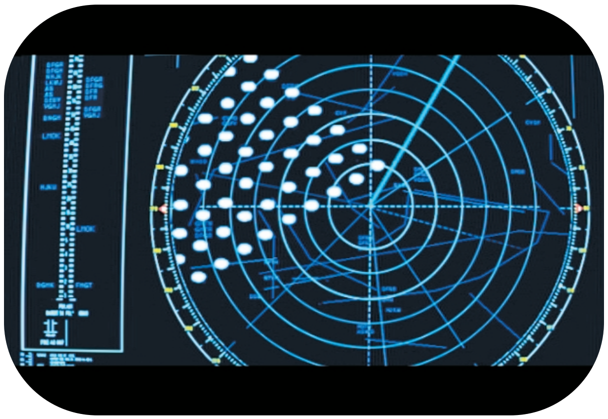
With our solid financial and operational foundation, our investor base has increased. Therefore, it is a high priority for us to provide current and potential investors with easily accessible information about our company.

We upgraded our investor pages on our Web site to include the following areas of shareholder-related information:

- Corporate overview, including contact information and a listing of AirTran Airways' leadership team and board of directors
- Transfer agent information for stock certificates
- Current stock quote, with a maximum 15-minute delay
- Historical stock chart, with comparative charting versus the major market indices
- Financial fundamentals, including current financial information such as: current pricing, income statement, shares outstanding, price earnings, shareholdings, ratios, dividend information and growth rates
- Consensus earning estimates from First Call
- SEC filings provided with greater timeliness than the sec.gov site
- Frequently asked questions to address basic shareholder and/or investor inquiries about AirTran Holdings, Inc.
- Links for easy access to other areas of AirTran Airways' homepage
- Financial news releases

We were also one of the first airlines to broadcast our earnings via a conference call over our Web site. Investor Relations pages, postings and broadcasts on our Web site are maintained by CCBN.com of Boston, Massachusetts. In addition, we created a special section on our Web site dedicated to the Boeing 717 in order to keep up with the demand for information.





Key frames from “Radar,” the award-winning commercial announcing the arrival of our Boeing 717s.

BUILDING OUR BRAND

This year we touted the innovative spirit of AirTran Airways as the Boeing 717’s launch customer with a creatively executed and placed advertising campaign. We announced the delivery of the first of 50 Boeing 717 aircraft with an action- and suspense-filled movie trailer-style television commercial, “Radar.”

AirTran Airways has a significant presence in outdoor, newspaper and trade publications.

The blockbuster campaign hit the big screen, literally, in September at movie theaters throughout the Atlanta area. The campaign then expanded to television the next week on Atlanta's ABC, CBS, FOX, NBC and UPN affiliates, as well as local Atlanta cable stations such as CNN and TBS. “Radar” was also broadcast in the Atlanta area during the Super Bowl.

The spot was so compelling that it won several advertising awards, including two gold medals in the HSMAI’s (Hospitality Sales & Marketing Association International) 1999 International Travel Competition. The television campaign was also supported by print, radio and billboards.

X-FARES

This program continues to be an innovative way to attract young travelers before they have fully formed their airline preferences. We are the only airline that specifically seeks out this age group, 18 to 22 year-olds, an as-yet untapped customer market. The program allows these travelers to fly standby for as little as $47 per segment.

Since its inception, a large number of 18 to 22 year-olds have taken advantage of the X-Fares program, increasing their loyalty to AirTran Airways and generating additional revenue for the airline.

OUR PARTNERSHIPS

All of our partners, American Express,® The Hertz Corporation and The Beau Rivage Resort, are integral members of the AirTran Airways family that have made our turnaround such a success. Each one shares the same commitment to quality and excellence that we do at AirTran Airways. Through these partnerships, we are able to offer our customers unique and special travel discounts that can’t be found anywhere else.

American Express®

For the third year in a row, we teamed up with American Express® to offer their card members an exclusive frequent flier program that has been a success since its inception in attracting new business to AirTran Airways. American Express® card members booking travel through AirTran Airways are eligible to collect frequent flier credits in half the time of our regular program. Each year of our partnership, AirTran Airways has sent American Express® card members information regarding the program, and each year the program has grown to include more satisfied users.

The Hertz Corporation

We are very pleased to be associated with The Hertz Corporation. Through an exclusive partnership, customers who schedule their travel arrangements through airtran.com are eligible to receive a special discounted rate on Hertz rental cars. The AirTran Web site features an automatic link to the Hertz Web site, enabling customers to quickly take advantage of the special discounted rates. In fact, the Internet link between our Web site and that of Hertz is one of the most successful between any airline and car rental company. Hertz's special discount rates also apply to customers who choose to utilize our Net Escapes program to book their travel. Additionally, customers booking travel over the phone with AirTran Airways Reservations can be transferred directly to a Hertz representative for the same special discounted rates our Internet customers receive.

The Beau Rivage Resort

AirTran Airways entered into a joint marketing partnership with the Beau Rivage Resort, a world-class destination resort developed by Mirage Resorts, Incorporated, to provide daily nonstop jet service between Gulfport/Biloxi Regional Airport and several Southeastern cities. The new service began on March 15, 1999, to coincide with the opening of Beau Rivage. This new air service increased daily flights in and out of Gulfport/Biloxi Regional Airport from 42 to 58 flights, and nearly doubled incoming seat availability from 1,224 to 2,050 per day.

FEDERAL GOVERNMENT ADDS AIRTRAN AIRWAYS TO AUTHORIZED CARRIER LIST

This year we earned the seal of approval from the U.S. government as an authorized air carrier for federal government employees. The Department of Defense is extremely selective about which airlines receive its approval, yet AirTran Airways won three out of every four contracts on which we bid. We can all be proud of this recognition, because it reinforces AirTran Airways' reputation as a safe and reliable airline. In addition to the federal government's travel business, we were awarded various state government contracts. This is not only an honor, but also a profitable new source of revenue.

A.S.A.P. SMALL PACKAGE SERVICE

In 1999, AirTran Airways implemented A.S.A.P. Small Package Service, a new, same-day service that offers a timely and convenient alternative for shipping packages. Since first being offered, the program has been a success and continues to grow. Ted G. Shown Associates, Inc. (TGSA), was selected to be the provider for the new cargo management service for AirTran Airways, as well as for our air freight service and U.S. Mail service.

MARILYN ROGERS NAMED ONE OF THE "MOST POWERFUL WOMEN" BY *TRAVEL AGENT* MAGAZINE

Congratulations to Marilyn Rogers, senior vice president, customer service, who was named one of the "Most Powerful Women" in the airline travel industry by *Travel Agent* magazine for the significant contributions she has made to the industry. She oversees our special task force that focuses on Caring Customer Service.

EMPLOYEE-DRIVEN SUCCESS

Our 4,000-strong staff of employees was the driving force behind AirTran Airways' turnaround throughout 1999. Our people define our success and have lifted AirTran Airways to levels of achievement that some industry insiders didn't think possible. We're carrying that momentum into 2000 with continued training workshops, a focus on Caring Customer Service and a continuing commitment to recognize and reward each and every individual who gives day-in and day-out to our company.

CONSUMER SURVEY TOUTS BENEFITS OF LOW-FARE AIRLINES

We are extremely proud that a national consumer magazine's annual survey revealed that AirTran Airways ranked second in overall value — placing us ahead of the three biggest airlines. Additional findings reported levels of customer service comparable to American and Delta for a fraction of the cost. One impressive and notable difference, however, was that AirTran Airways provides better flight attendant service than the majors.

AirTran Airways expanded the number of our gates at Hartsfield Atlanta International Airport from 18 to 22.

Effective April 1, 2000

(In thousands, except per share data)

Consolidated Highlights

	1999	1998[b]	1997	1996	1995
Operating revenues	***$523,468***	$439,307	$211,456	$219,636	$367,757
Net income (loss)	***(99,394)***	(40,738)	(96,663)	(41,469)	67,763
Net income (loss), excluding special items	***29,094[a]***	(13,246)[c]	(66,581)[d]	(11,098)[e]	67,763
Basic earnings (loss) per share	***(1.53)***	(0.63)	(1.72)	(0.76)	1.24
Diluted earnings (loss) per share	***(1.53)***	(0.63)	(1.72)	(0.76)	1.13
Diluted earnings (loss) per share, excluding special items	***0.45[a]***	(0.20)[c]	(1.19)[d]	(0.20)[e]	1.13
Total assets	***467,014***	376,406	433,864	417,187	346,741
Long-term debt including current maturities	***415,688***	245,994	250,712	244,706	109,038

Note: All special items listed below are pre-tax.

(a) Excludes a $147.7 million impairment loss related to the accelerated retirement of the DC-9 fleet as a result of the introduction of the B717 fleet and a gain of $19.6 million from a litigation settlement.

(b) See Note 1 to the consolidated financial statements.

(c) Excludes a $27.5 million impairment loss related to the acceleration of the retirement of four owned B737 aircraft as a result of the elimination of their original route system and continued operating losses upon their redeployment to other routes.

(d) Excludes a $24.8 million charge related to the shutdown of the airline in 1996 and a $5.2 million charge for the renaming of the airline in connection with the merger with Airways Corporation in November 1997.

