



FORM 10-K

AIRTRAN HOLDINGS INC - AAI

Filed: March 31, 1997 (period: December 31, 1996)

Annual report which provides a comprehensive overview of the company for the past year

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 1996 or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____

Commission file number 0-26914

VALUJET, INC.

(Exact name of registrant as specified in its charter)

NEVADA

58-2189551

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

1800 Phoenix Boulevard, Atlanta, Georgia

30349

(Address of principal executive offices)

(Zip Code)

(770) 907-2580

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

None

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.001 par value

(Title of class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

As of March 10, 1997, the aggregate market value of voting stock held by non-affiliates of the Registrant, based on the closing sales price of such stock in the NASDAQ Stock Market on March 10, 1997, was approximately \$340,000,000. As of March 10, 1997, the Registrant had 54,878,322 shares of Common Stock outstanding.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Documents Incorporated by Reference

Portions of the Proxy Statement to be used in connection with the solicitation of proxies to be voted at the Registrant's annual meeting of Stockholders to be held on May 21, 1997, to be filed with the Commission, are incorporated by reference into Part III of this Report on Form 10-K.

Exhibit Index is located on pages 33 - 34.

PART I

ITEM 1. BUSINESS

HISTORY

ValuJet Airlines, Inc. was organized as a Nevada corporation in July 1992. In October 1995, ValuJet Airlines, Inc. became a wholly-owned subsidiary of ValuJet, Inc. (the "Company") as a result of a merger. The consolidated financial information contained herein or incorporated herein by reference reflects the financial information regarding the Company and its subsidiaries, before and after such merger.

THE COMPANY

The Company, through its wholly owned subsidiary, ValuJet Airlines, Inc., operates an affordable, no frills, limited frequency, scheduled airline serving short haul markets primarily in the eastern United States. The Company believes that its low cost, no frills philosophy allows it to offer among the lowest fares in its markets and generate its own traffic by stimulating incremental demand with price-conscious travelers. Prior to June 17, 1996, the Company offered service to 31 cities from Atlanta and the Company's three "focus cities," Washington DC (Dulles Airport), Boston and Orlando. The Company's operations were interrupted by the suspension of the Company's service on June 17, 1996, pursuant to a consent order entered into with the FAA following the accident involving Flight 592 on May 11, 1996, and the ensuing extensive media and FAA scrutiny. As of September 30, 1996, the Company resumed operations with service between Atlanta and four other cities. As of March 21, 1997, the FAA has approved 24 of the Company's DC-9-32 aircraft for flight and the Company operates 144 flights per peak day between Atlanta and 20 other cities. In the short term, the Company does not expect to recommence service to all markets previously served by the Company. There can be no assurance as to when the Company will be able to reestablish its profitable operations, if at all, or to resume its previous levels of service and growth strategy.

STRATEGY

The Company's strategy is to provide a safe, reliable, customer friendly alternative for affordable air transportation. The Company's operating strategy is based on its commitment to offer everyday low fares that stimulate demand from leisure and fare conscious business travelers. The key elements in this strategy are a simple fare structure and an efficient cost structure which is achieved through a highly productive and efficient work force, a ticketless distribution technology and a fleet of DC-9 aircraft.

For the customer, "simple" means the service is easy to understand and use, including a simplified fare structure, with everyday low prices, simplified reservations and check-in procedures and a ticketless process. In contrast, today's airline industry is characterized by complex fares, schedules, reservations, check-in procedures and ticketing.

The Company's service is intended to satisfy the basic air transportation needs of the Company's targeted customers who are short haul travelers visiting friends and relatives, vacationing or involved with fare conscious businesses. The Company believes that the basic air transportation needs of its targeted customers can be satisfied by providing a limited number of flights per day (currently up to seven frequencies), baggage service, in-flight beverages and the ability to make advance reservations. The Company avoids what it believes to be unnecessary and nonproductive costs such as meals, a frequent flyer program, advance seat assignment, airport clubs or other amenities offered by many of its competitors.

The Company's pricing structure and affordable fares are intended to stimulate new demand for air travel by leisure customers and fare conscious business travelers who would have otherwise used ground transportation or

not have traveled. The Company's simple fare system incorporates a predictable, "everyday low pricing" fare structure designed to provide its customers with substantial savings over its competitors based on walk up fares and further savings by purchasing seats in advance or by flying during off peak times. In the first six months of 1996, the Company's average fare in its markets was \$72.75, substantially less than the average fare in those markets prior to the Company's commencement of operations. The Company generates its own traffic through low fare market stimulation rather than pursuing the more traditional airline approach of competing for market share with existing carriers.

IMPACT OF ACCIDENT AND SUSPENSION OF OPERATIONS

On May 11, 1996, ValuJet tragically lost its flight 592 en route from Miami to Atlanta. There were no survivors. The accident resulted in extensive media coverage calling into question the safety of low-fare airlines in general and the Company in particular. In response to the accident, the FAA announced an extraordinary review of the Company's operations.

On June 17, 1996, the Company entered into a consent order with the FAA under which: (i) the Company agreed to suspend operations until such time as the Company was able to satisfy the FAA as to various regulatory compliance concerns identified by the FAA as a result of its intensive inspections of the Company's operations, (ii) the FAA agreed to work with the Company in order to reestablish operations with up to 15 aircraft initially, and (iii) the Company paid \$2 million to the FAA to compensate it for the costs of the special inspections conducted. In order to reduce costs, the Company furloughed approximately 90% of its personnel in June 1996.

On August 29, 1996, the FAA returned the Company's operating certificate and the Department of Transportation ("DOT") issued a "show cause" order regarding the Company's fitness as an air carrier. The DOT gave its final approval on September 26, 1996, and the Company resumed operations with service between Atlanta and four other cities on September 30, 1996.

As of March 21, 1997, the FAA has approved 24 of the Company's 43 aircraft for flight operations.

Other effects of the accident, ensuing FAA inspections, media coverage and suspension of operations include:

1. The suspension of operations has resulted in the failure of the Company to meet certain financial covenants under certain of the Company's secured debt. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources in Item 7 of this Report on Form 10-K for further discussion.
2. The expansion of the Company's operations will likely be subject to FAA and DOT approval for an indefinite period of time.
3. The Company is unable to predict how significantly the accident and suspension of operations will affect load factors and yield or the length of time load factors and yield will be impacted.
4. The Company has sold certain of its aircraft and has assigned its rights to purchase certain aircraft previously under contract for delivery in 1996. In addition, the Company may lease out or sell some of its other aircraft.
5. In 1996, the Company refunded fares paid by customers affected by the Company's changing schedules and by those who otherwise chose to change their travel plans.

6. The Company's cost per ASM has increased and is likely to remain inflated to some extent to reflect the cost of additional maintenance procedures and infrastructure adopted by the Company and lower aircraft utilization levels.
7. The Company may reduce its workforce permanently if reduced traffic levels continue and the Company is unable to reestablish its previous service levels.
8. The aircraft lost was insured for \$4.0 million which is in excess of book value. The Company carries \$750 million of liability insurance. Although the Company believes that such insurance will be sufficient to cover all claims arising from the accident, there can be no assurance that all claims will be covered or that the aggregate of all claims will not exceed such insurance limits.
9. Several stockholder lawsuits have been filed against the Company and certain of its officers and directors alleging, among other things, violation of federal securities laws. While the Company denies that it has violated any of its obligations under the federal securities laws and believes that the lawsuits do not have any merit, there can be no assurance that the Company will not sustain material liability under such or related lawsuits.
10. Various governmental authorities are conducting investigations of the circumstances surrounding the accident. The Company is cooperating with the authorities in connection with these investigations.

In light of these factors, persons investing in securities of the Company should be apprised of the following additional risks:

1. The suspension of operations has resulted in the failure of the Company to meet certain financial covenants (the fixed charge coverage ratio) under certain of the Company's secured debt. This could result in the acceleration of such debt and a reduction in the Company's cash position. If the Company does not timely repay all indebtedness accelerated or if the Company's other secured lenders or the holders of the Company's 10 1/4% senior notes seek to accelerate their debt as a result of such accelerations, then a substantial portion or all of the Company's debt could be accelerated. For a further discussion, see Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Report on Form 10-K.
2. There is no assurance that the Company will recover sufficient customer acceptance in order to regain profitability.
3. If the Company regains profitability, there may be reduced customer support which could decrease the Company's profitability indefinitely.
4. The expansion of the Company's operations will likely be subject to FAA and DOT approval for an indefinite period of time.
5. Although preliminary information indicates no connection, if the National Transportation Safety Board (NTSB) were to determine that the Company's maintenance procedures or aging aircraft contributed to the cause of the accident, such determination could have a substantial adverse effect on the Company's future operations.
6. The occurrence of one or more subsequent incidents or accidents by the Company's aircraft could likely have a substantial adverse effect on the Company's public perception and future operations.

GEOGRAPHIC MARKET

The Company's markets are located predominantly in the eastern United States. These markets are attractive to the Company due to the concentration of major population centers within relatively short distances from Atlanta, historically high air fares and the potential for attracting leisure customers who would otherwise use ground transportation.

During 1996, the Atlanta Airport was the second busiest airport in the United States, enplaning over 30 million passengers. Additionally, the Company will offer service to Florida markets as the Company believes that more than 20 million people visit the Florida markets by automobile every year from Atlanta and other points in the eastern United States.

In the Company's city selection process, the Company considers the amount of airport charges, incentives offered by communities to be served, the ability to stimulate air travel and competitive factors.

FARES, ROUTE SYSTEM AND SCHEDULING

The Company serves short haul markets (up to 1,000 miles) from Atlanta, with a limited number of flights (up to seven round trips per destination per day) offering basic air transportation at affordable fares.

The Company offers a range of fares based on advance purchases of 14 days, 7 days, 2 days and "walk-up" fares. Within the 14 and 7 day fare types, the Company offers off-peak and peak fares which are \$10 to \$30 higher based on day of week and time of day traveled. Peak travel times are those designated by flight by the Company; peak times are generally portions of the day or all day on Thursdays, Fridays, Saturdays and Sundays. All the Company's fares are nonrefundable, but can be changed prior to departure for a \$30 fee. The Company's fares are always purchased on a one-way basis. The Company's fares do not require any minimum, maximum or day of week (e.g., Saturday night) stay. The Company's simplified fare offerings, all for a single class of service, are in direct contrast to prevalent pricing policies in the industry where there are typically many different price offerings and restrictions for seats on any one flight.

The Company's published Atlanta fares for non-stop service range from \$39 to \$89 for off-peak one-way travel on a 14 day advance purchase basis and \$119 to \$149 for one-way travel on a "walk-up" basis. During the reintroduction of the Company's service to markets previously served and during the introduction of service to new markets, the Company generally offers introductory one-way fares for all flights to or from Atlanta.

A majority of the Company's customers originate or terminate their travel on the Company's non-stop service. One-stop connecting service is provided through Atlanta between certain of the other cities served by the Company.

The following table sets forth certain information with respect to the Company's route system based on the Company's schedule in effect or announced as of March 6, 1997.

Airport Served -----	Service Commencement Date (a) -----	Round Trip Flights Scheduled On Peak Day (b) -----
Atlanta-		
Akron/Canton, OH.....	March 1997	3
Boston, MA.....	February 1997	1(c)
Chicago, IL (Midway)....	October 1996	4
Columbus, OH.....	October 1996	3

Dallas/Fort Worth, TX...	April 1997	4
Fort Lauderdale, FL.....	September 1996	5
Fort Myers, FL.....	January 1997	2
Fort Walton Beach, FL...	October 1996	2
Jacksonville, FL.....	October 1996	3
Louisville, KY.....	October 1996	3
Memphis, TN.....	October 1996	3
Mobile, AL.....	October 1996	2
New Orleans, LA.....	October 1996	4
Newport News, VA.....	October 1996	3
Orlando, FL.....	September 1996	6
Philadelphia, PA.....	October 1996	4
Raleigh/Durham, NC.....	October 1996	4
Savannah, GA.....	October 1996	2
Tampa, FL.....	September 1996	5
Washington DC (Dulles)..	September 1996	7
West Palm Beach, FL.....	December 1996	3
Washington, DC (Dulles)-		
Atlanta, GA.....	September 1996	7
Boston, MA.....	February 1997	4

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- (a) For markets served by the Company prior to the suspension of its operations, the date indicated is the date the Company recommenced service.
- (b) Peak day refers to the days of the week on which the Company provides the greatest number of flights for the route shown.
- (c) Does not include one-stop service through Washington, DC (Dulles) (up to four round trips per peak day).

Subject to the FAA's approval, the Company will consider the addition of other markets and the provision of service between cities other than Atlanta. There can be no assurance as to the timing of approvals of additional aircraft by the FAA which will depend upon the FAA's review of the Company's operations. Service is provided on all routes every day although more frequent service may be provided on peak travel days.

The Company's aircraft scheduling strategy is directly related to the perceived needs of its target market segments and the low fixed ownership costs of its aircraft fleet. The Company's target customers are travelers visiting friends and relatives, vacationers and small business travelers who are more price sensitive than schedule or frequency sensitive. As a result, the Company's schedule has provided for one to seven frequencies per peak travel day in any given market.

The Company's low fixed aircraft ownership costs (depreciation plus interest expense) provide the Company with flexibility to tailor capacity to demand. As a result, on low demand travel days such as Tuesday and Wednesday, the Company reduces total costs by operating a reduced schedule with fewer frequencies per market. Conversely on peak days, the Company may add more frequency to accommodate higher demand. The Company generally keeps a number of its aircraft out of scheduled service in order to provide operating spares and to rotate aircraft into routine scheduled maintenance.

AIRCRAFT

As of March 21, 1997, the Company owned 43 DC-9-30 series aircraft with 113 to 115 seats. All of the Company's aircraft are configured with a single class of service. In order to simplify its operations and in light of the limited number of aircraft the Company is authorized to operate, the Company intends to sell or lease out up to 13 of its DC-9-30 aircraft. Aircraft in excess of the number the Company is authorized to operate will be stored until the Company receives authorization to operate from the FAA or until a sale or lease arrangement is consummated.

As of March 21, 1997, the FAA has approved 24 aircraft for operation by the Company. The addition of aircraft to the Company's operating specifications is subject to FAA and DOT approval. There can be no assurance as to the timing or extent of any such subsequent approvals. The Company's expansion is subject to FAA approval and could be affected by heightened FAA scrutiny and the Company's ability to regain customer acceptance.

The Company has entered into a contract with McDonnell Douglas to purchase 50 new MD-95 aircraft, to be delivered from 1999 through 2002, with options to purchase an additional 50 aircraft. The MD-95 will have 129 seats in a single class configuration. The Company estimates that the MD-95 aircraft, with a slightly larger capacity, increased fuel efficiency and lower maintenance costs, will provide a cost per ASM lower than its existing DC-9 fleet, even after including its higher acquisition cost. The Company is the "launch" customer of the MD-95 aircraft. The Company became the launch customer for the MD-95 aircraft because (i) the availability of DC-9's in large numbers was becoming increasingly uncertain, and (ii) the MD-95 purchase terms presented the Company with the most attractive DC-9 replacement alternative in comparison with other manufacturers' products. Further, as the MD-95 aircraft is an extension of the original DC-9 family of aircraft, the Company believes it will realize substantial savings in training and parts as well as having the advantage of being able to carry a greater number of customers.

According to FAA rules, before January 1, 1997, each new entrant airline must have at least 50% of its fleet in compliance with the FAA's Stage 3 noise level requirements. The balance of such airlines' fleets must be brought into compliance with Stage 3 noise level requirements in phases: 75% by December 31, 1998 and full compliance required by December 31, 1999. As of March 21, 1997, 15 of the Company's 24 aircraft on its operating specifications complied with these requirements. Of the Company's remaining 19 aircraft, three comply with Stage 3 as of the date of this report. The Company intends to meet the Stage 3 requirements by installing hush kits on certain of its Stage 2 aircraft, by disposing of other Stage 2 aircraft and by acquiring Stage 3 aircraft.