(e) Excludes a $68.0 million charge related to the shutdown of the airline in 1996, a $3.9 million gain on the sale of property, a $13.0 million arrangement fee for aircraft transfer and a $2.8 million gain on insurance recovery.

Market Prices

1999	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	$5.13	$6.00	$7.25	$6.06
Low	2.75	4.13	4.94	3.50

1998				
High	$8.06	$9.44	$8.12	$4.47
Low	3.00	6.75	3.88	2.13

No dividends were paid during the periods.

Results of Operations

For the twelve months ended December 31, 1999, 1998 and 1997

The following is a table of selected operational statistics and financial data for the twelve months ended December 31, 1999, 1998 and 1997:

	Twelve Months Ended December 31,		
	1999	1998	1997
Revenue passengers	***6,460,533***	5,462,827	3,005,731
Revenue passenger miles[1] (000's)	***3,473,490***	3,244,539	1,597,585
Available seat miles[2] (000's)	***5,467,556***	5,442,234	3,017,892
Passenger load factor[3]	***63.5%***	59.6%	52.9%
Break-even load factor[4]	***59.4%***	61.5%	76.3%
Average yield per revenue passenger mile[5]	***14.01¢***	12.97¢	12.58¢
Passenger revenue per available seat mile[6]	***8.90¢***	7.73¢	6.66¢
Operating cost per available seat mile[7]	***8.19¢***	7.91¢	9.38¢
Average stage length (miles)	***528***	546	468
Average cost of aircraft fuel per gallon	***49.95¢***	54.87¢	69.00¢
Average daily utilization[8] (hours)	***9:54***	9:42	8:25
Number of aircraft in fleet at end of period	***47***	50	53

(1) The number of scheduled revenue miles flown by passengers.

(2) The number of seats available for passengers multiplied by the number of scheduled miles each seat is flown.

(3) The percentage of aircraft seating capacity that is utilized is calculated by dividing revenue passenger miles by available seat miles.

(4) Excluding shutdown and other nonrecurring, rebranding and impairment charges, the percentage of seats that must be occupied by revenue passengers in order for the Company to break even on a pre-tax income basis.

(5) The average amount one passenger pays to fly one mile.

(6) Passenger revenue divided by available seat miles.

(7) Operating expenses, excluding shutdown and other nonrecurring, rebranding and impairment charges, divided by available seat miles.

(8) The average number of hours per day that an aircraft flown in revenue service is operated.

Operating expenses per Available Seat Mile (excluding shutdown and other nonrecurring, rebranding and impairment charges):

	For the twelve months ended December 31,		
	1999	1998	1997
Operating expenses:			
Salaries, wages and benefits	***2.21¢***	1.99¢	1.79¢
Aircraft fuel	***1.25***	1.32	1.62
Maintenance, materials and repairs	***1.58***	1.37	2.03
Commissions	***0.68***	0.64	0.33
Landing fees and other rents	***0.49***	0.43	0.60
Marketing and advertising	***0.29***	0.28	0.44
Aircraft rent	***0.09***	0.13	0.03
Depreciation	***0.52***	0.53	0.93
Other operating	***1.08***	1.22	1.61
Total operating expenses	***8.19¢***	7.91¢	9.38¢

1999 Compared to 1998

Summary

Excluding the pre-tax impairment charge of $147.7 million and litigation settlement gain of $19.6 million, we recorded net income of $29.1 million or 45 cents per share in 1999 versus a net loss, excluding a pre-tax impairment charge of $27.5 million, of $13.2 million or 20 cents per share in 1998. We recorded a net loss of $99.4 million for the year ended December 31, 1999, compared to a net loss of $40.7 million for the year ended December 31, 1998.

Excluding the special items mentioned above, our operating income increased $47.2 million, to $56.1 million in 1999 from $8.9 million in 1998. Excluding special items, our operating margin in 1999 was 11.1% versus an operating margin of 2.0% in 1998.

Operating Revenues

Passenger revenues increased by 15.6% or $65.6 million in 1999 compared to 1998. The growth in our passenger revenue stems from increasing traffic demand in both the business and leisure market segments. Business class loads were up significantly versus last year. Adjustments in pricing and inventory strategies also led to gains in leisure traffic. Yield (the average amount a passenger pays to fly one mile) increased by 8.0%, year over year, from 13.0 cents to 14.0 cents. Unit revenue increased 15.1%, from 7.7 cents to 8.9 cents in 1998 and 1999, respectively—better than any major airline in the industry.

Our traffic, or revenue passenger miles (RPMs), increased 7.1% or 229.0 million on a 0.5% increase in capacity, or available seat miles (ASMs). For the year ended December 31, 1999, load factor increased 3.9 points to 63.5% versus 59.6% for the year ended December 31, 1998. However, we continue to experience strong competition that could negatively impact future loads and yields.

Other revenue increased 121.8%, or $18.2 million, this year compared to last year due to the $19.6 million gain from a litigation settlement.

Operating Expenses

Excluding the impairment charges in 1999 and 1998, operating expenses increased $17.4 million or 4.0% year over year. Our operating cost per ASM, excluding impairment charges, increased 3.5% to 8.19 cents from 7.91 cents a year ago. Salaries, wages and benefits increased 11.3%, or $12.3 million, due to a 6.1% increase in overall headcount and contractual wage increases for our union-represented labor groups. Aircraft fuel expense decreased year over year by $3.6 million, or 5.0%, due to a 9.0% decrease in the average fuel cost per gallon offset by a 4.4% increase in fuel consumption. Maintenance increased 15.8% or $11.8 million, due to a volume increase of five check lines as a result of completing our structural life improvement program, and six additional engine overhauls. The timing of maintenance to be performed is determined by the number of hours an aircraft and engine are flown. Commissions paid to travel agents increased $2.4 million or 6.9% due to an increase in commissionable sales, offset by a rate reduction from 10% to 8% during the second quarter of 1998 and a further reduction to 5% during the fourth quarter of 1999. Landing fees and other rents increased $3.6 million compared to the year ended 1998 due to increased departures. We operated 5.1% more departures in 1999 than 1998, at 96,858 and 92,141, respectively. Aircraft rent decreased $2.4 million in 1999 from 1998 due to the return of five leased B737 aircraft throughout the year. Other operating expenses decreased by $7.3 million, or 11.0%, primarily due to the decline of credit card chargebacks and communications costs.

In the fourth quarter of 1999, we decided to accelerate the retirement of our owned DC-9 fleet to accommodate the introduction of the B717 fleet. In connection with our decision to accelerate the retirement of these aircraft, we performed an evaluation to determine, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, whether future cash flows (undiscounted and without interest charges) expected to result from the use and eventual disposition of these aircraft would be less than the aggregate carrying amount of these aircraft and related assets. As a result of the evaluation, we determined that the estimated future cash flows expected to be generated by these aircraft would be less than their carrying amount, and therefore these aircraft are impaired as defined by SFAS No. 121. Consequently, the original cost bases of these assets were reduced to reflect the fair market value at the date the decision was made, resulting in a $147.7 million impairment charge. We considered recent transactions and market trends involving similar aircraft in determining the fair market value. See Note 10 to the consolidated financial statements.

Non-operating Expenses

Interest expense, net of interest income, increased 11.2% due to the November 3, 1999, issuance of the $178.9 million in debt for financing ten B717 aircraft. See Note 5 to the consolidated financial statements.

Income tax expense was $2.7 million and $0 in 1999, and 1998, respectively. The 1999 tax expense results from the utilization of a portion of our $141 million of net operating loss ("NOL") carryforwards, existing at December 31, 1998, offset in part by alternative minimum tax and the application to goodwill of the tax benefit related to the realization of a portion of the Airways Corporation NOL carryforwards. We have not recognized any benefit from the use beyond 1999 of NOL carryforwards because our evaluation of all the available evidence in assessing the realizability of tax benefits of such loss carryforwards indicates that the underlying assumptions of future profitable operations contain risks that do not provide sufficient assurance to recognize such tax benefits currently.

1998 Compared to 1997

Summary

Our results of operations for 1997 are not reflective of results to be expected in future periods. This comes as a result of reduced service levels during the year of 1997, incremental costs incurred to reinitiate service to certain markets and to reactivate aircraft taken out of service, and the merger of Airways Corporation into our Company in November 1997. Our financial results include the operations of Airways Corporation only from and after November 17, 1997, the date of the Merger.

We recorded a net loss of $40.7 million and $96.7 million for the years ended December 31, 1998, and 1997, respectively. Excluding the impairment charge of $27.5 million, we recorded a net loss of $13.2 million, or 20 cents per share in 1998 versus a net loss of $66.6 million, excluding a charge of $30.1 million related to rebranding and shutdown costs, or $1.19 per share, in 1997.

Excluding the special items previously mentioned, our operating income increased $80.6 million, from an operating loss of $71.7 million in 1997 to operating income of $8.9 million in 1998. Our operating margin in 1998 was 2.0% versus an operating margin deficit of 33.9% in 1997.

Operating Revenues

Passenger revenues in 1998 were $420.9 million as compared to $200.9 million for the year ending December 31, 1997. The 109.5% increase is principally due to the 81.8% increase in revenue passengers enplaned and a 103.1% increase in revenue passenger miles. Our yield (the average amount that a passenger pays to fly one mile) increased 3.2%, year over year, from 12.6 cents to 13.0 cents.