SAFE HARBOR STATEMENTS

Statements made by the Company in this report regarding the Company's ability to increase its service levels, to maintain its low cost structure and to become profitable again are forward-looking statements and are not historical facts. Instead they are estimates or projections involving numerous risks and uncertainties including but not limited to governmental approval of increases in service by the Company, the Company's ability to dispose of certain aircraft, the utilization level of the Company's aircraft, the level of those costs which are beyond the Company's control, the effect of the Company's accounting policies, the Company's ability to hire and retain qualified personnel under its new compensation program and results of pending lawsuits. These risks and uncertainties could potentially cause the Company's implementation of additional service to be delayed or the Company's costs to exceed present estimates. The Company disclaims any obligation to update or correct any of its forward-looking statements.

MAINTENANCE AND REPAIRS

Since the Company's fleet of DC-9 aircraft are all more than 20 years old, it is likely that they will require higher maintenance expenses than newer aircraft. The Company believes that its aircraft are mechanically

reliable and that the estimated cost of maintenance to fly such aircraft is and will continue to be within industry norms. Included in these maintenance expense estimates are current requirements to comply with existing FAA Aging Aircraft Airworthiness Directives ("ADs"). Amendments to FAA regulations have been proposed and are currently pending administrative approval which would require certain heavy maintenance checks and other maintenance requirements for aircraft operating beyond certain operational limits. The Company will be required to comply with such proposals, if adopted, and with any other aging aircraft issues, regulations or ADs, that may be promulgated in the future. There can be no assurance that the Company's costs of maintenance (including costs to comply with aging aircraft requirements) will fall within industry norms.

Various incidents involving the Company's aircraft prior to May 1996, the accident involving Flight 592 and the suspension of the Company's operations have contributed to a negative public perception as to the safety of the Company's aircraft and operations.

Extraordinary regulatory review of the Company's operations by the FAA followed the May 1996 accident and various FAA findings ultimately resulted in the consent order under which the Company's operations were suspended on June 17, 1996. The Company has subsequently satisfied the FAA's requirements outlined in the consent order and the FAA returned the Company's operating certificate to it on August 29, 1996. The Company is likely to be subject to increased and continuing regulatory scrutiny which could affect the Company's operations, acquisition program and expansion plans indefinitely.

Aircraft maintenance and repair consists of routine daily or "turn-around" maintenance and major overhaul. Routine daily maintenance is performed at Atlanta by the Company's employees or contract employees and by contractors at the other cities served by the Company. Major overhauls or heavy checks are performed by a contractor at the contractor's own maintenance base. In response to FAA concerns, the Company has decided to limit to two the number of outside contractors performing heavy maintenance on the Company's aircraft. At this time, these contractors are Zantop of Macon, Georgia, and Aero Corp. of Lake City, Florida. The Company may replace these contractors or add additional contractors subject to FAA approval. Other routine daily maintenance contractors are either other airlines which operate DC-9-30 series aircraft or other maintenance companies approved by the FAA, who in either case have employees qualified in DC-9-30 series aircraft maintenance.

The addition of MD-95 aircraft will require greater inventories of spare parts and associated costs.

FUEL

The cost of jet fuel is an important expense for the Company. Jet fuel costs are subject to wide fluctuations as a result of sudden disruptions in supply, such as the effect of the invasion of Kuwait by Iraq in August 1990. Due to the effect of world and economic events on the price and availability of oil, the future availability and cost of jet fuel cannot be predicted with any degree of certainty. Increases in fuel prices or a shortage of supply could have a material adverse effect on the Company's operations and operating results. The Company has not entered into any agreement which fixes the price of fuel over any period of time.

The Company's fleet of DC-9 Series 30 aircraft are relatively fuel inefficient compared to newer aircraft and industry averages. The primary reasons for this inefficiency are the aircraft size, engine technology and short trip length operations. In management's opinion, the lower ownership costs of the DC-9 aircraft more than compensate for this relative fuel inefficiency.

A significant increase in the price of jet fuel would result in a disproportionately higher increase in the Company's average total costs than its competitors using more fuel efficient aircraft and whose fuel costs represent a smaller portion of total costs. The Company would possibly seek to pass such a cost increase to the Company's customers through a fare increase. There can be no assurance that any such fare increase would not reduce the competitive advantage the Company seeks by offering affordable fares.

The MD-95 aircraft to be acquired by the Company are expected to be more fuel efficient and should make the Company relatively less susceptible to adverse effects attributable to fuel price changes.

DISTRIBUTION AND MARKETING

The Company's marketing efforts are vital to its success as it seeks to stimulate new customer demand, sell outside of the conventional distribution systems and forgo traditional amenities such as a frequent flyer program. The Company has targeted short haul travelers visiting friends and relatives, vacationing or involved with fare conscious businesses. These are market segments which the Company believes offer the greatest opportunity for stimulating new demand, selling direct and not requiring traditional amenities. Based on a survey conducted by the Company in 1994, a substantial majority of the Company's customers were traveling for pleasure.

The primary objectives of the Company's marketing activities are to develop a brand identity or personality which is visibly unique and easily contrasted with its competitors and to communicate its service directly to potential customers. When initiating service to a new market or restarting flights to previously served markets, the Company typically makes extensive use of billboard, radio and newspaper advertising, as well as active public relations efforts, and focuses on the affordable fares to be offered on an everyday basis.

Company Personality

The Company has sought to establish consumer recognition of the Company as a small vibrant company, where customers receive affordable airline transportation which exceeds their expectations. The Company attempts to portray a fun and friendly personality in contrast to the image portrayed by many other airlines.

To achieve this personality, the Company has developed a color scheme for its aircraft and station facilities designed to be striking and bold, the "Crittter" cartoon airplane logo and tag lines designed to be friendly and fun, casual attire for employees (including leather jackets for pilots, varsity jackets for flight attendants and casual sportswear) and a variety of promotional materials such as ValuJet shirts, sweaters, bumper stickers and license plates. Additionally, the Company's Atlanta gate areas are furnished with brightly colored plastic playground equipment reinforcing the Company's family orientation.

Customer Communication

The Company communicates regularly and frequently with potential customers through the use of advertisements in newspapers, on radio and on billboards. These communications feature the Company's destinations, everyday affordable fares, ease of use (including its simplified fare structure and ticketless travel process) and the Company's reservations phone number. The Company uses tag lines such as "Good Times, Great Fares", "Wherever We Fly, You Win" and "Low Fares Everyday, Everywhere We Fly" to reinforce its identity. The Company offers a toll-free telephone number (1-800-VALUJET) for reservations from outside Atlanta and its reservations number in the Atlanta area is 770-994-VALU.

The Company seeks to sell seats directly to the customer whenever possible. The Company also sells a smaller percentage of seats through travel agents and pays customary sales commissions, but without volume override increases. Sales are not as of the date of this report made through the conventional CRSs. Management believes that although travel agents have become accustomed to making reservations through the CRSs, the cost savings and direct communication with customers that the Company achieves by not participating in such systems justifies the Company's decision not to participate in the CRSs. The Company reviews this decision from time to time. Information on its customers' needs, travel patterns and identity is collected, organized and stored by the Company's automated reservation system and can be used at a future time for direct marketing efforts.

The Company performs public relations and promotional activities in house. Advertising is handled by an outside advertising agency.

The Company and The Hertz Corporation operate a joint program under which the Company's customers are able to reserve a Hertz rental car outside of Florida at discounted rates when making a reservation for the Company's flights. Alamo Rent A Car offers discounted car rental rates to the Company's customers in Florida.

Air travel in the Company's markets tends to be seasonal, with the highest levels occurring during the winter months to Florida and the summer months to the midwest/northeastern U.S. Advertising and promotional expenses may be greater in lower traffic periods, as well as when entering a new market, in an attempt to stimulate further air travel.

AUTOMATION

Automation is a key component of the Company's strategy. The Company's UNIX based computer system has been specifically designed to implement the Company's simplified, ticketless service and is an important component of the Company's attempt to maintain its low cost structure, particularly as the Company grows.

The Company has designed its computer system to capture information in the computer at its source, eliminating paper records whenever possible. These entries are made by the reservation agents, eliminating subsequent data processing entries. Once the initial data has been entered into the system, the system updates various affected files and reports. The Company's software supports all of the Company's operational areas (e.g., flight operations, maintenance, accounting, marketing and personnel). As airline computer applications change constantly, the Company from time to time reviews various software and hardware applications which, coupled with the existing computer system, are intended to improve the Company's competitive posture.

A key component of this system and the Company's low cost structure is the "ticketless" environment. At the time of a sale/reservation, the Company provides its customers with a confirmation number, similar to the systems used by hotels and car rental agencies. At the airport, this information is available for customer check-in, which typically requires only two to three key strokes by the gate agent and helps to alleviate long lines and achieve a quicker turnaround of aircraft. After the flight has departed, the computer posts passenger revenue from the passenger manifest information. Unlike most of the Company's competitors, the Company has no tickets to be accounted for and processed.

Furthermore, the Company does not participate in the ARC, the airline industry collection agent for travel agency sales. At the time of the reservation, the Company identifies the travel agency making the booking and takes credit card information. Each agency then receives a statement summarizing these transactions. Although management believes that travel agencies are accustomed to doing business through ARC, management believes that the cost savings realized by avoiding the fees and revenue accounting costs inherent in the ARC system justify not participating in ARC.

Because of its ticketless system and its non-participation in ARC, the Company's customers are not able to transfer their reservations from the Company to other airlines, for example in the event of an interruption of a Company flight or a last minute change in their travel plans.

EMPLOYEES

As of March 21, 1997, the Company employed approximately 2,000 people. Additional employees will be hired as the Company increases the number of aircraft operated subject to FAA approval.

The Company has modified its compensation program, increasing employee base pay for most work groups and reducing reliance on the payment of variable performance bonuses as a major component of the overall compensation package. Regular, periodic bonuses will be eliminated.

Training, both initial and recurrent, is required for most employees. The average training period for all new employees is approximately two weeks. Both pilot training and mechanic training are provided by professional training organizations, which may include other airlines. New hire pilots pay for their own initial training which includes an airline transport pilot rating. The Company generally pays for recurrent training.

FAA regulations require pilots to be licensed as commercial pilots, with specific ratings for aircraft to be flown, and to be medically certified as physically fit. Licenses and medical certification are subject to periodic continuation requirements including recurrent training and recent flying experience. Mechanics, quality-control inspectors and flight dispatchers must be licensed and qualified for specific aircraft. Flight attendants must have initial and periodic competency fitness training and certification. Training programs are subject to approval and monitoring by the FAA. Management personnel directly involved in the supervision of flight operations, training, maintenance and aircraft inspection must meet experience standards prescribed by FAA regulations. All of these employees are subject to pre-employment and subsequent drug testing.

The Company believes that current conditions in the airline industry have created a sufficient pool of qualified, licensed pilots, dispatchers and mechanics to fill the Company's needs in the flight operations, maintenance and quality control areas, and that the Company will have little difficulty in hiring and continuing to employ the required personnel. There can be no assurance that these conditions will remain favorable.

The Company's flight attendants have elected the Association of Flight Attendants ("AFA") and the Company's mechanics have elected the Teamsters to represent them in negotiating a contract with the Company. The Company does not expect that the unionization of flight attendants or mechanics will have a material effect on its operating costs or performance. However, until union contracts are negotiated, there can be no assurance that this will be the case.

The Company is unable to predict whether any of its other employees will elect to be represented by a labor union or other collective bargaining unit. The election by the Company's employees for representation in such an organization could result in employee compensation and working condition demands that may affect operating performance or expenses.

The AFA has filed a lawsuit against the Company relating to the termination of certain former flight attendants. See "Legal Proceedings" in Item 3 of this Report on Form 10-K.

The Company from time to time considers alternative means of providing compensation to its employees and the Company's method of determining compensation is subject to possible change in the future.

AIRPORT OPERATIONS

Ground handling services typically can be placed in three categories-- public contact, underwing and complete. Public contact services involve meeting, greeting and serving the Company's customers at the check-in counter, gate and baggage claim area. Underwing ground handling services include, but are not limited to, marshalling the aircraft into and out of the gate, baggage and mail loading and unloading, as well as lavatory and

water servicing, anti-icing and deicing and certain services provided to the aircraft overnight. Complete ground handling consists of public contact and underwing services combined.

All of the Company's ground handling services in Atlanta are conducted by the Company's employees. At other airports, Company operations not conducted by the Company's employees are contracted to other air carriers, ground handling companies or fixed base operators.

INSURANCE

The Company carries customary levels of passenger liability insurance, aircraft insurance for aircraft loss or damage and other business insurance. The Company is exposed to potential catastrophic losses that may be incurred in the event of an aircraft accident. Any such accident could involve not only repair or replacement of a damaged aircraft and its consequent temporary or permanent loss from service, but also significant potential claims of injured passengers and others. The Company is required by the DOT to carry liability insurance on each of its aircraft. The Company currently maintains liability insurance in the amount of \$750 million per occurrence. Although the Company currently believes its insurance coverage is adequate, there can be no assurance that the amount of such coverage will not be changed or that the Company will not be forced to bear substantial losses from accidents. Substantial claims resulting from an accident in excess of related insurance coverage or not covered by the Company's insurance could have a material adverse effect on the Company. Moreover, any aircraft accident, even if fully insured, could cause and has caused a public perception that some of the Company's aircraft are less safe or reliable than other aircraft, which could have and has had a material adverse effect on the Company's business.

SEASONALITY AND CYCLICALITY

The Company's operations are primarily dependent upon passenger travel demand and, as such, may be subject to seasonal variations. Management believes that the weakest travel periods will generally be during the months of January, May and September. Leisure travel generally increases during the summer months and at holiday periods.

The airline industry is highly volatile. General economic conditions directly affect the level of passenger travel. Leisure travel is highly discretionary and varies depending on economic conditions. While business travel is not as discretionary, business travel generally diminishes during unfavorable economic times as businesses tend to tighten cost controls.

COMPETITION

The following table identifies airlines which provide non-stop service to and from Atlanta and the cities indicated and the approximate number of daily round trip flights scheduled to be flown by those other airlines as of April 1997.

ATLANTA TO/FROM	DAILY NON-STOP ROUND TRIPS		
	American/Delta	Northwest/USAir	Others(a)
Akron/Canton, OH.....			
Boston, MA.....	8.5	--	--
Chicago, IL (Midway) (b)....	--	--	1
Columbus, OH.....	5	--	--
Dallas/Fort Worth, TX.....	15	11.5	--
Fort Lauderdale, FL.....	9.5	--	--
Fort Myers, FL.....	7.5	--	--

Fort Walton Beach, FL.....	--	--	9
Jacksonville, FL.....	8	--	2
Louisville, KY.....	7.5	--	1
Memphis, TN.....	9.5	6	--
Mobile, AL.....	8	--	--
New Orleans, LA.....	9	--	--
Newport News, VA.....	5 (c)	--	--
Orlando, FL.....	14	--	--
Philadelphia, PA.....	9.5	7	--
Raleigh/Durham, NC.....	9.5	--	--
Savannah, GA.....	9	--	--
Tampa, FL.....	10	--	--
Washington DC (Dulles) (d)..	6	--	1
West Palm Beach, FL.....	9	--	1
	-----	-----	--
Total.....	159.5	24.5	15
	=====	=====	==

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- (a) Includes Air South and Kiwi. Also includes commuter affiliates of major airlines which generally provide service with turboprop aircraft.
- (b) Several major airlines operate daily flights to Chicago's O'Hare Airport which are not reflected in the table above.
- (c) Service provided by Delta to Norfolk, VA.
- (d) Delta operates daily flights to Washington DC's National Airport which are not reflected in the table above.

The Company currently intends to provide service between Atlanta and other markets generally within a 1,000 mile radius. In the future, the Company may add additional service between cities already served by the Company or may add service to new markets. The Company's selection of markets depends on a number of factors existing at the time service to such market is being considered. Consequently, there can be no assurance that the Company will continue to provide service to all of the markets listed above or that the Company will not provide service to any other particular market.

With respect to the Company's one-stop service provided between markets served on a connecting basis through Atlanta, the Company faces competition from numerous airlines with varying degrees of flight frequency and marketing approaches. In addition, the Company competes with numerous nonstop flights to many of its cities from other airports in the same metropolitan areas as served by the Company (such as Washington's National Airport and Chicago's O'Hare Airport).

Delta Air Lines implemented a low cost operation, Delta Express, in October 1996. The initial service provided by Delta Express does not include Atlanta, but does provide nonstop service between Orlando and markets north of Atlanta.

The identity of competing airlines and the number and character of the flights flown changes from month to month, and while management believes published schedules for the month of April 1997, upon which the foregoing information was based, are representative of the competition the Company may face, competing airlines and their flight schedules are subject to frequent change.

The Company may also face competition from other airlines which may begin serving any of the markets it serves or plans to serve, from new low cost airlines that may be formed to compete in the low fare market (including any that may be formed by other major airlines) and from ground transportation alternatives.

The most significant competitive factors among airlines are price (fare levels), convenient departure times, flight frequency and the availability of incentives such as a frequent flyer program. The Company currently does not offer a frequent flyer program and typically offers limited flight frequencies. There can be no assurances that the Company will not choose to develop a frequent flyer program or join an existing program for competitive reasons. Additionally, competitive factors include access to computerized reservation and ticketing systems used by travel agents, dependability of service, name recognition, airports served and the availability, quality and convenience of other passenger services.

GOVERNMENT REGULATION

U.S. Department of Transportation

All interstate air carriers are subject to regulation by the DOT and the FAA under the Federal Aviation Act of 1958, as amended (the "Aviation Act"). The DOT's jurisdiction extends primarily to the economic aspects of air transportation, while the FAA's regulatory authority relates primarily to air safety, including aircraft certification and operations, crew licensing and training and maintenance standards.

In general, the amount of economic regulation over interstate air carriers in terms of market entry and exit, pricing and inter-carrier acquisitions and agreements has been greatly reduced subsequent to enactment of the Deregulation Act. As a result of that change in the regulatory structure, any company's entry into the domestic air transportation business has been greatly simplified, and the level of post-entry regulation to which an airline is subject has been greatly reduced.

The Company has obtained a Certificate of Public Convenience and Necessity issued by the DOT pursuant to Section 401 of the Aviation Act. Each United States carrier must qualify as a United States citizen, which requires that it be organized under the laws of the United States or a state, territory or possession thereof, that its President and at least two-thirds of its Board of Directors and other managing officers must be comprised of United States citizens, that not more than 25% of its voting stock may be owned by foreign nationals, and that the carrier not be otherwise subject to foreign control.

As a result of the Company's suspension of operations on June 17, 1996, the Company was required to apply for recertification by the DOT. The DOT issued a "show cause" order on August 29, 1996, reflecting its preliminary determination that the Company had satisfied the DOT requirements and issued its final order on September 26, 1996, approving its return to service.

In January 1996, the Department of Transportation requested comments on the application of air carrier passenger notice requirements to ticketless air travel. Comments were sought on whether passengers who do not receive a ticket should nonetheless receive a document containing various notices, including oversales and denied boarding compensation, domestic and international baggage liability, contract of carriage terms, refund penalties and international death/injury liability limitations, that are currently provided with, and most commonly printed on the back of, passengers' tickets. If adopted, such a requirement could increase the cost and adversely affect the operational efficiency of the Company's ticketless travel approach.

U.S. Federal Aviation Administration

The Company has also obtained an operating certificate issued by the FAA pursuant to Part 121 of the Federal Aviation Regulations. The Company's operating certificate was surrendered to the FAA in connection with the consent order dated June 17, 1996 and returned to the Company on August 29, 1996, after the Company satisfied the requirements of the FAA in the consent order. Under the consent order, increases in the number of aircraft are subject to FAA approval.

The FAA has jurisdiction over the regulation of flight operations generally, including the licensing of pilots and maintenance personnel, the establishment of minimum standards for training and maintenance and

technical standards for flight, communications and ground equipment. As required, the Company has effective FAA certificates of airworthiness for all of its aircraft. The Company's flight personnel, flight and emergency procedures, aircraft and maintenance facilities are subject to periodic inspections and tests by the FAA. The Company's director of safety and regulatory compliance acts as a liaison between the Company and the FAA, implementing any changes requested by the FAA with respect to operating procedures or training programs and generally ensuring proper compliance with aviation regulations applicable to the Company.

The DOT and FAA also have authority under the Aviation Safety and Noise Abatement Act of 1979, as amended, under the Airport Noise and Capacity Act of 1990 ("ANCA") and, along with the Environmental Protection Agency, under the Clean Air Act to monitor and regulate aircraft engine noise and exhaust emissions. To the Company's knowledge, the Company's aircraft comply with all applicable FAA noise control regulations (except as indicated below) and with current emissions standards.

ANCA requires the phase-out of Stage 2 airplanes (which meet less stringent noise emission standards than later Stage 3 airplanes) in the contiguous 48 states by December 31, 1999. In September 1991, the FAA promulgated final rules establishing interim compliance dates of December 31, 1994, December 31, 1996 and December 31, 1998 for phasing out Stage 2 aircraft. As of March 21, 1997, the Company's aircraft on its operating specifications consisted of 24 aircraft, 15 of which comply with Stage 3. Therefore, the Company must take action to continually assure that its fleet will be in compliance with ANCA.

Miscellaneous

All international service is subject to the regulatory requirements of the appropriate authorities of the other country involved. The Company does not currently provide any international service.

All air carriers are subject to certain provisions of the Communications Act of 1934, as amended, because of their extensive use of radio and other communication facilities, and are required to obtain an aeronautical radio license from the Federal Communications Commission ("FCC"). To the extent the Company is subject to FCC requirements, it has taken and will continue to take all necessary steps to comply with those requirements.

The Company's operations may become subject to additional federal regulatory requirements in the future under certain circumstances. The Company's labor relations are covered under Title II of the Railway Labor Act of 1926, as amended, and are subject to the jurisdiction of the National Mediation Board. During a period of past fuel scarcity, air carrier access to jet fuel was subject to allocation regulations promulgated by the Department of Energy. To the extent the Company seeks to provide international air transportation in the future, it will be required to obtain additional authority from the DOT and become subject to regulatory requirements imposed by affected foreign jurisdictions. The Company is also subject to state and local laws and regulations at locations where it operates and the regulations of various local authorities that operate the airports it serves.

ITEM 2. PROPERTY -----

The Company leases approximately 40,500 square feet of office space at its principal address for general corporate and operational use (including Atlanta reservations) under a lease which expires September 30, 1999 and the Company also leases approximately 15,000 square feet of space for use as a training center under a lease that expires August 31, 1999. The Company has signatory status on a lease of facilities at the Atlanta Airport, which lease expires in the year 2010. The Company also maintains a separate reservations center in leased premises in Savannah, Georgia (approximately 7,000 square feet) which lease expires in January 2000 and leases additional space in Newport News, Virginia (approximately 20,000 square feet) which lease expires in the year 2001. The Company is not currently using its leased premises in Newport News, Virginia, and is seeking to sublease such space.

The check-in counters, gates and airport office facilities at each of the airports the Company serves are leased from the appropriate airport authority or subleased from other airlines. Such arrangements may include baggage handling, station operations, cleaning and other services. If such facilities at any additional cities to be served by the Company are not available to the Company at acceptable rates, or if such facilities become no longer available to the Company at acceptable rates, then the Company may choose not to service such markets.

ITEM 3. LEGAL PROCEEDINGS

Several stockholder class action suits have been filed against the Company and certain of its executive officers ("Defendants"). The consolidated lawsuits discussed below seek class certification for all purchasers of stock in the Company during periods beginning on or after June 1995 and ending on or before June 18, 1996, and are based on allegedly misleading public statements made by the Company or omission to disclose material facts in violation of federal securities laws. A total of 14 stockholder lawsuits have been filed against and served upon the Company between May 30, 1996 and July 26, 1996. Of these suits, 11 have been filed in the United States District Court for the Northern District of Georgia and these suits have been consolidated into a single action (In re

ValuJet, Inc.). Another lawsuit filed in the United States District Court for

the Middle District of Florida has been transferred to the Northern District of Georgia and has been consolidated into In re ValuJet, Inc. One additional class

action stockholder lawsuit possibly has been filed but not served upon the Defendants. All of the Defendants filed a joint Motion to Dismiss the Consolidated Amended Complaint on December 23, 1996. The Plaintiffs' response to this motion to Dismiss is due on May 9, 1997. On November 25, 1996, Plaintiffs filed their Motion for Class Certification. On January 14, 1997, Defendants filed a "Notice of Stay of Discovery and Other Proceedings", in which Defendants state that the filing of their Motion to Dismiss has stayed the issue of class certification pursuant to the Private Securities Litigation Reform Act. By consent of the parties, Defendants are not currently obligated to respond to Plaintiffs' Motion for Class Certification, and if the Court decides that the issue of class certification is not stayed by the Private Securities Litigation Reform Act, the Defendants have 30 days from the date of such decision to respond to Plaintiffs' Motion for Class Certification. Two suits (Cohen et al.

v. ValuJet, Inc., et al. and Hepler et al. v. ValuJet, Inc. et al.) have been

filed in the State Court of Fulton County, Georgia. On December 23, 1996, all Defendants in both actions, other than SabreTech, Inc., answered the Complaint and filed a Motion to Dismiss the Complaint. Additionally, Defendant Timothy Flynn filed a Motion to Dismiss for lack of personal jurisdiction. By consent of the parties, the Plaintiffs have until May 9, 1997, to respond to these motions to dismiss. Although the Company denies that it has violated any of its obligations under the federal securities laws and believes that meritorious defenses exist in the lawsuits, there can be no assurance that the Company will not sustain material liability under such or related lawsuits.

Numerous lawsuits have been filed against the Company seeking damages attributable to the deaths of those on Flight 592, and additional lawsuits are expected. Thus far, approximately 50 such lawsuits have been filed against ValuJet Airlines, Inc. prior to March 15, 1997. Most of the cases were initially removed to the federal court. That court, however, remanded the majority of the actions to the state courts from which they originated and retained jurisdiction over only seven cases. As a consequence, most of the cases will proceed in state courts in Florida and Georgia. In 36 of these lawsuits, SabreTech, Inc. has been named as a co-defendant as a result of the role that the maintenance contractor played in the accident. The Company's insurance carrier has assumed defense of these suits under a reservation of rights and has settled and paid approximately 15 claims as of March 21, 1997, and is pursuing settlements in the balance of the claims. The Company maintains a \$750 million policy of liability insurance per occurrence. The Company believes that the coverage will be sufficient to cover all claims arising from the accident.

On August 30, 1996, Metropolitan Nashville Airport Authority filed suit against the Company in State Court in Tennessee for breach of contract and a declaratory judgment for an anticipatory breach. The Nashville Airport Authority seeks damages of approximately \$2.6 million. The dispute involves whether the Company was entitled to exercise a termination right contained in its lease agreement.

Kiwi Airlines has brought suit against ValuJet Airlines, Inc. in the Bankruptcy Court in the District of New Jersey claiming damages attributable to the breach by ValuJet Airlines, Inc. of certain obligations under an agreement under which Kiwi was to operate certain flights on behalf of the Company in December 1996 and January 1997. The parties have agreed to a settlement of the dispute, subject to Bankruptcy Court approval.

On October 21, 1995, the Association of Flight Attendants ("AFA") filed suit in federal court alleging that the Company had violated the Railway Labor Act by terminating between 20 and 40 flight attendants for engaging in protected union activities associated with the AFA's organizing drive. The Company believes that it has not wrongfully terminated any of these flight attendants. By order dated January 30, 1996, the court struck AFA's demands for jury trial, punitive damages and attorneys' fees. During the course of discovery, the number of plaintiffs in the case has been reduced to the AFA and five individuals.

In November 1995, the Company filed suit against Delta and TWA in federal district court alleging violations of the antitrust laws and, regarding TWA, breaches of contract, arising from the Company's attempt to obtain slots to conduct flight operations at New York's LaGuardia Airport. Preliminary injunctive relief was denied, and the parties have since been involved in discovery. The court granted TWA's motion for summary judgment on contract and conspiracy claims, but has not entered such judgment, and TWA has remained a party. Trial is currently set for fall 1997.

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

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

No matter was submitted during the fourth quarter of the fiscal year covered by this Report to a vote of security holders of the Company through the solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED

STOCKHOLDER MATTERS

Market Information

The Company's Common Stock, \$.001 par value, is traded on the NASDAQ Stock Market under the symbol "VJET." As of March 19, 1997, there were approximately 4,294 holders of record of the Company's Common Stock. The following table sets forth the reported high and low sale prices for the Common Stock for each fiscal quarter since January 1, 1995.

Fiscal year ended December 31, 1995 -----	High	Low
Quarter Ending March 31, 1995	\$12.63	\$ 4.75
Quarter Ending June 30, 1995	\$17.94	\$12.00
Quarter Ending September 30, 1995	\$18.06	\$13.31
Quarter Ending December 31, 1995	\$34.75	\$15.94

Fiscal year ended December 31, 1996 -----	High	Low
Quarter Ending March 31, 1996	\$27.63	\$18.50
Quarter Ending June 30, 1996	\$27.50	\$ 4.50
Quarter Ending September 30, 1996	\$14.00	\$ 8.38
Quarter Ending December 31, 1996	\$12.25	\$ 5.94

As of March 10, 1997, the closing price of the Common Stock was \$8.375.

All stock prices have been adjusted to give effect to the two separate 2-for-1 stock splits paid in April 1995 and November 1995.

Dividends

No cash dividends have ever been declared by the Company on its Common Stock. The Company intends to retain earnings to finance the development and growth of its business. Accordingly, the Company does not anticipate that any dividends will be declared on its Common Stock for the foreseeable future. Future payments of cash dividends, if any, will depend on the Company's financial condition, results of operations, business conditions, capital requirements, restrictions contained in agreements, future prospects and other factors deemed relevant by the Company's Board of Directors.

ITEM 6. SELECTED FINANCIAL DATA

The information required by this Item is as follows:

(in thousands except per share data)

	1996	1995	1994	1993
Operating revenues	\$219,636	\$367,757	\$133,901	\$ 5,811
Net income (loss)	(41,469)	67,763	20,732	(894)
Earnings (loss) per share *	(0.76)	1.13	0.44	(0.03)
Total assets	417,187	346,741	173,039	30,264
Long-term debt including current maturities	244,706	109,038	46,965	10,398

* See Note 1 of Notes to Consolidated Financial Statements

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The following chart indicates the service offered by the Company from January 1995 through December 1996:

As of Quarter End	Total Number of Aircraft	Number of Peak Day Flights	Number/ Cities Served
March 1995	27	184	23
June 1995	28	208	24
September 1995	34	228	26
December 1995	42	268	26
March 1996	47	286	28
June 1996	51	0	Service suspended to all markets as of June 17, 1996
September 1996	46*	16	Service resumed on September 30, 1996 to Atlanta, Fort Lauderdale, Orlando, Tampa, Washington, D.C.
December 1996	43**	124	18

* Of which 4 had been approved for service by the FAA

** Of which 15 had been approved for service by the FAA

On May 11, 1996, ValuJet tragically lost its flight 592 en route from Miami to Atlanta. There were no survivors. The accident resulted in extensive media coverage calling into question the safety of low-fare airlines in general and the Company in particular. In response to the accident, the FAA conducted an extraordinary review of the Company's operations.

On June 17, 1996, the Company entered into a consent order with the FAA under which: (i) the Company agreed to suspend operations until such time as the Company was able to satisfy the FAA as to various regulatory compliance concerns identified by the FAA as a result of its intensive inspections of the Company's operations, (ii) the FAA agreed to work with the Company in order to reestablish operations with up to 15 aircraft initially, and (iii) the Company paid \$2 million to the FAA to compensate it for the costs of the special inspections conducted. In order to reduce costs while the Company prepared its plan to restore service, the Company furloughed more than 90% of its personnel (approximately 3,600 of 4,000) for several weeks.