Our RPMs increased 103.1%, or 1.6 billion, on an 80.3% increase in ASMs. For the year ended December 31, 1998, load factor increased 6.7 points to 59.6% versus 52.9% for the twelve months ended December 31, 1997.

Cargo revenue increased 55.0%, from $2.3 million in 1997 to $3.5 million in 1998 due to the 80.3% increase in capacity.

Other revenues increased 80.5%, or $6.7 million, in 1998 compared to 1997 due to the 81.8% increase in revenue passengers enplaned.

Operating Expenses

Excluding the impairment charge in 1998 and rebranding and shutdown and other nonrecurring charges in 1997, operating expenses increased $147.2 million or 52.0%. Our operating cost per ASM decreased 15.7% to 7.91 cents from 9.38 cents in 1997. Labor costs increased from $54.1 million in 1997 to $108.5 million in 1998 primarily due to contractual wage increases for our union-represented labor groups and the acquisition of Airways Corporation on November 17, 1997. Aircraft fuel increased 47.4% primarily due to the increase in consumption related to increased service levels, offset by a 21.7% decrease in price per gallon in 1998 from 69.0 cents per gallon to 54.0 cents per gallon. Maintenance costs increased 21.7% due to additional check lines and engine overhauls principally resulting from an increase in the number of operating aircraft from 44 at December 31, 1997, to 50 at December 31, 1998. Commissions expense increased 246.1% largely due to the increase in passenger volume and the increase of travel agency bookings through the Airline Reporting Corporation (“ARC”), which we joined in September 1997. Landing fees and other rents increased 28.2%, from $18.2 million in 1997 to $23.4 million in 1998, due to a 72% increase in number of departures. Marketing and advertising increased 13.6% from $13.3 million in 1997 to $15.1 million in 1998. However, as a percentage of revenue, marketing and advertising decreased 2.9 percentage points from 6.3% in 1997 to 3.4% in 1998, which is more in line with industry standards. Aircraft rent increased from $0.9 million in 1997 to $7.2 million in 1998 due to a full year of B737 rent expense versus only six weeks of aircraft rent expense recognized after the acquisition of Airways Corporation in November 1997. Depreciation expense remained flat year over year. Additional capital spending increased depreciation expense by $12 million offset by a $12 million reduction due to revising the salvage values on our DC-9 equipment. See Note 1 to the consolidated financial statements. Other operating expenses increased 37.3%, or $18.0 million, in 1998 as compared to 1997, primarily as a result of increases in passenger and aircraft servicing expenses.

In the fourth quarter of 1998, we decided to accelerate the retirement of four owned Boeing B737 aircraft as a result of the elimination of their original route system and continued operating losses upon their redeployment to other routes. The B737s are intended to be replaced with B717 aircraft. In connection with our decision to accelerate the retirement of these aircraft, which were acquired in the acquisition of Airways Corporation, we performed an evaluation to determine, in accordance with SFAS No. 121, whether future cash flows (undiscounted and without interest charges) expected to result from the use and eventual disposition of these aircraft would be less than the aggregate carrying amount of these aircraft and related assets and an allocation of cost in excess of net assets acquired resulting from the acquisition of Airways Corporation. SFAS No. 121 requires that when a group of assets being tested for impairment was acquired as part of a business combination that was accounted for using the purchase method of accounting, any cost in excess of net assets acquired that arose as part of the transaction must be included as part of the asset grouping. As a result of the evaluation, we determined that the estimated future cash flows expected to be generated by these aircraft would be less than their carrying amount and allocated cost in excess of net assets acquired, and therefore these aircraft are impaired as defined by SFAS No. 121. Consequently, the original cost bases of these assets were reduced to reflect the fair market value at the date the decision was made, resulting in a $27.5 million impairment loss. We considered recent transactions and market trends involving similar aircraft in determining the fair market value. See Note 10 to the consolidated financial statements.

During 1997, we incurred $30.1 million of costs attributable to rebranding the airline and shutdown and other nonrecurring costs attributable to the continued effects of the reduced schedule after the 1996 suspension of operations. No such costs were incurred during 1998.

Non-operating Expenses

Interest expense, net, increased $4.5 million primarily due to the decrease in interest income earned from excess cash as a result of cash and cash equivalents decreasing from $86.0 million at December 31, 1997, to $10.9 million at December 31, 1998.

We have not recognized any benefit from the future use of operating loss carryforwards because our evaluation of all the available evidence in assessing the realizability of the tax benefits of such loss carryforwards indicates that the underlying assumptions of future profitable operations contain risks that do not provide sufficient assurance to recognize such tax benefits currently. Our income tax benefit was $0 and $22.8 million in 1998 and 1997, respectively. The benefit recorded in 1997 was the result of operating loss carryback claims.

Outlook for 2000

During 1999, we celebrated many accomplishments on our return to profitability. The accomplishments include, but are not limited to:

- Four quarters of profitability (exclusive of impairment loss in fourth quarter and litigation settlement gain)
- Significant improvement in cash balance
- Introduction and delivery of eight B717 aircraft
- Awarded 75% of Department of Defense contract awards on which we bid—estimated to be worth nearly $9.0 million per year
- Significant Revenue per ASM growth compared to the industry

We expect 2000 to be another good year for our airline. We will benefit from the travel agent commission reduction from 8% to 5%, reduced maintenance costs per block hour and reduced depreciation expense as a result of the impairment charge. We are exposed to high jet fuel prices without the benefit of a significant hedge.

Higher interest expense is also a risk we will face in 2000. We are incurring higher interest expense due to aircraft financing. In addition, there can be no assurance that attractive financing will be available when we seek to refinance our $230.0 million of debt due in April 2001.

Year 2000

In prior years, we discussed the nature and progress of our plans to become Year 2000 ready. In late 1999, we completed our remediation and testing of systems. As a result of those planning and implementation efforts, we experienced no significant disruptions in mission critical information technology and non-information technology systems and believe those systems successfully responded to the Year 2000 date change. We expensed approximately $800,000 during 1999 in connection with remediating our systems. We are not aware of any material problems resulting from Year 2000 issues, either with our internal systems or the products and services of third parties. We will continue to monitor our mission critical computer applications and those of our suppliers and vendors throughout the year 2000 to ensure that any latent Year 2000 matters that may arise are addressed promptly.

Liquidity and Capital Resources

We rely primarily on operating cash flows to provide working capital. We have no lines of credit or other facilities. As of December 31, 1999, we had cash and cash equivalents of $58.1 million compared to $10.9 million at December 31, 1998, and working capital deficit of $7.3 million compared to a working capital deficit of $30.8 million at December 31, 1999, and 1998, respectively. We generally must satisfy all of our working capital expenditure requirements from cash provided by operating activities, from external capital sources or from the sale of assets. Substantial portions of our assets have been pledged to secure various issues of our outstanding indebtedness. To the extent that the pledged assets are sold, the applicable financing agreements generally require the sales proceeds to be applied to repay the corresponding indebtedness. To the extent that our access to capital is constrained, we may not be able to make certain capital expenditures or to continue to implement certain other aspects of our strategic plan, and we may therefore be unable to achieve the full benefits expected therefrom. Based on the favorable economic conditions of the U.S. airline industry, we expect to be able to generate positive working capital through our operations; however, we cannot predict whether the current favorable economic trends and conditions will continue or the effects of competition or other factors, such as increased fuel prices, that are beyond our control.

As of December 31, 1999, cash and cash equivalents increased from December 31, 1998, by $47.2 million. Operating activities generated $75.7 million in cash. Investing activities used cash of $197.7 million primarily related to the acquisition of eight B717 aircraft and several DC-9 hush kits. Financing activities generated cash of $169.2 million in connection with issuance of debt for the acquisition of ten B717 aircraft offset by long-term debt payments.

As of December 31, 1999, our operating fleet consisted of 35 DC-9 aircraft, four B737 aircraft and eight B717 aircraft. We returned five leased B737 aircraft and grounded six Stage 2 DC-9 and B737 aircraft during 1999.

We have contracted with Boeing for the purchase of 50 B717 aircraft for delivery from 1999 to 2002—of which eight had been delivered as of December 31, 1999. During the third quarter of 1998, we reached an agreement with Boeing to defer the remaining progress payments until the first delivery, which occurred in September 1999. Progress payments resumed in September 1999 and we paid $6.6 million in progress payments through December 1999. There can be no assurance that cash provided by operations will be sufficient to meet the progress payments for the B717s. If we exercise our option to acquire up to an additional 50 B717 aircraft, additional payments could be required beginning in 2001. We expect to finance at least 85% of the cost of each of these aircraft. We completed a private placement of $178.9 million enhanced equipment trust certificates (EETCs) on November 3, 1999. The proceeds will be used to purchase the first ten B717 aircraft. The EETCs bear interest at 10.63% per annum and are payable in semi-annual installments from April 17, 2000, through April 17, 2017. Although Boeing has agreed to provide financing support with the remaining aircraft to be acquired, we will be required to obtain the financing from other sources. We believe that with the support to be provided by Boeing, aircraft related debt financing should be available when needed. However, there is no assurance that we will be able to obtain sufficient financing on attractive terms, if at all. If we are unable to secure acceptable financing, we could be required to modify our aircraft acquisition plans or to incur higher than anticipated financing costs, which could have a material adverse effect on our results of operations and cash flows.