On August 29, 1996, the FAA returned the Company's operating certificate and the Department of Transportation ("DOT") issued a "show cause" order regarding the Company's fitness as an air carrier. The DOT gave its final approval on September 26, 1996, and the Company resumed operations with service between Atlanta and four other cities on September 30, 1996.

Other effects of the accident, ensuing FAA inspections, media coverage and suspension of operations include:

1. The suspension of operations has resulted in the failure of the Company to meet certain financial covenants under certain of the Company's secured debt. See Liquidity and Capital Resources below for further discussion.

2. The expansion of the Company's operations will likely be subject to FAA and DOT approval for an indefinite period of time.

3. The Company is unable to predict how significantly the accident and suspension of operations will affect load factors and yield or the length of time load factors and yield will be impacted.

4. The Company has sold certain of its aircraft and has assigned its rights to purchase certain aircraft previously under contract. In addition, the Company plans to lease out or sell some of its other aircraft.

5. In 1996, the Company refunded fares paid by customers affected by the Company's changing schedules and by those who otherwise chose to change their travel plans.

6. The Company's cost per ASM has increased and is likely to remain inflated to some extent to reflect the cost of additional maintenance procedures and infrastructure adopted by the Company and lower aircraft utilization levels.

7. The Company may reduce its workforce permanently if reduced traffic levels continue and the Company is unable to reestablish its previous service levels.

8. The aircraft lost was insured for \$4.0 million which was in excess of book value. The Company carries \$750 million of liability insurance. Although the Company believes that such insurance will be sufficient to cover all claims arising from the accident, there can be no assurance that all claims will be covered or that the aggregate of all claims will not exceed such insurance limits.

9. Several stockholder lawsuits have been filed against the Company and certain of its officers and directors alleging, among other things, violation of federal securities laws. While the Company denies that it has violated any of its obligations under the federal securities laws and believes that the lawsuits do not have any merit, there can be no assurance that the Company will not sustain material liability under such or related lawsuits.

10. Various governmental authorities are conducting investigations of the circumstances surrounding the accident. The Company is cooperating with the authorities in connection with these investigations.

In light of these factors, persons investing in the securities of the Company should be apprised of the following additional risks:

1. The suspension of operations has resulted in the failure of the Company to meet certain financial covenants (the fixed charge coverage ratio) under certain of the Company's secured debt. This could result in the acceleration of such debt and a reduction in the Company's cash position. If the Company does not timely repay all indebtedness accelerated or if the Company's other secured lenders or the holders of the Company's 10 1/4 % senior notes seek to accelerate their debt as a result of such accelerations, then a substantial portion or all of the Company's debt could be accelerated. The Company does not have sufficient cash to satisfy all of its debt at this time.

2. There is no assurance that the Company will recover sufficient customer acceptance in order to regain profitability.

3. If the Company regains profitability, there may be reduced customer support which could decrease the Company's profitability indefinitely.

4. The expansion of the Company's operations will likely be subject to FAA and DOT approval for an indefinite period of time.

5. Although preliminary information indicates no connection, if the National Transportation Safety Board (NTSB) were to determine that the Company's maintenance procedures or aging aircraft contributed to the cause of the accident, such determination could also have a substantial adverse effect on the Company's future operations.

6. The occurrence of one or more subsequent incidents by the Company's aircraft could likely have a substantial adverse effect on the Company's public perception and future operations.

As a result of the accident, the ensuing extraordinary review of the Company's operations by the FAA and the suspension of operations in June 1996 and the current and prospective FAA imposed limitation on the number of aircraft that may be operated by the Company, the Company's results for periods prior to May 11, 1996 are not necessarily reflective of the results to be expected in future periods. The Company's operations for 1996 are also not reflective of future operations as a result of the suspension of operations for a significant portion of 1996. The following is a description of the costs incurred by category for the year ended December 31, 1996 compared to year-ends December 31, 1995 and 1994.

	Year Ended December 31, 1994			Year Ended December 31, 1995		
	Amount	% of revenues	Per ASM	Amount	% of revenues	Per ASM
OPERATING REVENUES	\$133,901	100.0%	9.05c	\$367,757	100.0%	9.62c
EXPENSE CATEGORY						
Flight Operations	\$ 6,967	5.2%	0.47	\$ 16,273	4.4%	0.42
Aircraft Fuel	21,775	16.3%	1.47	55,813	15.2%	1.46
Maintenance	14,862	11.1%	1.00	47,330	12.9%	1.24
Station Operations	20,198	15.1%	1.37	49,931	13.6%	1.31
Passenger Services	3,942	2.9%	0.27	10,363	2.8%	0.27
Marketing and Advertising	6,546	4.9%	0.44	8,989	2.4%	0.23
Sales and Reservations						
General and Administrative	11,325	8.5%	0.77	31,156	8.5%	0.81
Employee Bonuses	5,146	3.8%	0.35	14,382	3.9%	0.38
Depreciation	3,555	2.7%	0.24	15,147	4.1%	0.40
Other expenses (income), net	965	0.7%	0.06	(70)	0.0%	(0.00)
Shutdown and Other Nonrecurring	0	0.0%	0.00	0	0.0%	0.00
Total Expenses	\$100,320	75.0%	6.78c	\$259,931	70.7%	6.80c

Year Ended December 31, 1996

	Amount	% of revenues	Per ASM
OPERATING REVENUES	\$219,636	100.0%	8.12c
EXPENSE CATEGORY			
Flight Operations	\$ 16,479	7.5%	0.61
Aircraft Fuel	46,691	21.3%	1.73
Maintenance	49,500	22.5%	1.83
Station Operations	42,018	19.1%	1.55
Passenger Services	8,879	4.0%	0.33
Marketing and Advertising	8,426	3.8%	0.31
Sales and Reservations	18,378	8.4%	0.68
General and Administrative	13,659	6.2%	0.51
Employee Bonuses	1,245	0.6%	0.05
Depreciation	17,551	8.0%	0.65
Other expenses (income), net	(5,252)	-2.4%	(0.19)
Shutdown and Other Nonrecurring	67,994	31.0%	2.51
Total Expenses	\$285,568	130.0%	10.57c

Operating revenues

Total operating revenues for the year ended December 31, 1996 were approximately \$219.6 million as compared to \$367.8 million and \$133.9 million for the years ending December 31, 1995 and 1994, respectively. The decrease from 1995 to 1996 is a result of the Company's reduced service level and suspension of operations during the second and third quarters of 1996. The increase over 1994 is due to the Company flying more available seat miles (ASMs) during 1996. The Company flew 2.7 billion ASMs in 1996 as compared to 3.8 billion and 1.5 billion in 1995 and 1994, respectively. The Company's load factors for 1996, 1995 and 1994 were 57.1%, 68.8% and 64.0%, respectively. The lower load factor in 1996 is due to the accident and ensuing circumstances. The Company's average fare was \$69.81 for 1996, \$68.10 for 1995 and \$63.48 for 1994 due to the absence of the 10% federal excise tax for a substantial part of 1996.

Expenses

Flight operations expenses include all expenses related directly to the operation of the aircraft other than aircraft fuel, maintenance expenses and passenger services expenses. Expenses for hull insurance and compensation of pilots (exclusive of bonuses) are included in flight operations. Flight operations expenses were higher, on a per ASM basis, for year ended December 31, 1996 than the previous two years due to the extended period of time that the Company's operations were suspended, the additional training costs incurred at restart and the change in the Company's compensation structure in September 1996 which reduced the percentage of compensation represented by bonuses and shifted this cost to base pay charged to each department. The cost of hull insurance also increased substantially as of October 1, 1996. Certain flight operations administrative costs were also incurred during the period of the suspension with no ASMs being generated over which to spread these costs.

Aircraft fuel expenses include both the direct cost of the fuel as well as the costs of delivering fuel into the aircraft. Fuel expense, on a per ASM basis was higher for 1996 than either of the previous two years due to an

increase in the average cost of fuel. The average cost for fuel increased from \$0.58 per gallon for 1994 to \$0.60 per gallon for 1995 to \$0.71 per gallon for 1996. This approximate 20% increase in the price per gallon in fuel accounts for the 18% increase in fuel cost per ASM.

Maintenance expenses include all administrative costs of the maintenance department as well as normal recurring maintenance performed during the year. Expenses for engine overhaul and certain scheduled heavy maintenance procedures are included in this cost. Most non-routine maintenance costs performed during the suspension of operations are included in the nonrecurring expense line item. Maintenance expenses for the year ended December 31, 1996 were higher, on a per ASM basis, than both 1995 and 1994 due to the suspension of operations during the second and third quarters of 1996 and the reduced level of service once the Company was able to resume operations. The Company also had a lower utilization rate on the aircraft it operated which results in the spreading of certain fixed costs over fewer ASMs or block hours. The Company maintained or paid storage costs on many more aircraft than it was allowed to operate. Certain maintenance administrative costs were also incurred during the period of the suspension of operations with no ASMs being generated over which to spread these costs.

Station operations expense includes all expenses incurred at the airports, as well as station operations administration and liability insurance. Certain facility rental expense related to non-operating stations as a result of the suspension of operations are included in shutdown and other nonrecurring expenses. Stations operations expenses were higher, on a per ASM basis, for the year ended December 31, 1996 than in 1995 and 1994 due to the shutdown and the inefficiencies generated from restarting operations on a limited basis. Many of the station facilities were not fully utilized during the fourth quarter due to the limited operation. Another factor which contributed to a higher 1996 station operations expense was an increase in insurance costs as of October 1, 1996. Certain station operations administrative costs were also incurred during the period of the suspension of operations with no ASMs being generated over which to spread these costs.

Passenger services expenses include flight attendant wages and benefits and catering expenses. Also included are the costs for flight attendant training and flight attendant overnight expenses. The increase in passenger services expenses for 1996, on a per ASM basis, over 1995 and 1994 is due to the restructuring of the compensation policy as it relates to flight attendants. The flight attendants' salary levels were adjusted upward and the regular quarterly bonus portion of their compensation was eliminated. This shift caused the department expense to be higher while reducing the amount of bonus expense.

Marketing and advertising expenses include all advertising expenses and wages and benefits for the marketing department. Marketing and advertising expenses for 1996, as a percentage of revenue, were higher than 1995 and lower than 1994. These expenses were higher in 1996 than 1995 due to the additional advertising costs incurred at the resumption of operations being spread over a reduced revenue base caused by lower service levels and load factors. Certain marketing administrative costs were also incurred during the period of the suspension of operations with no ASMs being generated over which to spread these costs.

Sales and reservations expenses include all of the costs related to recording a sale or reservation. These expenses include wages and benefits for reservationists, rent, telecommunication charges, credit card fees and travel agency commissions. Sales and reservations expenses for the year ended December 31, 1996 were 8.4% of revenue as compared to 8.5 % for each of 1995 and 1994.

General and administrative expenses include the wages and benefits for the Company's executive officers and various other administrative personnel. Also included are costs for office supplies, legal expenses, bad debts, accounting and other miscellaneous expenses. General and administrative costs for 1996 were higher than each of 1995 and 1994 due to the shift in compensation structure to one based to a larger extent on base salaries and also due to increased legal fees.

The amount of bonus expense for the year ended December 31, 1996 reflects the change in salary structure as of September 1996 to less of a bonus based structure and the fact that the Company had a net loss from the second quarter 1996 through the end of the year. The amount charged to 1996 approximates the amount paid out

to those employees in the quarterly pool for the first quarter of 1996. The actual amount to be paid out and the form of such pay-out are at the sole discretion of the Company's Board of Directors.

Depreciation expense includes depreciation on aircraft and ground equipment, but does not include any amortization of start-up and route development costs as all of these costs are expensed as incurred. Depreciation expense for the year ended December 31, 1996 was higher than each of the previous two years as additional aircraft and other property have been acquired. During 1996, the Company made the decision to dispose of certain idled aircraft. Subsequent to the decision to sell or lease out such aircraft, no depreciation was recorded on aircraft held for sale. Depreciation on aircraft idled as a result of the suspension of operations and reduced operations and not yet returned to service has been recorded in shutdown and other nonrecurring expenses.

Shutdown and other nonrecurring expenses include costs associated with the loss of Flight 592 and excess operating costs related to the reduced schedule from May 19, 1996 to June 17, 1996, the suspension of operations from June 17, 1996 to September 29, 1996 and the reduced schedule from September 30, 1996 to December 31, 1996. 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, rental of abandoned or idled facilities and costs of personnel idled as a result of the reduced and suspended operations from May through December, 1996 are included in shutdown and other nonrecurring expenses. Personnel costs include full wages, salaries and benefits that were provided to idled employees during the reduction and suspension of operations.

A summary of such costs is as follows:

Maintenance	\$27,750,000
Legal and other consulting	8,843,000
Facilities rental	6,114,000
Wages, salaries and benefits, excluding maintenance	4,895,000
Depreciation	11,054,000
FAA remediation	2,000,000
Other	7,338,000

	\$67,994,000
	=====

The Company also expects to incur additional shutdown and nonrecurring expenses in the first and second quarters of 1997 as a result of idled aircraft and facilities due to the reduced level of service attributable to the Company's agreement with the FAA.

No accrual was provided for costs to be incurred in future periods related to aircraft depreciation and maintenance and rental costs associated with temporarily idled facilities as such costs will be recognized as they are incurred. There was no accrual for salaries and wages in connection with the furlough of employees at December 31, 1996 as such employees were paid through June 30, 1996 with no additional severance benefits provided.

Other expenses (income), net includes interest income and interest expense as well as certain property transactions. During the year ended December 31, 1996, interest expense exceeded interest income by approximately \$14,534,000 due to increasing debt levels attributable to the acquisition of aircraft and the completion of the issuance of \$150 million 10 1/4 % Senior Notes due 2001. During 1996, the Company also recognized \$13.0 million of income as an arrangement fee for aircraft transfers, a \$2.8 million gain from insurance recovery and a \$3.9 million gain on the sale of aircraft.

LIQUIDITY AND CAPITAL RESOURCES

For the year ended December 31, 1996, the Company used cash flow from operations of approximately \$80.4 million, used cash of approximately \$127.6 million to acquire property and equipment and generated cash flow from the disposal of property and equipment of \$97.6 million. Approximately \$224.5 million of cash was generated from the issuance of debt which was partially offset by debt repayments of approximately \$93.0 million.

As of December 31, 1996, the Company had cash and cash equivalents of approximately \$150.0 million and working capital of approximately \$168.6 million.

As of December 31, 1996, the Company's fleet consisted of 43 DC-9-30 aircraft. During the third quarter 1996, the Company sold three of its four MD-80 aircraft and all four of its DC-9-21 aircraft, purchased two DC-9-30 aircraft under contract and assigned its purchase rights with respect to the remaining DC-9-30 aircraft and MD-80 aircraft under contract. The Company sold its last remaining MD-80 aircraft and two DC-9-30 aircraft during the fourth quarter of 1996 and is actively pursuing the sale or lease of up to 13 of its surplus DC-9-30 aircraft.

The Company has contracted with McDonnell Douglas for the purchase of 50 MD-95 aircraft, at a cost of approximately \$1.0 billion (subject to adjustments for inflation), for delivery in 1999 to 2002. Approximately \$40 million of this amount will be paid in progress payments during 1997 and 1998. The balance of the purchase price after all progress payments will need to be paid or financed upon delivery of each aircraft. If the Company exercises its option to acquire up to an additional 50 MD-95 aircraft, additional payments could be required beginning in this period. The Company expects to finance at least 80% of the cost of each of these aircraft. Although McDonnell Douglas has agreed to provide assistance with respect to the financing of aircraft to be acquired, the Company will be required to obtain the financing from other sources. The Company believes that with the assistance to be provided by McDonnell Douglas, aircraft related debt financing should be available when needed. There is no assurance that the Company will be able to obtain sufficient financing on attractive terms. If it is unable to do so, the Company could be required to modify its aircraft acquisition plans or to incur higher than anticipated financing costs, which could have a material adverse effect on the Company's results of operations and cash flows.

The Company's compliance with Stage 3 noise requirements will require substantial additional capital expenditures over the next several years. By December 31, 1999, all of the Company's aircraft must be brought into compliance with Stage 3 requirements. The Company intends to meet its Stage 3 noise requirement obligations by installing hush kits on Stage 2 aircraft, disposing of Stage 2 aircraft and acquiring Stage 3 aircraft. The Company expects that FAA certified hush kits will cost approximately \$2.2 million per aircraft or approximately \$55.0 million for a fleet of 25 non-hushed DC-9-32 aircraft as of December 31, 1996. Any disposition of Stage 2 aircraft would reduce this obligation. The Company may be able to finance a portion of the cost of these hush kits and plans to make the balance of payments on these hush kits out of its working capital. The Company expects to pay the debt service on such loans out of cash flow generated from operations during the term of the financing. The phase in period for full compliance with Stage 3 (until December 31, 1999) and the expected terms of financing, if available, should allow the Company to spread the payments for Stage 3 compliance over a number of years.

As of December 31, 1996, the Company's debt related to asset financing totaled \$94.7 million, with respect to which the Company's aircraft and certain other equipment are pledged as security. The Company has purchased all of its aircraft and, consequently, has no lease commitments relating to its aircraft fleet. In addition, the Company has \$150 million of 10 1/4 % senior unsecured notes outstanding. The principal balance of the senior notes is due in 2001 and interest is payable semi-annually. All of the Company's debt has final maturities ranging from 1998 to 2006 with scheduled debt amortization (calculated without giving effect to any prepayment that may be required as a result of any covenant violations or sale of assets) as follows:

1997--\$21.5 million, 1998--\$23.1 million, 1999--\$20.6 million, 2000--\$15.5 million, 2001--\$162.9 million, 2002 and after --\$1.1 million. These notes provide for acceleration of their maturities upon certain defaults, including a payment default or defaults resulting in an acceleration of other debt of the Company and its subsidiaries.

Certain debt bears interest at fixed rates ranging from 7.43% to 10.18% per annum and is repayable in consecutive monthly or quarterly installments over a four- to five-year period. Certain other notes with an aggregate unpaid principal balance of approximately \$14.3 million as of December 31, 1996 have a variable rate of interest based on the London interbank offered rate (LIBOR) plus 1.85% to 3% (1.85% at December 31, 1996 and December 31, 1995) based on the Company's compliance with specific financial ratios concerning leverage and fixed charge coverage. Certain other notes have a variable rate of interest based on LIBOR plus 1.20% to 2.75%.

A substantial portion of the secured notes require prepayment if specific financial ratios (concerning debt to equity, net worth, fixed charge coverage and current ratio) are not maintained. Of the \$94.7 million principal amount of secured debt as of December 31, 1996, there is debt with a principal balance of approximately \$66.1 million subject to loan agreements with financial covenants. As of December 31, 1996, the Company was in violation of the fixed charge coverage ratio with seven lenders on approximately \$66.1 million of debt. The Company has subsequently executed agreements with six of the seven affected lenders for the waiver or reset of this financial test for the fourth quarter of 1996 and each quarter in 1997. The remaining lender represents approximately \$19.0 million in outstanding debt, which has been classified as current maturities or debt on assets held for disposition, where appropriate, until such time as an agreement is completed. The Company expects to continue negotiations with this lender in an effort to reach a waiver agreement and avoid a prepayment event or acceleration of debt. There can be no assurance that such negotiations will be successful. The Company continues to meet all of its debt payment obligations on time.

If the Company is unable to successfully negotiate waivers or forbearance from its secured lender with financial covenants who has yet to agree to a waiver and if such lender demands prepayment of debt, then the Company will be required to prepay such debt within a short period of time. If the Company fails to do so, then such secured lender would have the right to foreclose upon the aircraft securing such debt and other debt holders of the Company (including holders of the unsecured Company's 10 1/4 % senior notes) would have the right to accelerate the Company's debt. Based on the language of the Indenture governing the Company's 10 1/4 % senior notes, the Company believes that the holders of the senior notes would not have the right to accelerate the senior notes if the Company pays off debt within the time provided after acceleration upon the occurrence of a prepayment event (such as the failure to satisfy a financial covenant).

Although the Company has sufficient cash assets to pay its recurring obligations and debt service for an extended period of time, the Company's failure to resume profitable operations may result in defaults under the Company's secured debt and the acceleration of the Company's debt. In such event, there can be no assurance that the Company would be able to satisfy all of its obligations on a timely basis.

As a result of the accident and suspension of operations, several class action suits have been filed by stockholders against the Company and various officers and directors alleging, among other things, misrepresentations under applicable securities laws. The plaintiffs seek unspecified damages based upon the decrease in market value of shares of the Company's stock. Although management of the Company intends to defend these actions vigorously and believes that the suits are without merit, any litigation contains elements of uncertainty and there can be no assurance that the Company will not sustain material liability under such or related lawsuits.

Numerous lawsuits have also been filed against the Company seeking damages attributable to the deaths of those on Flight 592, and additional lawsuits are expected. The Company's insurance carrier has assumed defense of these lawsuits under a reservation of rights. As all claims are handled independently by the Company's insurance carrier, the Company cannot reasonably estimate the amount of liability which might 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 maintains \$750

million of liability insurance per occurrence with a major group of independent insurers that provide facilities for all forms of aviation insurance for many major airlines. Although the Company believes, based on the information currently available to it, that such coverage is sufficient to cover claims associated with this accident and that the insurers have sufficient financial strength to pay claims, there can be no assurance that the total amount of judgments and settlements will not exceed the amount of insurance available therefore or that all damages awarded will be covered by insurance.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The response to this Item is submitted as a separate section of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON

ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated herein by reference to the data under the heading "ELECTION OF DIRECTORS" in the Proxy Statement to be used in connection with the solicitation of proxies for the Company's annual meeting of Stockholders to be held May 21, 1997, which Proxy Statement is to be filed with the Commission.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the data under the heading "EXECUTIVE COMPENSATION" in the Proxy Statement to be used in connection with the solicitation of proxies for the Company's annual meeting of Stockholders to be held May 21, 1997, which Proxy Statement is to be filed with the Commission.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated herein by reference to the data under the heading "VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF" in the Proxy Statement to be used in connection with the solicitation of proxies for the Company's annual meeting of Stockholders to be held May 21, 1997, which Proxy Statement is to be filed with the Commission.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated herein by reference to the data under the heading "CERTAIN TRANSACTIONS" in the Proxy Statement to be used in connection with the solicitation of proxies for the Company's annual meeting of Stockholders to be held May 21, 1997, which Proxy Statement is to be filed with the Commission.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)

1. The response to this portion of Item 14 is submitted as a separate section of this report.
2. The response to this portion of Item 14 is submitted as a separate section of this report.
3. Filing of Exhibits:
Exhibit 11 - Statement Re: Computation of Per Share Earnings
Exhibit 23 - Consent of Independent Auditors
Exhibit 27 - Financial Data Schedule

(b) The Registrant did not file any current reports on Form 8-K during the fourth quarter 1996.

(c) The following exhibits are filed herewith or incorporated by reference as indicated. Exhibit numbers refer to Item 601 of Regulation S-K.

Exhibit No. and Description

-
- 3.1 Articles of Incorporation. (1)
 - 3.2 Bylaws. (As amended on December 12, 1996).
 - 3.3 Agreement and Plan of Merger among the Registrant, ValuJet Airlines, Inc. and VJET Acquisition, Inc. (1)
 - 4.1 See the Articles of Incorporation filed as Exhibit 3.1 and Bylaws filed as Exhibit 3.2. (1)
 - 4.2 Form of Unit Purchase Agreement signed by investors in Preferred Stock private placement. (2)
 - 4.3 Form of Unit Purchase Agreement signed by investors in Common Stock private placement. (2)
 - 4.4 Investor Rights Agreement dated September 30, 1993 among ValuJet Airlines, Inc. and investment funds managed by Montgomery Asset Management, L.P. (1)
 - 10.1 Aircraft Sale and Loan Agreement dated August 25, 1993, between ValuJet Airlines, Inc. and McDonnell Douglas Corporation. (2)
 - 10.2 Employment Agreement dated September 1, 1993, between ValuJet Airlines, Inc. and Robert L. Priddy. (2) (3)
 - 10.3 Employment Agreement dated June 1, 1993, between ValuJet Airlines, Inc. and Lewis H. Jordan. (2) (3)
 - 10.4 Letter Agreement dated July 26, 1993, between ValuJet Airlines, Inc. and Lewis H. Jordan amending Employment Agreement. (2) (3)
 - 10.5 Incentive Stock Option Agreement dated June 1, 1993, between ValuJet Airlines, Inc. and Lewis H. Jordan. (2) (3)
 - 10.6 ValuJet Airlines, Inc. 1993 Incentive Stock Option Plan. (2) (3)
 - 10.7 ValuJet Airlines, Inc. 1994 Stock Option Plan. (2) (3)
 - 10.8 Agreement dated May 5, 1994, between ValuJet Airlines, Inc. and McDonnell Douglas Corporation. (2)
 - 10.9 Director Noncompete Agreement dated as of May 18, 1994, between ValuJet Airlines, Inc. and Timothy P. Flynn. (2) (3)
 - 10.10 Director Noncompete Agreement dated as of May 18, 1994, between ValuJet Airlines, Inc. and Don L. Chapman. (2) (3)

- 10.11 Hush Kit Purchase and Aircraft Modification Contract dated as of June 1, 1994, between ABS Partnership and ValuJet Airlines, Inc. (4)
- 10.12 DC-9-32 Hushkit Financing Facility dated December 2, 1994. (5)
- 10.13 Form of Debt Participation Agreement among ValuJet Airlines, Inc., McDonnell Douglas Finance Corporation, SouthTrust Bank of Georgia, N.A. and First Security Bank of Utah, N.A. (5)
- 10.14 Form of Debt Participation Agreement among ValuJet Airlines, Inc., McDonnell Douglas Finance Corporation, NationsBank of Georgia, N.A. and First Security Bank of Utah, N.A. (5)
- 10.15 Form of Debt Participation Agreement among ValuJet Airlines, Inc., McDonnell Douglas Finance Corporation, certain lenders and First Security Bank of Utah, N.A. (5)
- 10.16 ValuJet Airlines, Inc. 401(k) Plan Adoption Agreement. (5)
- 10.17 ValuJet Airlines, Inc. 1995 Employee Stock Purchase Plan. (6)
- 10.18 Purchase Agreement between McDonnell Douglas Corporation and ValuJet Airlines, Inc. dated December 6, 1995. (7)
- 10.19 Agreement and Lease of Premises Central Passenger Terminal Complex Hartsfield Atlanta International Airport. (7)
- 10.20 Indenture dated as of April 17, 1996, among the Company, its subsidiaries and Bank of Montreal Trust Company, as Trustee. (8)
- 10.21 Exchange and Registration Rights Agreement dated as of April 17, 1996, between the Company and Goldman, Sachs & Co. (8)
- 10.22 Consent Order in the Matter of ValuJet Airlines, Inc. with United States Department of Transportation, Federal Aviation Administration. (9)
- 10.23 ValuJet, Inc. 1996 Stock Option Plan.
- 10.24 Employment letter dated October 28, 1996, between ValuJet Airlines, Inc. and D. Joseph Corr. (3)
- 21 Subsidiaries of the Registrant.

-
- (1) Incorporated by reference to the Company's Registration Statement on Form S-4, registration number 33-95232, filed with the Commission on August 1, 1995, and amendments thereto.
 - (2) Incorporated by reference to the Company's Registration Statement on Form S-1, registration number 33-78856, filed with the Commission on May 12, 1994, and amendments thereto.
 - (3) Management contract or compensation plan or arrangement required to be filed as an exhibit to this Report on Form 10-K pursuant to Item 14(c) of Form 10-K.
 - (4) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, Commission file number 0-24164, filed with the Commission on August 4, 1994.
 - (5) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1994, Commission file No. 0-24164, filed with the Commission on March 31, 1995, and amendment thereto.
 - (6) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, Commission file No. 0-24164, filed with the Commission on August 11, 1995.
 - (7) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1995, Commission File No. 0-26914, filed with the Commission on March 29, 1996.
 - (8) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, Commission file No. 0-26914, filed with the Commission on May 3, 1996.

(9) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996, Commission file No. 0-26914, filed with the Commission on August 14, 1996.

(d) Financial Statement Schedules - The response to this portion of Item 14 is submitted as a separate section of this report.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

VALUJET, INC.

By: /s/ Robert L. Priddy

Robert L. Priddy, Chairman of the Board

Date: March 28, 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

/s/ Robert L. Priddy

Robert L. Priddy, Chairman of the Board (Chief Executive Officer) and Director
March 28, 1997

/s/ Lewis H. Jordan

Lewis H. Jordan, President (Chief Operating Officer) and Director
March 28, 1997

/s/ Stephen C. Nevin

Stephen C. Nevin, Senior Vice President - Finance (Principal Financial Officer)
March 28, 1997

/s/ Michael D. Acks

Michael D. Acks, Controller (Principal Accounting Officer)
March 28, 1997

[SIGNATURES CONTINUED ON NEXT PAGE]

-31-

/s/ Maurice J. Gallagher, Jr.

March 28, 1997

Maurice J. Gallagher, Jr., Director

/s/ Timothy P. Flynn

March 28, 1997

Timothy P. Flynn, Director

March __, 1997

Don L. Chapman, Director

EXHIBIT INDEX

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ANNUAL REPORT ON FORM 10-K

ITEM 8, ITEM 14(a)(1) and (2), (c) and (d)

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES
FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
CERTAIN EXHIBITS

FINANCIAL STATEMENT SCHEDULE

YEAR ENDED DECEMBER 31, 1996

VALUJET, INC.

ATLANTA, GEORGIA

ValuJet, Inc.

The following consolidated financial statements of ValuJet, Inc. are included in Item 8:

Consolidated balance sheets - December 31, 1996 and 1995.....	F-4
Consolidated statements of operations - Years ended December 31, 1996, 1995, and 1994.....	F-5
Consolidated statements of stockholders' equity - Years ended December 31, 1996, 1995, and 1994.....	F-6
Consolidated statements of cash flows - Years ended December 31, 1996, 1995, and 1994.....	F-8
Notes to consolidated financial statements - December 31, 1996....	F-9

The following consolidated financial statement schedule of ValuJet, Inc. is included in Item 14(d):

Schedule II - Valuation and qualifying accounts

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

Report of Independent Auditors

The Stockholders and Board of Directors
ValuJet, Inc.

We have audited the accompanying consolidated balance sheets of ValuJet, Inc. as of December 31, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1996. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 ValuJet, Inc. at December 31, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Atlanta, Georgia
February 10, 1997, except for
Note 4 as to which the date
is March 27, 1997

ValuJet, Inc.