On November 5, 1999, we announced our decision to accelerate the retirement of the DC-9 fleet to accommodate the introduction of the B717 fleet. The accelerated retirement allows for a more moderate capacity growth and resulted in a non-cash pre-tax fleet disposition charge of $147.7 million during the fourth quarter of 1999.

As of December 31, 1999, our debt related to asset financing totaled $265.7 million with respect to which aircraft and certain other equipment are pledged as security. Included in such amount is $80.0 million of 10.50% Senior Secured Notes due 2001 under which interest is payable semi-annually and the $178.9 million of 10.63% enhanced equipment trust certificates, of which a portion of interest and principal is paid semi-annually. In addition, we have $150.0 million of 10.25% Senior Notes outstanding. The principal balance of the Senior Notes is due in April 2001 and interest is payable semi-annually. The entire principal amount of the Senior Notes ($150.0 million) and Senior Secured Notes ($80.0 million) will become due on April 15, 2001. We do not expect to generate sufficient cash flow from operations to repay all $230.0 million of such debt by its due date. Accordingly, we will likely need to refinance all or a portion of the outstanding debt through additional equity or debt or a combination thereof. The ability to refinance our debt depends on our future performance and financial results. Such results are subject to general economic, financial, competitive, legislative, regulatory, and other factors that are, to some extent, beyond our control. All of our debt has final maturities ranging from 2000 to 2017 with scheduled debt payments as of December 31, 1999, as follows: 2000—$19.6 million, 2001—$232.2 million, 2002—$7.5 million, 2003—$4.6 million, 2004—$6.1 million and thereafter—$145.7 million.

Certain debt bears interest at rates ranging from 5.85% to 11.67% per annum and is repayable in consecutive monthly or quarterly installments over a four- to seven-year period. One of these notes, with an aggregate unpaid principal balance of approximately $1.2 million as of December 31, 1999, has a variable rate of interest based on the London Interbank Offered Rate ("LIBOR") plus 1.50% to 3.73%.

Due to the competitive nature of the airline industry, in the event of any increase in the price of jet fuel, there can be no assurance that we would be able to pass on increased fuel prices to our customers by increasing fares.

New Accounting Standards

In June 1998, the FASB issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS No. 133 is effective for periods beginning after June 15, 2000. We are currently evaluating SFAS No. 133, and have not yet determined its impact on the consolidated financial statements.

Forward-Looking Statements

The statements that are contained in this Report that are not historical facts are "forward-looking statements" which can be identified by the use of forward-looking terminology such as "expects," "intends," "believes," "will" or the negative thereof or other variations thereon or comparable terminology.

We wish to caution the reader that the forward-looking statements contained in this Report are only estimates or predictions and are not historical facts. Such statements include, but are not limited to:

- our performance in future periods;
- our ability to maintain profitability and to generate working capital from operations;
- our ability to take delivery of and to finance aircraft;
- the adequacy of our Company's insurance coverage; and
- the results of pending litigation or investigations.

No assurance can be given that future results will be achieved and actual events or results may differ materially as a result of risks facing our Company or actual events differing from the assumptions underlying such statements. Such risks and assumptions include, but are not limited to:

- consumer demand and acceptance of services offered by our Company;
- our ability to achieve and maintain acceptable cost levels;
- fare levels and actions by competitors;
- regulatory matters, general economic conditions; commodity prices; and
- changing business strategy and results of litigation.

Additional information concerning factors that could cause actual results to vary materially from the future results indicated, expressed or implied in such forward-looking statements is contained elsewhere in our Form 10-K for the year ended December 31, 1999.

All forward-looking statements made in connection with this Report are expressly qualified in their entirety by these cautionary statements. We disclaim any obligation to update or correct any of our forward-looking statements.

Business Strategy

Even though we currently have no plans to do so, we may change our business strategy in the future and may not pursue some of the goals and initiatives stated herein.

Quantitative and Qualitative Disclosures about Market Risk

Market Risk Sensitive Instruments and Positions

We are subject to certain market risks including interest rates and commodity prices (i.e., aircraft fuel). The adverse effects of changes in these markets pose a potential loss as discussed below. The sensitivity analyses do not consider the effects that such adverse changes may have on overall economic activity nor do they consider additional actions we may take to mitigate our exposure to such changes. Actual results may differ. See the notes to the consolidated financial statements for a description of our Company's financial policies and additional information.

Interest Rates

As of December 31, 1999, and 1998, the fair value of our long-term debt was estimated to be $392.3 million, and $175.3 million, respectively, based upon discounted future cash flows using current incremental borrowing rates for similar types of instruments or market prices. Market risk, estimated as the potential increase in fair value resulting from a hypothetical one percent decrease in interest rates, was approximately $8.0 million as of December 31, 1999, and approximately $4.2 million as of December 31, 1998.

Aircraft Fuel

Our results of operations are impacted by changes in the price of aircraft fuel. Excluding the impairment charge, aircraft fuel accounted for 15.3% and 16.7% of our operating expenses in 1999, and 1998, respectively. Based on our 2000 projected fuel consumption, a 10% increase in the average price per gallon of aircraft fuel as of December 31, 1999, would increase the fuel expense for the next twelve months by approximately $10.8 million, net of hedging instruments outstanding at December 31, 1999. Comparatively, based on 1999 fuel usage, a 10% increase in fuel prices would have resulted in an increase in fuel expense of approximately $2.8 million, net of hedging instruments utilized during 1999. The increase in market risk is primarily due to our fuel hedging contracts covering significantly more fuel requirements in 1999 than in 2000. In 1999, we entered into fixed rate swap contracts and jet fuel purchase commitments in order to manage the price risk and utilization of fuel cost. At December 31, 1999, we had hedged approximately 11% of our projected fuel requirements for the first six months of 2000.

Consolidated Statement of Operations

(In thousands, except per share data)

Year ended December 31,	***1999***	1998	1997
Operating revenues:			
Passenger	***$486,487***	$420,901	$ 200,939
Cargo	***3,888***	3,488	2,250
Other	***33,093***	14,918	8,267
Total operating revenues	***523,468***	439,307	211,456
Operating expenses:			
Salaries, wages and benefits	***120,737***	108,461	54,133
Aircraft fuel	***68,331***	71,922	48,797
Maintenance, materials and repairs	***86,374***	74,577	61,270
Commissions	***37,278***	34,886	10,079
Landing fees and other rents	***27,004***	23,366	18,227
Marketing and advertising	***15,643***	15,112	13,299
Aircraft rent	***4,869***	7,241	946
Depreciation	***28,533***	28,591	28,148
Other operating	***58,952***	66,216	48,241
Impairment loss	***147,735***	27,492	—
Shutdown and other nonrecurring	***—***	—	24,839
Rebranding	***—***	—	5,243
Total operating expenses	***595,456***	457,864	313,222
Operating loss	***(71,988)***	(18,557)	(101,766)
Interest (income) expense:			
Interest income	***(3,183)***	(3,181)	(6,659)
Interest expense	***27,850***	25,362	24,331
Interest expense, net	***24,667***	22,181	17,672
Loss before income taxes	***(96,655)***	(40,738)	(119,438)
Income tax expense (benefit)	***2,739***	—	(22,775)
Net loss	***$ (99,394)***	$ (40,738)	$ (96,663)
Basic and diluted loss per share	***$ (1.53)***	$ (0.63)	$ (1.72)
Weighted average number of shares outstanding (basic and diluted shares)	***65,097***	64,641	56,068

See accompanying notes to consolidated financial statements.

(In thousands, except per share data)

Consolidated Balance Sheets

December 31,	*1999*	1998
Assets		
Current assets:		
Cash and cash equivalents	***$ 58,102***	$ 10,882
Restricted cash	***18,069***	13,459
Accounts receivable, less allowance of $927 and $1,325 at December 31, 1999, and 1998, respectively	***7,599***	7,784
Spare parts, materials and supplies, less allowance for obsolescence of $2,260 and $4,259 at December 31, 1999, and 1998, respectively	***5,816***	11,486
Prepaid expenses	***14,058***	9,346
Total current assets	***103,644***	52,957
Property and equipment:		
Flight equipment	***244,662***	306,026
Less: Accumulated depreciation	***(4,973)***	(87,084)
	239,689	218,942
Purchase deposits for flight equipment	***22,562***	36,518
Other property and equipment	***24,914***	23,491
Less: Accumulated depreciation	***(13,436)***	(10,542)
	11,478	12,949
	273,729	268,409
Other assets:		
Intangibles resulting from business acquisition	***38,862***	42,727
Unexpended debt proceeds	***39,232***	—
Debt issuance costs	***5,733***	6,956
Other assets	***5,814***	5,357
Total assets	***$467,014***	$376,406

See accompanying notes to consolidated financial statements.