Consolidated Balance Sheets

	DECEMBER 31	
	1996	1995

ASSETS		
Current assets:		
Cash and cash equivalents	\$150,012,695	\$127,947,096
Accounts receivable, less allowance of \$838,000 and \$405,000 at December 31, 1996 and 1995, respectively	7,014,702	12,074,394
Income tax receivable	36,440,653	-
Inventories of parts and supplies	6,607,307	4,016,266
Prepaid expenses	8,066,792	4,758,205
Deferred tax asset	-	401,621
Assets held for disposition	42,060,242	-
Other current assets	839,040	589,986

Total current assets	251,041,431	149,787,568
Property and equipment:		
Flight equipment	126,829,882	153,513,693
Other property and equipment	65,662,504	40,472,604
Deposits on flight equipment purchase contracts	14,534,895	21,801,525

	207,027,281	215,787,822
Less accumulated depreciation	(44,455,397)	(18,834,231)

	162,571,884	196,953,591
Debt issuance costs	3,573,561	-

Total assets	\$417,186,876	\$346,741,159
	=====	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,221,542	\$ 6,721,754
Accrued liabilities	22,718,555	35,866,095
Air traffic liability	3,813,583	22,221,133
Income taxes payable	-	24,957
Deferred tax liability	1,298,400	-
Current maturities of long-term debt	33,246,302	21,430,984
Debt on assets held for disposition	18,188,222	-

Total current liabilities	82,486,604	86,264,923
Long-term debt less current maturities	193,271,800	87,607,149
Deferred income taxes payable	18,028,835	10,803,856
Stockholders' equity:		
Convertible preferred stock, \$.01 par value:		
Authorized shares - 5,000,000		
Issued and outstanding shares - none at December 31, 1996 and 1995	-	-
Common stock, \$.001 par value:		
Authorized shares - 1,000,000,000		
Issued and outstanding - 54,875,610 and 54,556,020 at December 31, 1996 and 1995, respectively	54,876	54,556
Additional paid-in capital	77,236,447	74,433,062
Retained earnings	46,108,314	87,577,613

Total stockholders' equity	123,399,637	162,065,231

Total liabilities and stockholders' equity	\$417,186,876	\$346,741,159
	=====	

See accompanying notes.

ValuJet, Inc.

Consolidated Statements of Operations

	YEAR ENDED DECEMBER 31		
	1996	1995	1994
Operating revenues:			
Passenger	\$209,707,346	\$352,574,954	\$129,551,344
Cargo	2,968,863	4,874,449	-
Other	6,960,023	10,307,975	4,349,966
Total operating revenues	219,636,232	367,757,378	133,901,310
Operating expenses and other, net:			
Flight operations	16,478,712	16,272,833	6,967,015
Aircraft fuel	46,691,296	55,812,838	21,774,936
Maintenance	49,500,163	47,330,009	14,862,239
Station operations	42,018,389	49,931,088	20,197,983
Passenger services	8,878,835	10,363,538	3,941,749
Marketing and advertising	8,426,358	8,988,656	6,546,043
Sales and reservations	18,377,843	31,155,592	11,325,162
General and administrative	13,659,237	10,617,312	5,038,897
Employee bonus	1,245,000	14,382,000	5,146,039
Depreciation	17,550,596	15,147,647	3,555,426
Arrangement fee for aircraft transfers	(13,036,294)	-	-
Gain on insurance recovery	(2,814,785)	(1,093,527)	-
Gain on sale of property	(3,934,576)	-	-
Shutdown and other nonrecurring expenses	67,994,000	-	-
Total operating expenses and other, net	271,034,774	258,907,986	99,355,489
Operating (loss) income	(51,398,542)	108,849,392	34,545,821
Interest expense (income):			
Interest expense	22,186,349	6,579,020	2,388,240
Interest income	(7,652,592)	(5,555,160)	(1,422,955)
Total interest expense, net	14,533,757	1,023,860	965,285
(Loss) income before income taxes	(65,932,299)	107,825,532	33,580,536
Income tax (benefit) expense	(24,463,000)	40,062,934	12,848,556
Net (loss) income	\$ (41,469,299)	\$ 67,762,598	\$ 20,731,980
Net (loss) income per share	\$ (0.76)	\$1.13	\$0.44
Weighted average shares outstanding	54,702,000	59,793,000	47,620,000

See accompanying notes.

ValuJet, Inc.

Consolidated Statements of Stockholders' Equity

	CONVERTIBLE PREFERRED STOCK			COMMON STOCK			NOTES RECEIVABLE FROM COMMON STOCK SALE	RETAINED EARNINGS (DEFICIT)	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT	ADDITIONAL PAID-IN- CAPITAL	SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL			
Balance at December 31, 1993	3,250,000	\$ 32,500	\$ 11,826,244	22,300,000	\$ 223,000	\$ 4,302,028	(\$324,010)	\$ (916,965)	\$15,142,797
Payments on notes receivable from common stock sale and offering expenses related to issuance of common stock	-	-	-	-	-	(8,858)	124,000	-	115,142
Conversion of preferred stock	(3,250,000)	(32,500)	(11,826,244)	13,000,000	130,000	11,728,744	-	-	-
Issuance of common stock to employees	-	-	-	39,680	396	(396)	-	-	-
Issuance of common stock, net of issuance costs	-	-	-	6,000,000	60,000	16,904,743	-	-	16,964,743
Exercise of warrants for common stock	-	-	-	1,000,000	10,000	1,190,000	-	-	1,200,000
Issuance of common stock for exercise of options	-	-	-	8,000	80	1,253	-	-	1,333
Exercise of warrants for common stock	-	-	-	10,422,300	104,224	38,856,528	-	-	38,960,752
Exchange of warrants for common stock	-	-	-	447,160	4,472	(4,472)	-	-	-
Net income	-	-	-	-	-	-	-	20,731,980	20,731,980
Balance at December 31, 1994	-	-	-	53,217,140	532,172	72,969,570	(200,010)	19,815,015	93,116,747
Issuance of common stock for exercise of options	-	-	-	28,000	280	10,171	-	-	10,451
Issuance of common stock for exercise of options	-	-	-	1,309,000	13,090	373,111	-	-	386,201
Issuance of common stock under stock purchase plan	-	-	-	1,880	18	39,206	-	-	39,224
Change in par value	-	-	-	-	(491,004)	491,004	-	-	-
Accrued compensation related to stock options	-	-	-	-	-	550,000	-	-	550,000
Payments on notes receivable from common stock sale	-	-	-	-	-	-	200,010	-	200,010
Net income	-	-	-	-	-	-	-	67,762,598	67,762,598

ValuJet, Inc.

Consolidated Statements of Stockholders' Equity (continued)

	CONVERTIBLE PREFERRED STOCK			COMMON STOCK			NOTES RECEIVABLE FROM COMMON STOCK SALE	RETAINED EARNINGS (DEFICIT)	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT	ADDITIONAL PAID-IN- CAPITAL	SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL			
Balance at December 31, 1995	-	-	-	54,556,020	54,556	74,433,062	-	87,577,613	162,065,231
Issuance of common stock for exercise of options				310,810	311	835,862		-	836,173
Issuance of common stock under stock purchase plan				8,770	9	113,493		-	113,502
Accrued compensation related to stock options				-	-	1,854,030		-	1,854,030
Net loss				-	-	-		(41,469,299)	(41,469,299)
Balance at December 31, 1996	-	\$ -	\$ -	54,875,600	\$54,876	\$77,236,447	\$ -	\$46,108,314	\$123,399,637

See accompanying notes.

ValuJet, Inc.

Consolidated Statements of Cash Flows

	YEAR ENDED DECEMBER 31		
	1996	1995	1994
OPERATING ACTIVITIES			
Net (loss) income	\$ (41,469,299)	\$ 67,762,598	\$ 20,731,980
Adjustments to reconcile net (loss) income to cash (used in) provided by operating activities:			
Depreciation and amortization	29,164,596	15,147,647	3,548,426
Provision for uncollectible accounts	3,637,589	3,159,935	1,043,902
Deferred income taxes	8,925,000	7,390,070	3,012,165
Gain on disposal of flight equipment	(6,749,361)	(1,093,527)	-
Changes in operating assets and liabilities:			
Accounts receivable	1,422,103	(7,705,398)	(6,285,616)
Other current assets	(6,148,682)	(6,644,002)	(1,218,142)
Accounts payable and accrued liabilities	(14,354,877)	23,738,400	16,921,695
Air traffic liability	(18,407,550)	12,614,252	7,361,035
Income taxes payable	(36,465,610)	(581,559)	606,516
Net cash (used in) provided by operating activities	(80,446,091)	113,788,416	45,721,961
INVESTING ACTIVITIES			
Purchases of property and equipment	(127,570,815)	(142,128,206)	(61,969,880)
Proceeds from disposal of equipment	97,598,198	3,000,000	-
Net cash used in investing activities	(29,972,617)	(139,128,206)	(61,969,880)
FINANCING ACTIVITIES			
Notes receivable	-	5,500,000	(5,500,000)
Payment received on notes receivable from common stock sale	-	200,010	50,000
Issuance of long-term debt	224,497,189	73,707,688	40,612,884
Proceeds from sale of common stock	949,675	435,876	56,961,546
Payment of long-term debt	(92,962,557)	(11,634,230)	(4,045,580)
Net cash provided by financing activities	132,484,307	68,209,344	88,078,850
Net increase in cash and cash equivalents	22,065,599	42,869,554	71,830,931
Cash and cash equivalents at beginning of year	127,947,096	85,077,542	13,246,611
Cash and cash equivalents at end of year	\$ 150,012,695	\$ 127,947,096	\$ 85,077,542
Cash paid for income taxes	\$ 4,041,000	\$ 32,770,000	\$ 9,215,600
Cash paid for interest	\$ 19,412,000	\$ 6,592,000	\$ 2,155,000

See accompanying notes.

ValuJet, Inc.

Notes to Consolidated Financial Statements

December 31, 1996

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REORGANIZATION AND PRINCIPLES OF CONSOLIDATION

ValuJet Airlines, Inc. was originally incorporated on July 10, 1992 under the name of Charter Way, Inc. In May 1993, the Company changed its name to ValuJet Airlines, Inc. As a result of a merger between ValuJet Airlines, Inc. and VJET Acquisition, Inc. on October 19, 1995, ValuJet Airlines, Inc. became a wholly-owned subsidiary of ValuJet, Inc. ValuJet, Inc. was incorporated on July 17, 1995 by ValuJet Airlines, Inc. as its wholly-owned subsidiary.

ValuJet, Inc. formed VJET Acquisition, Inc. as its wholly-owned subsidiary. Pursuant to a Plan and Agreement of Merger ("the Merger"), VJET Acquisition, Inc. was merged into ValuJet Airlines, Inc. with ValuJet Airlines, Inc. being the surviving corporation. In connection with the Merger, each outstanding share of Common Stock, \$.01 par value per share, of ValuJet Airlines, Inc. was converted into and became the right to receive one share of Common Stock, \$.001 par value per share, of ValuJet, Inc., and the shares of Common Stock of VJET Acquisition, Inc. owned by ValuJet, Inc. were converted into shares of Common Stock of ValuJet Airlines, Inc. The shares of Common Stock of ValuJet, Inc. owned by ValuJet Airlines, Inc. were canceled. Therefore, the then current stockholders of ValuJet Airlines, Inc. became stockholders of ValuJet, Inc. and ValuJet Airlines, Inc. became a wholly-owned subsidiary of ValuJet, Inc. Each of the former stockholders of ValuJet Airlines, Inc. has exactly the same proportionate interest in ValuJet, Inc. as they had in ValuJet Airlines, Inc. prior to the Merger.

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

DESCRIPTION OF BUSINESS

The Company offers affordable, no-frills, point-to-point scheduled air transportation and cargo service, serving short-haul markets primarily in the eastern United States.

ValuJet, Inc.

Notes to Consolidated Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 AND CASH EQUIVALENTS

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

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.

INVENTORIES OF PARTS AND SUPPLIES

Inventories of flight equipment expendable parts, materials and supplies are carried at the lower of cost or market using the first-in, first-out method (FIFO). These items are charged to expense when issued for use. 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 residual values, estimated at 20%, using the straight-line method over seven to ten years. Other property and equipment is depreciated over three years.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTEREST CAPITALIZED

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 1996, approximately \$1,212,000 of interest cost was capitalized. No interest was capitalized in 1995 or 1994.

AIRCRAFT AND ENGINE MAINTENANCE

The Company accounts for airframe and aircraft 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 aircraft 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 \$6,261,000, \$8,038,000 and \$5,507,000 for the years ended December 31, 1996, 1995 and 1994, 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.

INCOME TAXES

The Company accounts for income taxes using the liability method in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes."

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PREOPERATING COSTS

The cost of routine development of new routes and the preoperating cost incurred in connection with aircraft acquisitions are charged to expense as incurred.

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.

In October 1995, the FASB issued Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, which 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 INCOME (LOSS) PER SHARE

Net income (loss) per share is based on the weighted average number of common and preferred shares outstanding and dilutive common stock equivalents during the periods.

Pursuant to Securities and Exchange Commission Staff Accounting Bulletin No. 83, common and preferred stock issued for consideration below the initial public offering ("IPO") price of \$3.125 per share and stock options and warrants issued with exercise prices below the IPO price during the twelve-month period preceding the initial filing of the Registration Statement ("Cheap Stock") have been included in the calculation of common shares, using the treasury stock method, as if they were outstanding for all periods prior to the effective date of the IPO.

ValuJet, Inc.

Notes to Consolidated Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NET INCOME (LOSS) PER SHARE (CONTINUED)

In accordance with APB Opinion No. 15, supplemental income per share data for 1994 is presented for comparability purposes. The following income per share is calculated excluding the effects of Cheap Stock issued during the twelve-months immediately preceding the effective date of the Company's IPO.

	YEAR ENDED DECEMBER 31, 1994 -----
Net income per share	\$0.42 =====

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In March 1995, the FASB issued Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the discounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Statement 121 also addresses the accounting for long-lived assets that are expected to be disposed of. The Company adopted Statement 121 in the first quarter of 1996, and the effect of adoption was not material.

During 1996, as a result of the accident involving Flight 592 and the consent order with the FAA which requires the Company to reestablish operations with up to 15 aircraft and subjects further expansion of the Company's operations to FAA and DOT approval, the Company plans to sell certain of its aircraft with a carrying amount of approximately \$42 million. Those aircraft which the Company has decided to sell have been classified in the balance sheet as assets held for disposition and are stated at the lower of carrying amount or fair value less cost to sell. The Company began marketing the aircraft to potential

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS (CONTINUED)

buyers and plans to sell the aircraft during 1997. At December 31, 1996, the fair value, as estimated by the current market value, less cost to sell exceeded the carrying amount of such aircraft.

RECLASSIFICATIONS

Certain amounts in the 1995 and 1994 financial statements have been reclassified to conform to the current year presentation.

2. COMMITMENTS AND CONTINGENCIES

On May 11, 1996, the Company suffered a tragic loss involving Flight 592. The accident resulted in extensive media coverage calling into question the safety of low-fare airlines in general, and the Company in particular, despite the fact that the cause of the accident is still under investigation by the National Transportation Safety Board. In response to the accident, the Federal Aviation Administration (FAA) conducted an extraordinary review of the Company's operations. As a result, the Company significantly reduced its schedule between May 19, 1996 and June 17, 1996, and on June 17, 1996 entered into a consent order with the FAA under which the Company agreed to several matters including the suspension of operations until such time as the Company was able to satisfy the FAA as to its various regulatory compliance concerns and the payment of \$2,000,000 to the FAA to compensate it for the cost of the special inspections. The Company satisfied the FAA's requirements and received FAA clearance during August 1996. The Company received its determination of fitness from the Department of Transportation on September 25, 1996 and restarted operations on September 30, 1996. See Note 9 regarding charges associated with the accident and related suspension of operations.

As a result of the above mentioned events, numerous lawsuits were filed against the Company seeking damages attributable to the deaths of those on Flight 592. Thus far, a total of approximately 50 such lawsuits have been filed against ValuJet Airlines, Inc. Most of the cases were initially removed to the federal court.

2. COMMITMENTS AND CONTINGENCIES (CONTINUED)

That court however, remanded the majority of the actions to the state courts from which they originated and retained jurisdiction for only seven cases. As a consequence, most of the cases will proceed in state courts in Florida and Georgia. In 36 of these lawsuits, a third party maintenance contractor has been named as a co-defendant. The Company's insurance carrier has assumed defense of these suits under a reservation of rights. As all claims are handled independently by the Company's insurance carrier, the Company cannot reasonably estimate the amount of liability which might 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 maintains \$750 million of liability insurance, per occurrence, with a major group of independent insurers that provide facilities for all forms of aviation insurance for many major airlines.

Although the Company believes, based on the information currently available to it, that such coverage will be sufficient to cover all claims arising out of the loss of Flight 592 and that the insurers have sufficient financial strength to pay claims, there can be no assurance that the total amount of judgments and settlements will not exceed the Company's insurance limit or that all damages awarded will be covered by insurance.

Several stockholder class action suits have been filed against the Company and certain of its executive officers ("Defendants"). The consolidated lawsuits seek class certification for all purchasers of stock in the Company during periods beginning on or after June 1995 and ending on or before June 18, 1996, and are based on allegedly misleading public statements made by the Company or failure to disclose material facts in violation of federal securities laws. A total of 14 stockholder lawsuits were filed against the Company. Of these suits, 11 were filed in the United States District Court for the Northern District of Georgia and these suits have been consolidated into a single action (In re: ValuJet,

Inc.). Another lawsuit filed in the United States District Court for the Middle
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District of Florida has been transferred to the Northern District of Georgia and has been consolidated into In re: ValuJet, Inc. All of the Defendants filed a

joint Motion to Dismiss the Consolidated Amended Complaint on December 23, 1996. The Plaintiffs' response to this motion to Dismiss is due on May 9, 1997. On November 25, 1996, Plaintiffs filed their

2. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Motion for Class Certification. On January 14, 1997, Defendants filed a "Notice of Stay of Discovery and Other Proceedings", in which Defendants state that the filing of their Motion to Dismiss has stayed the issue of class certification pursuant to the Private Securities Litigation Reform Act. By consent of the parties, Defendants are not currently obligated to respond to Plaintiffs' Motion for Class Certification, and if the Court decides that the issue of class certification is not stayed by the Private Securities Litigation Reform Act, the Defendants have 30 days from the date of such decision to respond to Plaintiffs' Motion for Class Certification. Two suits (Cohen et al. v. ValuJet, Inc., et

al. and Hepler et al. v. ValuJet, Inc. et al.) have been filed in the State

Court of Fulton County, Georgia. On December 23, 1996, all Defendants in both actions, other than a third party contractor, answered the Complaint and filed a Motion to Dismiss the Complaint. Additionally, a director named in the suits filed a Motion to Dismiss for lack of personal jurisdiction. By consent of the parties, the Plaintiffs have until May 9, 1997, to respond to these motions to dismiss. The Company denies that it has violated any of its obligations under the federal securities laws and believes that meritorious defenses exist in the lawsuits.

On August 30, 1996, Metropolitan Nashville Airport Authority filed suit against the Company in State Court in Tennessee for breach of contract and a declaratory judgment for an anticipatory breach. The Nashville Airport Authority seeks damages of approximately \$2.6 million. The dispute involves whether the Company was entitled to exercise a termination right contained in its lease agreement. Management believes the ultimate resolution will not have a material adverse effect on the Company's financial position or results of operations.

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

At December 31, 1996, the Company's contractual commitments consisted primarily of scheduled aircraft acquisitions. The Company has entered into a contract with a major aircraft manufacturer to purchase 50 new aircraft, to be delivered from 1999 to 2002, with options to purchase another 50 aircraft. Aggregate funding needed for these and all other aircraft commitments was approximately \$1 billion at December 31, 1996. Approximately \$162 million of this amount is required to be paid in progress payments due from 1995 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

ValuJet, Inc.

Notes to Consolidated Financial Statements (continued)

2. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 1997. In conjunction with these contractual commitments, the Company has made refundable deposits of approximately \$13,008,000 at December 31, 1996.

Future required deposits for aircraft progress payments as of December 31, 1996 are as follows:

1997	\$ 7,567,000
1998	31,655,000
1999	35,512,000
2000	44,874,000
2001	29,565,000

	\$149,173,000
	=====

3. ACCRUED LIABILITIES

	DECEMBER 31	
	1996	1995
	-----	-----
Accrued bonuses	\$ -	\$12,017,001
Accrued maintenance	7,710,207	4,700,000
Other	15,008,348	19,149,094
	-----	-----
	\$ 22,718,555	\$35,866,095
	=====	=====

ValuJet, Inc.

Notes to Consolidated Financial Statements (continued)

4. LONG-TERM DEBT

	DECEMBER 31	
	1996	1995

Senior notes	\$150,000,000	\$ -
Promissory notes for aircraft and other equipment	94,706,324	109,038,133

	244,706,324	109,038,133
Less current maturities	33,246,302	21,430,984
Less debt on assets held for disposition	18,188,222	-

	\$193,271,800	\$ 87,607,149
	=====	

During April 1996, the Company closed a private offering of \$150,000,000 principal amount of 10 1/4% Senior Notes due 2001. In October 1996, the Company exchanged the unregistered Notes for Registered 10 1/4% Senior Notes due 2001. Interest on the Senior Notes is payable semi-annually on April 15 and October 15.

The promissory notes relate to aircraft financing and bear interest at rates ranging from 7.43% to 10.18% 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. Certain of these notes, with an aggregate unpaid principal balance of approximately \$14.3 million as of December 31, 1996, have a variable rate of interest based on the London interbank offered rate (LIBOR) (5.5% at December 31, 1996) plus 1.85% to 3% (1.85% at December 31, 1996) based on the Company's compliance with specific financial ratios concerning leverage and fixed charge coverage. Certain other of these notes have a variable rate of interest based on LIBOR plus a range of 1.20% to 2.75%.

A substantial portion of the secured notes require prepayment if specific financial ratios (concerning debt to equity, net worth, fixed charge coverage and current ratio) are not maintained. At December 31, 1996, the Company was in violation of the fixed charge coverage ratio covenant related to approximately \$66,103,000 of this secured debt. In March 1997, certain of the Company's secured lenders agreed to waive the fixed charge coverage ratio covenant at December 31, 1996 and to waive or reduce the required fixed charge coverage ratio through December 31, 1997. As a result, management

ValuJet, Inc.

Notes to Consolidated Financial Statements (continued)

4. LONG-TERM DEBT (CONTINUED)

believes it will meet all loan covenant requirements on such debt totalling \$47,151,000 through December 31, 1997. Accordingly, amounts payable under these secured debt agreements, excluding current maturities and debt on assets held for disposition, are classified as long-term in the accompanying consolidated balance sheet. The Company remains in violation of the fixed charge coverage ratio for \$18,952,000 of secured debt. As a result, such debt has been classified as current maturities or debt on assets held for disposition, where appropriate, in the accompanying consolidated balance sheet. No prepayment requests have been made related to such debt. The Company's aircraft, engines and computer and telephone equipment totalling approximately \$155,157,000 serve as collateral on secured debt.

Future statutory long-term debt principal payments at December 31, 1996 were as follows:

Year ending December 31,	
1997	\$ 21,457,302
1998	23,124,833
1999	20,552,472
2000	15,536,446
2001	162,885,469
Thereafter	1,149,802

	\$244,706,324
	=====

5. LEASES

The Company 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 fourteen years.

Total rental expense charged to operations for facilities and office space for the years ended December 31, 1996, 1995 and 1994 was approximately \$15,824,000, \$12,516,000, and \$4,726,000, respectively.

ValuJet, Inc.

Notes to Consolidated Financial Statements (continued)

5. LEASES (CONTINUED)

Future minimum lease payments under non-cancelable operating leases with initial terms in excess of one year at December 31, 1996 were as follows:

Year ending December 31,	
1997	\$ 5,076,000
1998	4,922,000
1999	4,750,000
2000	4,131,000
2001	3,954,000
Thereafter	34,597,000

	\$57,430,000
	=====

6. STOCKHOLDERS' EQUITY

During 1993, the Company issued 1,200,000 shares of common stock to an officer of the Company and 300,000 shares to a consultant in exchange for notes receivable of \$200,010 and \$50,000, respectively. During 1996 and 1995, the notes receivable were repaid in full.

In conjunction with a private placement offering during 1993, the Company issued 250,000 Preferred Stock purchase warrants to the placement agent which entitled the holder to acquire shares of Preferred Stock at a price of \$4.80 per share. These warrants were exercised for common stock during the year ended December 31, 1994.

Also, during 1993, the Company issued 260 units ("Units"), each consisting of 12,500 shares of convertible Series A Preferred Stock ("Preferred Stock") and warrants to purchase 50,000 shares of common stock, or 3,250,000 shares of Preferred Stock and 13,000,000 warrants to purchase common stock, for \$11,858,744, net of issuance costs of \$1,141,351. Each warrant entitled the holder to purchase shares of common stock at a price of \$3.75 per share on or before December 31, 1995. The warrants were callable by the Company at \$.0125 per share if the closing bid price of the Company's common

6. STOCKHOLDERS' EQUITY (CONTINUED)

stock was greater than or equal to \$5 per share for a period of fifteen consecutive trading days and if the common stock issuable upon exercise of warrants was then covered by an effective registration statement filed with the Securities and Exchange Commission. In addition, in conjunction with a sale of common stock in 1993, the Company issued 1,000,000 warrants to purchase common stock at a price of \$3.75 per share. In October 1994, the Company called the 14,000,000 warrants outstanding at that date. Pursuant to the Company's exchange offer, 10,422,300 warrants for common stock were exercised for \$3.75 per share resulting in proceeds of approximately \$38,960,000, net of expenses. The remaining 3,577,700 warrants for common stock were exchanged for 447,160 shares of common stock, in accordance with the Company's exchange offer.

On July 6, 1994, the Company closed an IPO of 6,000,000 shares of its common stock, generating proceeds of approximately \$17 million, net of underwriting discounts and commissions, and other expenses. Concurrent with the closing of the Company's IPO all of the Company's Preferred Stock was automatically converted into common stock on a one-for-four basis.

On June 28, 1994, the Company issued 39,680 shares of common stock to a trust for the benefit of its employees at the IPO date. These shares were valued at the IPO price of \$3.12 per share and compensation expense related to these shares will be recognized over the vesting period of three years from the issuance date. At the end of the vesting term, the shares will be divided among the employees employed at the IPO date remaining with the Company at the end of the three year vesting period. Approximately 33,000 of these shares had been earned as of December 31, 1996.

During 1995, the Company announced two separate two-for-one stock splits effected in the form of stock dividends. The stock splits were payable on April 10, 1995 and November 21, 1995 to stockholders of record as of the close of business on March 24, 1995 and November 6, 1995, respectively. All references in the consolidated financial statements to shares, per share amounts and stock plans have been retroactively restated to reflect the stock splits.

7. STOCK OPTION PLANS

In 1993, the Company established the ValuJet Airlines, Inc. 1993 Incentive Stock Option Plan (the "1993 Plan") whereby up to 4,800,000 options may 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.

On March 31, 1994, the Company established the ValuJet Airlines, Inc. 1994 Stock Option Plan (the "1994 Plan") whereby up to 4,000,000 incentive stock options or non-qualified options may be granted to officers, directors, key employees and consultants of the Company.

On January 30, 1996, the Company established the ValuJet, Inc. 1996 Stock Option Plan (the "1996 Plan") whereby up to 5,000,000 incentive stock options or non-qualified options may be granted to officers, directors, key employees and consultants of the Company.

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.

At December 31, 1996, the vesting of 1,504,000 stock options with a weighted average exercise price of \$0.85 granted to two executive officers was accelerated such that they became fully vested on that date. Such stock options represented all of the nonvested stock options held by the two executive officers.

Pro forma information regarding net income (loss) and earnings (loss) per share is required by Statement 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 1996 and 1995, respectively: risk-free interest rates of 7.3% and 6.4%; no dividend yields; volatility factors of the expected market price of the Company's common stock of .625 for 1996 and 1995; and a weighted-average expected life of the options of 5 years.

ValuJet, Inc.

Notes to Consolidated Financial Statements (continued)

7. STOCK OPTION PLANS (CONTINUED)

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which 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.

A summary of stock option activity under the above-described plans is as follows:

	SHARES	PRICE RANGE		WEIGHTED AVERAGE PRICE
Balance at December 31, 1993	3,880,000	\$	0.17	\$ 0.17
Granted	2,240,000	1.00	3.75	2.90
Exercised	(8,000)		0.17	0.17
Canceled	(92,000)	0.17	3.13	1.63

Balance at December 31, 1994	6,020,000	0.17	3.75	1.16
Granted	1,175,600	3.75	23.19	5.67
Exercised	(1,337,000)	0.17	3.13	0.33
Canceled	(239,200)	0.17	12.19	3.42

Balance at December 31, 1995	5,619,400	0.17	23.19	2.20
Granted	1,406,000	3.75	23.19	15.99
Exercised	(310,010)	0.17	3.13	2.68
Canceled	(91,860)	0.17	12.19	5.91

Balance at December 31, 1996	6,623,530	0.17	23.19	5.06
=====				
Exercisable at December 31, 1996	4,336,430	=====		

ValuJet, Inc.

Notes to Consolidated Financial Statements (continued)

7. STOCK OPTION PLANS (CONTINUED)

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

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE		
	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE	
\$0.17	2,516,000	6.50	\$ 0.17	2,452,000	\$ 0.17	
\$1.00-\$5.13	2,603,230	7.69	\$ 3.52	1,315,230	\$ 2.68	
\$8.50-\$15.00	570,000	9.62	\$10.23	15,600	\$13.43	
\$18.38 - \$23.19	934,300	8.82	\$19.35	553,600	\$18.40	
	6,623,530	7.60	\$ 5.06	4,336,430	\$ 3.21	

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 follows:

	1996	1995
Pro forma net income (loss)	\$(44,880,415)	\$67,193,721
Pro forma earnings (loss) per share:	(0.82)	1.14

Because Statement 123 is applicable only to options granted subsequent to December 31, 1994, its pro forma effect will not be fully reflected until 1999.

The weighted-average fair value of options granted during 1996 and 1995 with option prices equal to the market price on the date of grant was \$7.82 and \$4.00, respectively. The weighted average fair value of options granted during 1996 and 1995 with option prices less than the market price of the stock on the date of grant was \$10.13 and \$2.73, respectively.

At December 31, 1996, the Company had reserved a total of 12,144,190 shares of common stock for future issuance upon exercise of stock options.

ValuJet, Inc.

Notes to Consolidated Financial Statements (continued)

8. INCOME TAXES

The income tax provision (benefit) consists of the following:

	YEAR ENDED DECEMBER 31		
	1996	1995	1994
Current:			
Federal	\$ (31,311,000)	\$30,389,736	\$ 8,387,121
State	(2,077,000)	2,283,128	1,449,270
Total current	(33,388,000)	32,672,864	9,836,391
Deferred:			
Federal	10,614,000	6,313,839	2,694,773
State	(1,689,000)	1,076,231	317,392
Total deferred	8,925,000	7,390,070	3,012,165
	\$ (24,463,000)	\$40,062,934	\$12,848,556

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

	YEAR ENDED DECEMBER 31		
	1996	1995	1994
Tax at statutory rate	\$ (23,076,000)	\$37,738,937	\$11,648,639
State taxes, net of federal benefit	(2,448,000)	2,183,583	1,330,254
Other	1,061,000	140,414	233,576
Valuation reserve	-	-	(363,913)
	\$ (24,463,000)	\$40,062,934	\$12,848,556

ValuJet, Inc.

Notes to Consolidated Financial Statements (continued)

8. INCOME TAXES (CONTINUED)

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:

	DECEMBER 31	
	1996	1995
Deferred tax liabilities:		
Prepaid insurance	\$ 2,687,180	\$ 1,210,775
Depreciation	19,584,784	10,919,065
Gain on involuntary conversion	1,484,100	-
Total deferred tax liabilities	23,756,064	12,129,840
Deferred tax assets:		
Accrued liabilities	770,463	1,181,489
State operating loss carryforwards	2,035,751	-
Non qualified stock options	929,956	-
Other	692,659	546,116
Total deferred tax assets	4,428,829	1,727,605
Net deferred tax liability	\$19,327,235	\$10,402,235

Various subsidiaries of the Company have state operating loss carryforwards of approximately \$3,100,000 with expiration dates through the year 2011.