(In thousands, except per share data)

December 31,	1999	1998
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 10,410	$ 13,252
Accrued liabilities	57,456	44,508
Air traffic liability	23,491	17,022
Current portion of long-term debt	19,569	8,929
Total current liabilities	110,926	83,711
Long-term debt, less current portion	396,119	237,065
Stockholders' equity (deficit) :		
Preferred stock, $.01 par value per share, 5,000 shares authorized, no shares issued or outstanding	—	—
Common stock, $.001 par value per share, 1,000,000 shares authorized, and 65,698 and 64,898 shares issued and outstanding at December 31, 1999, and 1998, respectively	66	65
Additional paid-in capital	150,589	146,857
Accumulated deficit	(190,686)	(91,292)
Total stockholders' equity (deficit)	(40,031)	55,630
Total liabilities and stockholders' equity (deficit)	$ 467,014	$376,406

See accompanying notes to consolidated financial statements.

(In thousands)

Consolidated Statements of Stockholders' Equity (Deficit)

	Common Stock				
	Shares	Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity (Deficit)
Balance at January 1, 1997	54,876	$55	$ 77,235	$ 46,109	$123,399
Issuance of common stock for exercise of options	317	—	904	—	904
Issuance of common stock under stock purchase plan	24	—	143	—	143
Issuance of common stock and stock options to acquire business	9,095	9	66,655	—	66,664
Net loss	—	—	—	(96,663)	(96,663)
Balance at December 31, 1997	64,312	64	144,937	(50,554)	94,447
Issuance of common stock for exercise of options	563	1	1,790	—	1,791
Issuance of common stock under stock purchase plan	23	—	130	—	130
Net loss	—	—	—	(40,738)	(40,738)
Balance at December 31, 1998	64,898	65	146,857	(91,292)	55,630
Issuance of common stock for exercise of options	***226***	***—***	***1,031***	***—***	***1,031***
Issuance of common stock under stock purchase plan	***51***	***—***	***202***	***—***	***202***
Issuance of common stock in litigation settlement	***523***	***1***	***2,499***	***—***	***2,500***
Net loss	***—***	***—***	***—***	***(99,394)***	***(99,394)***
Balance at December 31, 1999	***65,698***	***$66***	***$150,589***	***$(190,686)***	***$ (40,031)***

See accompanying notes to consolidated financial statements.

(In thousands)

Consolidated Statements of Cash Flows

Year ended December 31,	*1999*	1998	1997
Operating activities:			
Net loss	*$ (99,394)*	$(40,738)	$ (96,663)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	*30,432*	31,525	32,376
Impairment loss	*147,735*	27,492	—
Provisions for uncollectible accounts	*4,022*	8,003	2,895
Deferred income taxes	*2,387*	—	(13,221)
Changes in current operating assets and liabilities:			
Restricted cash	*(4,610)*	(7,494)	4,480
Accounts receivable	*(3,837)*	(11,425)	(1,420)
Spare parts, materials and supplies	*(1,657)*	(1,878)	(94)
Prepaid expenses and deposits	*(5,169)*	5,911	5,556
Accounts payable and accrued liabilities	*(636)*	(19,476)	28,879
Air traffic liability	*6,469*	2,106	153
Income tax payable	*—*	—	21,472
Net cash flows provided by (used for) operating activities	*75,742*	(5,974)	(15,587)
Investing activities:			
Purchases of property and equipment	*(187,667)*	(66,716)	(30,349)
Refund of aircraft purchase deposits	*4,374*	—	—
Cash paid for acquisition, net of cash acquired	*—*	—	(364)
Preacquisition advance to Airways Corporation	*—*	—	(11,681)
Restricted funds for aircraft purchases	*(39,232)*	—	—
Proceeds from disposal of equipment	*24,815*	370	3,595
Net cash flows used for investing activities	*(197,710)*	(66,346)	(38,799)
Financing activities:			
Issuance of long-term debt	*244,756*	6,100	72,493
Payments of long-term debt	*(76,801)*	(10,844)	(83,142)
Proceeds from sale of common stock	*1,233*	1,921	1,047
Net cash flows provided by (used for) financing activities	*169,188*	(2,823)	(9,602)
Net increase (decrease) in cash and cash equivalents	*47,220*	(75,143)	(63,988)
Cash and cash equivalents at beginning of period	*10,882*	86,025	150,013
Cash and cash equivalents at end of period	*$ 58,102*	$ 10,882	$ 86,025
Supplemental disclosures of cash flow activities:			
Cash paid for interest, net of amounts capitalized	*$ 23,911*	$ 21,557	$ 22,776
Income taxes (refunded) paid	*$ 420*	$ (9,686)	$ (31,124)

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Reorganization and Principles of Consolidation

Pursuant to a Plan of Reorganization and Agreement of Merger, the Company acquired Airways Corporation ("Airways") on November 17, 1997, through a merger of Airways with and into the Company ("the Airways Merger"). In connection with the Airways Merger, each outstanding share of Common Stock, $.01 par value per share, of Airways was converted into and became the right to receive one share of Common Stock, $.001 par value per share, of ValuJet, Inc. Therefore, the then current shareholders of Airways became stockholders of AirTran Holdings, Inc. (formerly ValuJet, Inc.) and AirTran Airways, Inc. ("AirTran Airways"), Airways' wholly-owned subsidiary, became a wholly-owned subsidiary of AirTran Holdings, Inc. On August 6, 1999, AirTran Airlines, Inc., a wholly-owned subsidiary of the Company, was merged with and into AirTran Airways. See Note 2.

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. Significant inter-company accounts and transactions have been eliminated in consolidation.

Description of Business

The Company offers affordable scheduled air transportation and mail service, serving short-haul markets primarily in the eastern United States.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results inevitably will differ from those estimates, and such differences may be material to the consolidated financial statements.

Cash, Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Restricted cash primarily represents amounts escrowed relating to air traffic liability.

Accounts Receivable

Accounts receivable are due primarily from major credit card processors and travel agents. These receivables are unsecured. The Company provides an allowance for doubtful accounts equal to the estimated losses expected to be incurred in the collection of accounts receivable.

Spare Parts, Materials and Supplies

Spare parts, materials and supplies are stated at cost using the first-in, first-out method (FIFO). These items are charged to expense when used. Allowances for obsolescence are provided over the estimated useful life of the related aircraft and engines for spare parts expected to be on hand at the date aircraft are retired from service.

Property and Equipment

Property and equipment is stated on the basis of cost. Flight equipment is depreciated to its salvage values, using the straight-line method.

The B717 fleet has a salvage value of 10% and useful life of 25 years. In conjunction with the 1999 impairment charge, the DC-9 fleet was written down to its fair market value. Accordingly, the salvage values were revised to 38%–52%, and the useful lives were revised to 1–3 years. In conjunction with the 1998 impairment charge, the B737 fleet was written down to its fair market value, and the Company believes that the fair market value is indicative of its salvage value. The useful lives of the B737 aircraft were revised to two years. Aircraft parts are depreciated over the respective fleet life to a salvage value of 5%.

Other property and equipment is depreciated over three to ten years.

The estimated salvage values and depreciable lives are periodically reviewed for reasonableness and revised if necessary. At January 1, 1998, the Company revised its salvage values and useful lives on its DC-9 fleet and related equipment as outlined below:

	1997 Salvage Value	1998 Salvage Value	1997 Useful Life	1998 Useful Life
Airframes	10%	40%	10–20 years	10–12 years
Engines	10%	10%	3 years	10–12 years
Aircraft parts	5–50%	5%	3 years	fleet life

The revised salvage value of the Company's DC-9 fleet ranged from approximately $434,000 to $2,614,000 per aircraft. The effect of this change for the year ended December 31, 1998, was to increase income by approximately $12 million or $0.19 per share. At the time, these estimates more accurately reflected management's expectations of estimated fair values at the anticipated dates of disposal.

Measurement of Impairment

In accordance with Statement of Financial Accounting Standard No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of* ("SFAS No. 121"), the Company records impairment losses using long-lived assets used in operations when events or circumstances indicate that the assets may be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the net book value of those assets.

Intangibles Resulting from Business Acquisition

Intangibles resulting from business acquisition consist of cost in excess of net assets acquired and the trade name and are being amortized using the straight-line method over 30 years. Accumulated amortization at December 31, 1999, and 1998 was approximately $3,704,000 and $2,227,000, respectively.

The carrying value of cost in excess of net assets acquired is reviewed for impairment whenever events or changes in circumstances indicate that it may not be recoverable. If such an event occurred, the Company would prepare projections of future results of operations for the remaining amortization period. If such projections indicated that the expected future net cash flows (undiscounted and without interest) are less than the carrying amount of cost in excess of net assets acquired, the Company would record an impairment loss in the period such determination is made based on the fair value of the related business.

Capitalized Interest

Interest attributable to funds used to finance the acquisition of new aircraft is capitalized as an additional cost of the related asset. Interest is capitalized at the Company's weighted average interest rate on long-term debt or, where applicable, the interest rate related to specific borrowings. Capitalization of interest ceases when the asset is placed in service. In 1999, 1998 and 1997, approximately $6,736,000, $3,339,000 and $1,555,000 of interest cost was capitalized, respectively.

Aircraft and Engine Maintenance

The Company accounts for airframe and engine overhaul costs using the direct-expensing method. Overhauls are performed on a continuous basis and the cost of overhauls and routine maintenance costs for airframe and engine maintenance are charged to maintenance expense as incurred.

Advertising Costs

Advertising costs are charged to expense in the period the costs are incurred. Advertising expense was approximately $14,799,000, $14,835,000 and $13,087,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

Revenue Recognition

Passenger and cargo revenue is recognized when transportation is provided. Transportation purchased but not yet used is included in air traffic liability.

Rebranding Expenses

Rebranding expenses represent costs incurred in 1997 in connection with the Company's name change such as costs for advertising, new signs, uniforms and conforming information systems.

Stock-Based Compensation

The Company grants stock options for a fixed number of shares to officers, directors, key employees and consultants of the Company with an exercise price equal to or below the fair value of the shares at the date of grant. The Company accounts for stock option grants in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and accordingly, recognizes compensation expense only if the market price of the underlying stock exceeds the exercise price of the stock option on the date of grant.

SFAS No. 123, *Accounting for Stock-Based Compensation*, provides an alternative to APB Opinion No. 25 in accounting for stock-based compensation issued to employees. However, the Company will continue to account for stock-based compensation in accordance with APB Opinion No. 25.

Net Loss Per Share

Net loss per share (basic and diluted) was computed by dividing net loss by the weighted average number of shares of common stock outstanding. Common stock equivalents were anti-dilutive and therefore excluded from the computation of weighted average shares used in computing diluted loss per share.

Impact of Recently Issued Accounting Standards

In June 1998, the FASB issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS No. 133 is effective for periods beginning after June 15, 2000. The Company is currently evaluating SFAS No. 133 and has not yet determined its impact on the consolidated financial statements.

Reclassification

Operating expenses in the 1998 and 1997 financial statements have been reclassified to the current presentation. This presentation complies with current industry standards. Certain other prior year amounts have been reclassified to conform with the current year financial statement presentation.

2. Acquisitions

On November 17, 1997, the Company acquired all of the outstanding shares of common stock of Airways, which through its wholly-owned subsidiary, AirTran Airways, Inc., operates a domestic commercial airline providing point-to-point scheduled air transportation. The acquisition was recorded under the purchase method of accounting, and accordingly, Airways' results of operations are included in the accompanying consolidated financial statements from the date of acquisition. The aggregate purchase price was approximately $68,374,000 comprised of the following; 9,094,937 shares of the Company's common stock valued at approximately $63,664,000; 732,700 options to purchase the Company's common stock valued at approximately $3,000,000; 50,000 warrants to purchase the Company's common stock valued at $210,000; and cash of approximately $1,500,000 for the expenses of the Airways Merger and other costs. The purchase price has been allocated to the tangible and intangible assets purchased and the liabilities assumed based on the estimated fair market values at the date of acquisition. The allocation of the purchase price was finalized in 1998 resulting in an $8,154,000 increase in goodwill. The excess of cost over the fair value of the net assets acquired has been recorded as goodwill and is being amortized on a straight-line basis over 30 years.

The non-cash investing activity for the acquisition is as follows:

Fair value of assets acquired	$ 45,709
Intangibles resulting from business acquisitions	58,029
Liabilities assumed	(36,710)
Fair value of common stock and options issued	(66,664)
Net cash paid for acquisition	$ 364

The following data represents the combined unaudited operating results of the Company on a pro forma basis as if the acquisition of Airways had occurred at the beginning of the period presented. The pro forma information does not necessarily reflect the results of operations as they would have been had the acquisition actually taken place at that time, nor are they indicative of the results of future combined operations. Adjustments include amounts of depreciation to reflect the fair market value and economic lives of property and equipment and amortization of intangible assets. In addition, adjustments were made to reflect the additional shares issued.

	Unaudited Pro Forma Year Ended December 31,
(In thousands, except per share data)	1997
Total operating revenues	$ 303,669
Net loss	(107,017)
Net loss per share:	
basic and diluted	(1.67)

3. Commitments and Contingencies

Of the numerous lawsuits that were filed against the Company seeking damages attributable to those on Flight 592, there are two remaining cases proceeding in state courts in Florida and Texas. As all claims are handled independently by the Company's insurance carrier, the Company cannot reasonably estimate the amount of liability that may finally exist. As a result, no accruals for losses and the related claim for recovery from the Company's insurance carrier have been reflected in the Company's financial statements. The Company believes that the $750 million coverage available with respect to these claims will be sufficient to cover all claims arising from the accident. However, there can be no assurance that the total amount of judgments and settlements will not exceed the amount of insurance available therefor or that all damages awarded will be covered by insurance.

In November 1997, the Company filed a suit against SabreTech and its parent corporation seeking to hold them responsible for the accident involving Flight 592. On September 23, 1999, the Company settled its lawsuit against SabreTech and its parent. The net proceeds of $19,640,000 from the settlement are included in other revenue in the 1999 statement of operations.

Several stockholder class action suits were filed against the Company and certain of its current and former executive officers and Directors. The suits were subsequently consolidated into a single action. On December 31, 1998, the Company entered into a Memorandum of Understanding to settle the consolidated lawsuit. Although the Company denied that it violated any of its obligations under the federal securities laws, it paid $2.5 million in cash and $2.5 million in common stock in the settlement which was approved on October 28, 1999.

From time to time, the Company is engaged in other litigation arising in the ordinary course of business. The Company does not believe that any such pending litigation will have a materially adverse effect on its results of operations or financial condition.

At December 31, 1999, the Company's contractual commitments consisted primarily of scheduled aircraft acquisitions. The Company has entered into a contract with The Boeing Company to purchase 50 new B717 aircraft, to be delivered from 1999 to 2002, with options to purchase another 50 B717 aircraft. Aggregate funding needed for these and all other aircraft commitments was approximately $780 million at December 31, 1999.

Approximately $86 million of this amount is required to be paid in progress payments due from 2000 to 2001. After progress payments, the balance of the total purchase price must be paid or financed upon delivery of each aircraft. While the major aircraft manufacturer is required to provide credit support for a limited portion of third party financing, the Company will be required to obtain financing from other sources relating to these deliveries. If the Company exercises its option to acquire up to an additional 50 aircraft, additional payments could be required beginning in 2001. In conjunction with these contractual commitments, the Company has made non-refundable deposits of approximately $22,562,000 at December 31, 1999.

The following chart outlines the approximate future required deposits for aircraft progress payments as of December 31, 1999, (in thousands):

2000	$56,211
2001	29,565
2002	—
	$85,776

4. Fuel Price Risk Management

The Company entered into two fixed rate fuel swap contracts to protect against increases in jet fuel prices. Under the swap agreements, the Company receives or makes payments based on the difference between a fixed price and a variable price for certain fuel commodities. The change in market value of such agreements has a high correlation to the price changes of the fuel being hedged. Gains or losses on the fuel hedging agreements are recognized as a component of fuel expense when the underlying fuel being hedged is used. Gains and losses on the fuel hedging agreements would be recognized immediately should the changes in the market value of the agreements cease to have a high correlation to the price changes of the fuel being hedged. At December 31, 1999, the Company had a fuel hedging agreement with a broker-dealer on approximately 7.2 million gallons of fuel products, which represents 11% of its expected fuel needs for the first six months of 2000. The fair value of the Company's fuel hedging agreement at December 31, 1999, representing the amount the Company would receive upon termination of the agreement, totaled $1.1 million. If in the future, a swap agreement were terminated, any resulting gain or loss would be deferred and amortized to fuel expense over the remaining life of the agreement. A default by the broker-dealer to the swap agreement would expose the Company to potential fuel price risk on the remaining fuel purchases in that the Company would be required to purchase fuel at the current fuel price rather than at the swap agreement exchange rate. The Company does not enter into fuel swap contracts for trading purposes.

5. Accrued Liabilities

(In thousands)	December 31, 1999	1998
Accrued maintenance	***$24,278***	$15,541
Accrued interest	***9,447***	5,508
Accrued salaries, wages and benefits	***8,961***	4,931
Deferred gain	***6,300***	—
Accrued federal excise taxes	***2,176***	3,042
Other	***6,294***	15,486
	$57,456	$44,508

6. Long-Term Debt

(In thousands)	December 31, 1999	1998
Aircraft notes payable through 2017, 10.63% weighted average interest rate	***$178,850***	$ —
Senior notes due April 2001, 10.25% interest rate	***150,000***	150,000
Senior secured notes due April 2001, 10.50% interest rate	***80,000***	80,000
Promissory notes for aircraft and other equipment payable through 2002, 5.85% to 11.7% interest rates	***6,838***	15,994
	415,688	245,994
Less current maturities	***(19,569)***	(8,929)
	$396,119	$237,065

The Company completed a private placement of $178,850,000, enhanced equipment trust certificates (EETCs) on November 3, 1999. The proceeds have been and will be used to purchase the first ten B717 aircraft, which will serve as collateral for the EETCs. Unexpended proceeds from the EETC issue, $39,232,000 at December 31, 1999, are presented as a non-current asset in the balance sheet.

The promissory notes relate primarily to aircraft financing and bear interest at rates ranging from 5.85% to 11.67% per annum, and principal and interest payments are due in monthly or quarterly installments over four to seven year terms on a mortgage-style amortization based on the delivery date of the aircraft. One of these notes, with an aggregate unpaid principal balance of approximately $1,200,000 at December 31, 1999, has a variable rate of interest based on the London Interbank Offered Rate (“LIBOR”) (5.82% at December 31, 1999), plus a range of 1.50% to 3.73%.

Certain aircraft, engines, computer and telephone equipment with a book value totaling approximately $218,028,000 serve as collateral on the Senior Secured Notes, EETC and promissory notes.

Future long-term debt principal payments at December 31, 1999, are as follows (in thousands):

2000	$ 19,569
2001	232,158
2002	7,523
2003	4,643
2004	6,142
Thereafter	145,653
	$415,688

7. Leases

The Company leases seven DC-9s and one B737 under operating leases with terms that expire in 2003. The Company has the option to renew the DC-9 lease for one or more periods of not less than six months, with the renewal term to commence upon the expiration of the original term. The Company also leases facilities from local airport authorities or other carriers, as well as office space. These leases are operating leases and have terms from one month to thirteen years.

Total rental expense charged to operations for aircraft, facilities and office space for the years ended December 31, 1999, 1998 and 1997 was approximately $21,705,000, $23,851,000 and $13,655,000, respectively.

The following schedule outlines the future minimum lease payments at December 31, 1999, under non-cancelable operating leases with initial terms in excess of one year (in thousands):

2000	$ 18,059
2001	17,208
2002	15,609
2003	15,233
2004	8,700
Thereafter	45,623
	$120,432

8. Stock Option Plans

The 1993 Incentive Stock Option Plan (the “1993 Plan”) provides up to 4,800,000 options to be granted to officers, directors and key employees to purchase shares of common stock at prices not less than the fair value of the shares on the dates of grant. With respect to individuals owning more than 10% of the voting power of all classes of the Company’s stock, the exercise price per share shall not be less than 110% of the fair value of the shares on the date of grant.

The 1994 Stock Option Plan (the “1994 Plan”) provides up to 4,000,000 incentive stock options or non-qualified options to be granted to officers, directors, key employees and consultants of the Company.

The 1996 Stock Option Plan (the “1996 Plan”) provides up to 5,000,000 incentive stock options or non-qualified options to be granted to officers, directors, key employees and consultants of the Company.

In connection with the acquisition of Airways on November 17, 1997, the Company assumed the Airways Corporation 1995 Stock Option Plan (“Airways Plan”) and the Airways Corporation 1995 Director Stock Option Plan (“Airways DSOP”). Under the Airways Plan up to 1,150,000 incentive stock options or non-qualified options may be granted to officers, directors, key employees or consultants of the Company. Under the Airways DSOP, up to 150,000 non-qualified options may be granted to Directors.

Vesting and term of all options is determined by the Board of Directors and may vary by optionee; however, the term may be no longer than ten years from the date of grant.

Pro forma information regarding net loss and loss per share is required by SFAS No. 123, which also requires that the information be determined as if the Company has accounted for its employee stock options granted subsequent to December 31, 1994 under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1999, 1998 and 1997, respectively: risk-free interest rates of 5.0%, 5.4% and 5.7%; no dividend yields; volatility factors of the expected market price of the Company's common stock of 0.648, 0.710 and 0.570; and a weighted average expected life of the options of 6 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

The Company's pro forma information is as follows (in thousands, except per share data):

	1999	1998	1997
Pro forma net loss	***$(102,173)***	$(42,279)	$(97,876)
Basic and diluted pro forma net loss per share	***(1.57)***	(0.65)	(1.75)

Because SFAS No. 123 is applicable only to options granted subsequent to December 31, 1994, its pro forma effect is not fully reflected until 1999.

A summary of stock option activity under the aforementioned plans is as follows:

	Shares	Price Range	Weighted Average Price
Balance at January 1, 1997	6,623,530	$0.17–23.19	$ 5.06
Granted	1,304,000	5.31– 6.88	5.52
Assumed in Airways Merger	732,700	2.70–10.75	4.60
Exercised	(317,480)	0.17– 5.13	2.85
Canceled	(226,320)	1.00–21.38	12.20
Balance at December 31, 1997	8,116,430	0.17–23.19	4.84
Granted	235,000	5.50– 8.13	7.67
Exercised	(562,580)	0.17– 5.69	2.81
Canceled	(997,870)	0.17–21.38	7.16
Balance at December 31, 1998	6,790,980	0.17–23.19	4.71
Granted	2,571,000	3.03– 6.41	3.52
Exercised	(226,420)	0.17– 5.50	4.56
Canceled	(495,040)	3.13–21.50	7.04
Balance at December 31, 1999	***8,640,520***	***$0.17–23.19***	***$ 4.16***
Exercisable at December 31, 1999	***5,382,149***	***$0.17–23.19***	***$ 3.61***

The following table summarizes information concerning currently outstanding and exercisable options:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.17	2,407,000	3.5	$ 0.17	2,407,000	$ 0.17
1.00– 4.00	3,549,300	7.1	3.18	1,339,300	3.13
4.50– 6.88	1,909,580	7.4	5.36	1,152,835	5.41
7.03–13.25	108,400	6.7	10.45	77,734	10.75
18.38–23.19	666,240	6.1	19.04	405,280	19.08
$ 0.17–23.19	8,640,520	6.0	$ 4.14	5,382,149	$ 3.60

The weighted average fair value of options granted during 1999, 1998 and 1997, with option prices equal to the market price on the date of grant, was $2.07, $7.98 and $2.66, respectively. There were no options granted during 1999, 1998 and 1997 with option prices less than the market price of the stock on the date of grant.

At December 31, 1999, the Company had reserved a total of 12,519,330 shares of common stock for future issuance, upon exercise of stock options.

9. Income Taxes

The income tax provision (benefit) is as follows (in thousands):

	1999	1998	1997
Current:			
Federal	***$ 352***	$ —	$ (9,554)
State	***—***	—	—
Total current	***352***	—	(9,554)
Deferred			
Federal	***2,010***	—	(13,321)
State	***377***	—	—
Total deferred	***2,387***	—	(13,321)
	$2,739	$ —	$(22,875)

A reconciliation of the provision for income taxes (benefit) to the federal statutory rate is as follows (in thousands):

	1999	1998	1997
Tax at statutory rate	***$(33,829)***	$(14,258)	$(41,803)
State taxes, net of federal benefit	***(3,089)***	(606)	(4,761)
Goodwill	***517***	7,705	89
Alternative minimum tax	***909***	—	—
Benefit of preacquisition net operating loss carryforwards	***2,387***	—	—
Other	***(434)***	(110)	(570)
Valuation reserve	***36,278***	7,269	24,270
	$ 2,739	$ —	$(22,775)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows (in thousands):

	December 31,	
	1999	1998
Deferred tax liabilities:		
Depreciation	***$ —***	$ 28,370
Other	***—***	342
Total deferred tax liabilities	***—***	28,712
Deferred tax assets:		
Depreciation	***21,740***	—
Accrued liabilities	***1,011***	2,362
Non qualified stock options	***930***	930
Federal operating loss carryforwards	***37,938***	49,470
State operating loss carryforwards	***6,741***	8,158
AMT credit carryforwards	***3,526***	2,617
Other	***4,024***	4,807
Total deferred tax assets	***75,910***	68,344
Valuation allowance for deferred tax assets	***(75,910)***	(39,632)
Net deferred tax assets	***—***	28,712
Net deferred tax liabilities	***$ —***	$ —

For financial reporting purposes, a valuation allowance has been recognized at December 31, 1999, and 1998, to reduce the net deferred income tax assets to zero. The Company has not recognized any benefit from the future use of operating loss carryforwards because management's evaluation of all the available evidence in assessing the realizability of the tax benefits of such loss carryforwards indicates that the underlying assumptions of future profitable operations contain risks that do not provide sufficient assurance to recognize such tax benefits currently.

At December 31, 1999, the Company had net operating loss carryforwards for income tax purposes of approximately $108,394,000 that begin to expire in 2012. In addition, the Company has Alternative Minimum Tax credit carryforwards for income tax purposes of $3,526,000.

The amount of net operating loss carryforwards generated by Airways prior to the Airways Merger is $23,098,000. The use of pre-acquisition operating loss carryforwards is subject to limitations imposed by the Internal Revenue Code. The Company does not anticipate that these limitations will affect utilization of the carryforwards prior to expiration. For financial reporting purposes, a valuation allowance of $4,730,000 was recognized at the date of the acquisition to offset the deferred tax assets related to those carryforwards. This valuation allowance was increased to $8,093,000 during 1998 in connection with a reallocation of the purchase price. When realized, the tax benefit for those items will be applied to reduce goodwill related to the acquisition of Airways. During 1999, the Company utilized $6,282,000 of Airways' net operating loss carryforwards and reduced goodwill by the $2,387,000 tax benefit of such utilization.

10. Impairment Loss

In the fourth quarter of 1998, the Company decided to accelerate the retirement of its four owned B737 aircraft as a result of the elimination of their original route system and continued operating losses upon their redeployment to other routes. The B737s, which were acquired in the Airways merger, will be replaced with B717 aircraft. In the fourth quarter of 1999, the Company decided to accelerate the retirement of its 42 DC-9 aircraft to accommodate the introduction of its B717 fleet.

In connection with each of the decisions to accelerate the retirement of these aircraft, the Company performed evaluations to determine, in accordance with SFAS No. 121, whether future cash flows (undiscounted and without interest charges) expected to result from the use and eventual disposition of these aircraft would be less than the aggregate carrying amount of these aircraft and related assets and, for the B737s, an allocation of cost in excess of net assets acquired resulting from the Airways Merger. SFAS No. 121 requires that when a group of assets being tested for impairment was acquired as part of a business combination that was accounted for using the purchase method of accounting, any cost in excess of net assets acquired that arose as part of the transaction must be included as part of the asset grouping. As a result of the evaluations, management determined that the estimated future cash flows expected to be generated by these aircraft would be less than their carrying amounts and, for the B737s, allocated cost in excess of net assets acquired, and therefore these aircraft are impaired as defined by SFAS No. 121. Consequently, the original cost bases of these assets were reduced to reflect the fair market value at the date the decisions were made, resulting in a $27,492,000 impairment loss on the B737s in 1998 and a $147,735,000 impairment loss on the DC-9s in 1999. The Company considered recent transactions and market trends involving similar aircraft in determining the fair market value.

11. Shutdown and Other Nonrecurring Expenses

Shutdown and other nonrecurring expenses include costs associated with the loss of Flight 592 and the resulting excess costs related to the reduced schedule in 1997. Such costs consist of expenses directly related to the accident and the ensuing extensive FAA review of the Company's operations including legal fees, payments to the FAA, inspection related costs and unusual maintenance in excess of normal recurring maintenance. In addition, depreciation on grounded aircraft is included in shutdown and other nonrecurring expenses.

Below is a detail of such costs for the year ended December 31, 1997 (in thousands):

Maintenance	$15,380
Legal and other	6,318
Depreciation	3,141
	$24,839

12. Financial Instruments

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company maintains cash and cash equivalents with various high credit-quality financial institutions or in short-duration high quality debt securities. The Company periodically evaluates the relative credit standing of those financial institutions that are considered in the Company's investment strategy. Concentration of credit risk with respect to accounts receivable is limited due to the large number of customers comprising the Company's customer base.

The fair values of the Company's long-term debt are based on quoted market prices, if available, or are estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The carrying amounts and estimated fair values of the Company's long-term debt were $415,688,000 and $392,288,000, respectively, at December 31, 1999, and $245,994,000 and $175,294,000, respectively, at December 31, 1998.

13. Employee Benefit Plans

Effective January 1, 1998, the Company consolidated its 401(k) Plans (the "Plan"). All employees of AirTran Holdings, Inc., and AirTran Airways are eligible to participate in the consolidated Plan, a defined contribution benefit plan which qualifies under Section 401(k) of the Internal Revenue Code. Participants may contribute up to 15% of their base salary to the Plan. Contributions to the Plan by the Company are discretionary and amounted to approximately $347,000 in 1999 and $288,000 in 1998. There were no contributions made during 1997.

Under the 1995 Employee Stock Purchase Plan (the "Stock Plan"), employees who complete twelve months of service are eligible to make quarterly purchases of the Company's common stock at up to a 15% discount from the market value on the offering date. The Board of Directors determines the discount rate before each offering date. The Company is authorized to issue up to 4,000,000 shares of common stock under this plan. During 1999, 1998 and 1997 the employees purchased a total of 51,318, 23,023 and 24,190 shares, respectively, at an average price of $3.94, $5.65 and $5.90 per share, respectively, which represented a 5% discount from the market price on the offering dates.

14. Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for 1999 and 1998 is as follows (in thousands, except per share data):

	Quarter			
	First	Second	Third	Fourth
Fiscal 1999				
Operating revenues	***$119,873***	***$140,015***	***$143,483***	***$ 120,097***
Operating income (loss)	***9,001***	***21,455***	***29,570***	***(132,014)***
Net Income (loss)	***3,054***	***14,959***	***23,167***	***(140,574)***
Basic earnings (loss) per share	***5¢***	***23¢***	***36¢***	***$ (2.15)***
Diluted earnings (loss) per share	***5¢***	***22¢***	***34¢***	***$ (2.15)***

	Quarter			
	First	Second	Third	Fourth
Fiscal 1998				
Operating revenues	$ 94,541	$123,988	$115,060	$ 105,718
Operating income (loss)	(2,874)	14,421	(5,319)	(24,785)
Net Income (loss)	(7,873)	8,559	(10,893)	(30,531)
Basic and diluted income (loss) per share	(12)¢	13¢	(17)¢	(47)¢

The results of the fourth quarters of 1999 and 1998 include impairment charges of $147,735,000 and $27,492,000, respectively, related to the DC-9 fleet and the B737 fleet.

The results of the third quarter of 1999 include net proceeds of $19,640,000 from the settlement of a lawsuit against a third party maintenance provider.

Year-end adjustments resulted in increasing the loss before income taxes during the fourth quarter of 1999 by approximately $5,250,000. Of this amount, approximately $3,160,000 relates to the correction of revenue recorded in earlier quarters during 1999 and approximately $2,090,000 relates to changes in management's estimates and assumptions primarily related to accruals for vacation and group health insurance.

At December 31, 1997, the Company had accrued the estimated costs to reactivate certain aircraft. During the quarter ended June 30, 1998, the reactivation of these aircraft was completed and the associated costs were finalized. The remaining maintenance accrual was therefore revised based on this additional information and $3 million was reversed into income, increasing income for the quarter ended June 30, 1998, by approximately $0.05 per share on a diluted basis.

15. Supplemental Guarantor Financial Information

The Company's $150,000,000 of 10.25% Senior Notes issued during 1996 are fully and unconditionally guaranteed on a joint and several basis by AirTran Airways, a wholly-owned subsidiary of the Company, and by AirTran Airways' subsidiary ("Guarantors"). The $80,000,000 of 10.50% Senior Secured Notes issued by AirTran Airlines, now AirTran Airways, during 1997 are fully and unconditionally guaranteed on a joint and several basis by AirTran Holdings, Inc., and AirTran Airways' subsidiary. AirTran Airways and its subsidiary conduct all of the operations of the Company. All of the subsidiary Guarantors are wholly-owned or indirect subsidiaries of the Company, and there are no direct or indirect subsidiaries of the Company that are not Guarantors. Separate financial statements of the subsidiary Guarantors are not presented because AirTran Holdings, Inc. and all of its subsidiaries guarantee the Senior Notes and the Senior Secured Notes on a full, unconditional and joint and several basis.

Summarized consolidated financial information as of and for the year ended December 31, 1999, is as follows (in thousands):

	AirTran Airways and Subsidiary	AirTran Holdings, Inc.	Eliminations	AirTran Holdings, Inc. and Subsidiaries
Current assets	$103,644	$ —	$ —	$103,644
Non-current assets	362,355	113,172	(112,157)	363,370
Current liabilities	107,723	3,203	—	110,926
Non-current liabilities	399,322	150,000	(153,203)	396,119
Operating revenues	523,468	—	—	523,468
Operating loss	(71,988)	—	—	(71,988)
Loss before income taxes	(96,655)	—	—	(96,655)
Net loss	(99,394)	—	—	(99,394)

Summarized consolidated financial information as of and for the year ended December 31, 1998, is as follows (in thousands):

	AirTran Airlines and Subsidiary	AirTran Airways	AirTran Holdings, Inc.	Eliminations	AirTran Holdings, Inc. and Subsidiaries
Current assets	$ 52,957	$ —	$ —	$ —	$ 52,957
Non-current assets	321,646	3,290	208,835	(210,322)	323,449
Current liabilities	83,798	—	3,203	(3,290)	83,711
Non-current liabilities	240,268	—	150,000	(153,203)	237,065
Operating revenues	439,307	—	—	—	439,307
Operating loss	(18,557)	—	—	—	(18,557)
Loss before income taxes	(39,922)	(816)	—	—	(40,738)
Net loss	(39,922)	(816)	—	—	(40,738)

Report of Independent Auditors

The Stockholders and Board of Directors
AirTran Holdings, Inc.

We have audited the accompanying consolidated balance sheets of AirTran Holdings, Inc. as of December 31, 1999, and 1998, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AirTran Holdings, Inc. at December 31, 1999, and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Atlanta, Georgia
January 25, 2000

Directors

Joseph B. Leonard
Chairman of the Board
President and CEO
AirTran Holdings, Inc.

Don L. Chapman
President
S&S Tug, Inc.

John K. Ellingboe
COO
Ovations Inc., a subsidiary of UnitedHealth Group Co.

Lewis H. Jordan
Principal
Wingspread Enterprises, LLC

Robert L. Priddy
Principal
RMC Capital, LLC

Robert D. Swenson
Principal
Pacific Alaskan Airways, LLC

Company Information

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Transfer Agent
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1525 West W. T. Harris Blvd.
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Stock Exchange Listing
The Company's Common Stock is traded on the Nasdaq Stock Exchange under the symbol, AAIR. As of March 10, 2000, there were approximately 5,512 holders of record, with a total of 65,724,148 shares outstanding. The Company currently does not pay cash dividends.

Form 10-K
A copy of the Form 10-K and other financial reports filed with the Securities and Exchange Commission are available upon request by writing:
AirTran Holdings, Inc.
Attn: Investor Relations
9955 AirTran Blvd.
Orlando, FL 32827

1999: turn around
2000: soaring ahead