Notes to Consolidated Financial Statements (continued)

9. SHUTDOWN AND OTHER NONRECURRING EXPENSES

Shutdown and other nonrecurring expenses include costs associated with the loss of Flight 592 and excess operating costs related to the reduced schedule from May 19, 1996 to the June 17, 1996 shutdown, the suspension of operations from June 17, 1996 to September 29, 1996 and the reduced schedule from September 30, 1996 to December 31, 1996. 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, rental of abandoned or idled facilities and costs of personnel idled as a result of the reduced and suspended operations from May through December, 1996 are included in shutdown and other nonrecurring expenses. Personnel costs include full wages, salaries and benefits that were provided to idled employees during the reduction and suspension of operations.

A summary of such costs is as follows for the year ended December 31, 1996:

Maintenance	\$27,750,000
Legal and other consulting	8,843,000
Facilities rental	6,114,000
Wages, salaries and benefits, excluding maintenance	4,895,000
FAA remediation	2,000,000
Depreciation	11,054,000
Other	7,338,000

	\$67,994,000
	=====

No accrual was provided for costs to be incurred in future periods related to aircraft depreciation and maintenance and rental costs associated with temporarily idled facilities as such costs will be recognized as they are incurred. There is no accrual for salaries and wages in connection with the furlough of employees at December 31, 1996 as such employees were paid through June 30, 1996 with no additional severance benefits provided.

10. RELATED PARTY TRANSACTIONS

The Company has utilized temporary employees provided by a temporary agency which is partially owned by the daughter of one of the Company's officers. This arrangement was terminated during 1996. Amounts recorded as expense related to this agency were approximately \$4,223,000, \$12,663,000, and \$5,140,000 for the years ended December 31, 1996, 1995 and 1994, respectively. Accounts payable to this agency was approximately \$370,703 at December 31, 1995. No amounts were due at December 31, 1996.

11. 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 following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Accounts receivable and accounts payable: The carrying amounts reported in the balance sheet for accounts receivable and accounts payable approximate their fair value.

Long-term debt: The fair values of the Company's long-term debt are estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

ValuJet, Inc.

Notes to Consolidated Financial Statements (continued)

11. FINANCIAL INSTRUMENTS (CONTINUED)

The carrying amounts and estimated fair values of the Company's financial instruments are as follows:

	1996		1995	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Cash and cash equivalents	\$150,012,695	\$150,012,695	\$127,947,096	\$127,947,096
Accounts receivable, net of allowance	7,014,702	7,014,702	12,074,394	12,074,394
Accounts payable	3,221,036	3,221,036	6,721,754	6,721,754
Long-term debt	244,706,324	219,326,000	109,038,133	110,973,000

12. EMPLOYEE BENEFIT PLANS

Effective April 1, 1995, the Company adopted the ValuJet Airlines, Inc. 401(k) Plan (the "Plan"), a defined contribution benefit plan which qualifies under Section 401(k) of the Internal Revenue Code. All employees of the Company are eligible to participate in the Plan. Participants may contribute up to 15% of their base salary to the Plan. Contributions to the Plan by the Company are discretionary. No employer contributions were made in 1996 or 1995.

Effective May 16, 1995, the Company formed the 1995 Employee Stock Purchase Plan (the "Stock Plan") whereby 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 discount rate is determined by the Board of Directors before each offering date. The Company is authorized to issue up to 4,000,000 shares of common stock under this plan. During 1996 and 1995, the employees purchased a total of 8,770 and 1,880 shares at an average price of \$12.94 and \$20.86 per share, respectively, which represented a 5% discount from the market price on the offering dates.

ValuJet, Inc.

Notes to Consolidated Financial Statements (continued)

13. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for 1996 and 1995 is as follows (in thousands, except per share data):

	QUARTER			
	FIRST	SECOND	THIRD	FOURTH

Fiscal 1996:				
Operating revenues	\$109,995	\$ 81,217	\$ 311	\$ 28,113
Operating income (loss)	17,525	(11,581)	(29,946)	(27,397)
Net income (loss)	10,667	(9,574)	(21,945)	(20,617)
Net income (loss) per share	.18	(.18)	(.40)	(.38)

	QUARTER			
	FIRST	SECOND	THIRD	FOURTH

Fiscal 1995:				
Operating revenues	\$ 60,747	\$ 86,913	\$109,296	\$110,801
Operating income	14,581	27,086	36,672	30,511
Net income	9,071	16,860	22,661	19,171
Net income per share	.15	.28	.38	.32

NOTE 14. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION

The Company's \$150,000,000 of 10 1/4% Senior Notes issued during 1996 are fully and unconditionally guaranteed on a joint and several basis by ValuJet Airlines, Inc., a wholly-owned subsidiary of the Company, and all its subsidiaries ("Guarantors"). All of the operations of the Company are conducted by ValuJet Airlines, Inc. and its subsidiaries. All of the Guarantors are wholly-owned or indirect subsidiaries of the Company, and there are no direct or indirect subsidiaries that are not Guarantors. Separate financial statements of the Guarantors are not presented because all of the Company's subsidiaries guarantee the Senior Notes on a full, unconditional and joint and several basis.

Summarized financial information of ValuJet Airlines, Inc. and its subsidiaries is as follows:

	December 31, 1996

Current assets	\$246,041,431
Non-current assets	162,571,884
Current liabilities	69,954,233
Non-current liabilities	218,956,474

	Year Ended
	December 31, 1996

Operating revenues	\$219,636,232
Operating loss	(51,398,542)
Loss before income taxes	(65,932,299)
Net loss	(41,469,299)

SCHEDULE II-VALUATION AND QUALIFYING ACCOUNTS

VALUJET, INC.

COL. A	COL. B	COL. C	COL. D	COL. E
Description	Balance at Beginning of Period	Additions		Balance at end of Period
		Charged to Costs and Expenses	Charged to Other Accounts - Describe	
Year ended December 31, 1996				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$404,870	\$3,637,589		\$837,707
Total	\$404,870	\$3,637,589	\$3,204,752/2/	\$837,707
Year ended December 31, 1995				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$949,870	\$3,159,935		\$404,870
Total	\$949,870	\$3,159,935	\$3,704,935/2/	\$404,870
Year ended December 31, 1994				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$ 45,000	\$ 904,870	\$ 0	\$949,870
Valuation allowance for deferred tax assets	371,414	0	371,414/1/	0
Total	\$416,414	\$ 904,870	\$ 371,414	\$949,870

/1/ Company met the "more likely than not" criterion to recognize the deferred tax asset as of December 31, 1994.

/2/ Uncollectible accounts written off, net of recoveries.

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BY-LAWS
OF
VALUJET, INC.

ARTICLE ONE
OFFICES

Section 1.1 Registered Office and Agent. The corporation shall maintain a registered office and shall have a registered agent whose business office is identical with such registered office.

Section 1.2 Other Offices. The corporation may have offices at such place or places, within or without the State of Nevada, as the Board of Directors may, from time to time, appoint or as the business of the corporation may require or make desirable.

ARTICLE TWO
CAPITAL STOCK

Section 2.1 Issuance and Notice. Certificates of each class of stock shall be numbered consecutively in the order in which they are issued. They shall be signed by the President and Secretary and the seal of the corporation shall be affixed thereto. In an appropriate place in the corporate records there shall be entered the name of the person owning the shares, the number of shares and the date of issue. Certificates of stock exchanged or returned shall be canceled and placed in the corporate records. Facsimile signatures may be utilized in accordance with Section 2.2 of this Article.

Section 2.2 Transfer Agents and Registrars. The Board of Directors of the corporation may appoint a transfer agent or agents and a registrar or registrars of transfer (other than the corporation itself or an employee thereof) for the issuance of shares of stock of the corporation and may require that all stock certificates bear the signature of such transfer agent and registrar. In the event a share certificate is authenticated by both the transfer agent and registrar, any share certificate may be signed by the facsimile of the signature of either or both of the President and Secretary printed thereon. If the same is countersigned by the transfer agent and registrar of the corporation, the certificates bearing the facsimile of the signatures of the President and Secretary shall be valid in all respects as if such person or persons were still in office even though such person or persons shall have died or otherwise ceased to be officers.

Section 2.3 Transfer. Upon the surrender to the corporation or to the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of assignment of authority to transfer, it shall be the duty of the corporation to issue a certificate to the person entitled thereto, to cancel the surrendered certificate and to record the transaction upon its books.

Section 2.4 Lost Certificates. Any person claiming a certificate of stock to be lost or destroyed shall make an affidavit or affirmation of that fact and shall, if the Board of Directors so requires, comply with such other conditions applicable to the circumstances as the Board of Directors may require, including the delivery of a bond of indemnity, in form and with one or more sureties satisfactory to the Board of Directors, in at least double the value of the stock represented by said certificates; whereupon a new certificate may be issued of the same tenor and for the same number of shares as the one alleged to be lost or destroyed.

Section 2.5 Shareholders of Record. The corporation shall be entitled to recognize the exclusive right of a person registered on the books as the owner of shares entitled to receive dividends or to vote as such owner and shall not be bound to recognize any equitable or other claim to or interest in such shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise expressly provided by law.

Section 2.6 Determining Shareholders of Record. The Board of Directors shall have the power to close the stock transfer books of the corporation for a period not exceeding sixty (60) days preceding the date of any meeting of Shareholders or the date for payment of any dividend. Such date shall serve as the record date for the determination of the Shareholders entitled to notice of and to vote at such meeting or to receive payment of such dividend. When a record date is so fixed, only Shareholders of record on that date shall be entitled to notice of and to vote at the meeting or to receive payment of any dividend, notwithstanding any transfer of any shares on the books of the corporation after the record date.

Section 2.7 Voting. The holders of the common stock shall be entitled to one vote for each share of stock standing in their name. The holders of any class or series of preferred stock shall have the rights to vote specified in the corporation's certificate of rights, preferences and privileges filed in accordance with the laws of the State of Nevada.

Section 2.8 Statement of Rights of Holders of Stock. So long as the corporation is authorized to issue more than one class of stock or more than one series of any class, there shall be set forth on the face or back of each certificate of stock, or the certificate shall have a statement that the corporation will furnish to any Shareholder upon request and without charge, a full or summary statement of the voting powers, designations, preferences, limitations, restrictions and relative rights of the various classes of stock or series thereof.

ARTICLE THREE SHAREHOLDERS' MEETINGS

Section 3.1 Place of Meetings. All meetings of the Shareholders shall be held at the registered office of the corporation or at such other place, either within or without the State of Nevada, as the Board of Directors may, from time to time, designate.

Section 3.2 Annual Meeting. An annual meeting of the Shareholders shall be held each year at such time and date between January 1 and June 30 as shall be designated by the Board of Directors and stated in the notice of the meeting. If an annual meeting has not been called and held by June 30 of any year, such meeting may be called by the holders of ten percent (10%) or more of the voting power of the corporation outstanding and entitled to vote. At such annual meeting, the Shareholders shall elect a Board of Directors by a plurality vote and transact such other business as may properly be brought before the meeting.

Section 3.3 Special Meetings.

A. Calling of Special Meetings. Upon request in writing to the President or Secretary, sent by registered mail or delivered to such Officer in person, by any of the persons entitled to call a meeting of Shareholders, as provided in Section 3.3B below, such Officer shall forthwith cause notice to be given

to the Shareholders entitled to vote at such meeting. If the notice is not given within thirty (30) days after the date of delivery of the request, the persons calling the meeting may fix the time of meeting and give the notice in the manner provided in these By-laws.

B. Persons Entitled to Call Special Meetings. Special meetings of the Shareholders, for any purpose whatsoever, may be called at any time by any of the following: (1) a majority of the Board of Directors in office; and (2) Shareholders holding not less than twenty-five percent (25%) of the voting power of the corporation.

C. Permissible Matters. Business transacted at all special meetings shall be confined to the objects stated in the call.

Section 3.4 Notice.

A. Notice of Meetings. Notice of all meetings of Shareholders shall be given in writing to Shareholders entitled to vote signed by the Secretary or an Assistant Secretary or other person charged with that duty, or, in case of his neglect or refusal, or if there is no person charged with the duty of giving notice, by any Director or Shareholder.

B. Method of Notice. A notice may be given by the corporation to any Shareholder, either personally or by mail or other means of written communication, charges prepaid, addressed to the Shareholder at his address appearing on the books of the corporation. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail with first-class postage thereon, prepaid and addressed to the Shareholder at his address as it appears on the stock transfer books of the corporation.

C. Time of Notice. Notice of meeting of Shareholders shall be sent to each Shareholder entitled thereto not less than ten (10) days nor more than sixty (60) days before the meeting, except in the case of a meeting for the purpose of approving a merger or consolidation agreement in which case the notice must be given not less than twenty (20) days prior to the date of the meeting.

D. Contents of Notice. Notice of any meeting of Shareholders shall specify the place, the day and the hour of the meeting and the purpose for calling the meeting.

Section 3.5 Waiver of Notice. Notice of a meeting need not be given to any Shareholder who signs a waiver of notice, in person or by proxy, either before or after the meeting; and a Shareholder's waiver shall be deemed the equivalent of giving proper notice. Attendance of a Shareholder at a meeting, either in person or by proxy, shall by itself constitute a waiver of notice and a waiver of any and all objections to the time or place of the meeting or the manner in which it has been called or convened, unless a Shareholder attends a meeting solely for the purpose of stating, at the beginning of the meeting, any such objection or objections to the transaction of business. Unless otherwise specified herein, neither the business transacted nor the purpose of the meeting need be specified in the waiver.

Section 3.6 Presence by Telephone. Shareholders may participate in a meeting of the Shareholders by means of a conference telephone or similar communications equipment by which all participants in the meeting can hear each other, and participation in a meeting pursuant to this Section 3.6 shall constitute presence in person at such meeting.

Section 3.7 Quorum. The majority of the shares entitled to vote, represented in person or by proxy, shall constitute a quorum at any meeting of Shareholders. If a quorum is present, action on a matter (other than the election of Directors) by the Shareholders is approved if the votes cast by the Shareholders favoring the action exceed the votes cast opposing the action unless provided otherwise (i) under the corporation's articles of incorporation, (ii) under the rights and preferences of any class or series of stock authorized, or (iii) under Nevada law. When a quorum is once present to organize a meeting, the Shareholders present may continue to do business at the meeting until adjournment even though enough Shareholders withdraw to leave less than a quorum.

Section 3.8 Adjournment. Any meeting of the Shareholders may be adjourned by the holders of a majority of the voting shares represented at a meeting, whether or not a quorum is present. Notice of the adjourned meeting or of the business to be transacted at such meeting shall not be necessary, provided the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken. Notwithstanding the preceding sentence, if the Board of Directors fixes a new record date for the adjourned meeting with respect to who can vote at such meeting, then notice of the adjourned meeting shall be given to each Shareholder of record on the new record date who is entitled to vote at such meeting, which notice shall be given in accordance with the provisions of Section 3.4 hereof. At an adjourned meeting at which a quorum is present or represented, any business may be transacted which could have been transacted at the meeting originally called.

Section 3.9 Voting Rights. Each Shareholder shall be entitled at each Shareholders' meeting to one vote for each share of the capital stock having voting power held by such Shareholder except as otherwise provided (i) under the corporation's articles of incorporation, or (ii) the corporation's certificate of rights, preferences and privileges filed in accordance with the laws of the State of Nevada. Neither treasury shares nor shares held by a subsidiary of the corporation shall be voted at any meeting or counted in determining the total number of outstanding shares at any given time.

Section 3.10 Proxies. A Shareholder entitled to vote may vote in person or by proxy executed in writing by the Shareholder or by his attorney-in-fact. If any Shareholder designates two or more persons to act as proxies, a majority of those present at the meeting, or if only one shall be present, then that one, shall have and may exercise all of the powers conferred by such Shareholder upon all of the persons so designated unless the Shareholder shall otherwise provide. A proxy shall not be valid after six (6) months from the date of its execution unless it is coupled with an interest, or unless a longer period is expressly stated in such proxy, which may not exceed seven (7) years from the date of its creation. Every proxy shall be revocable at the pleasure of the Shareholder executing it except as may be otherwise provided in the Nevada Revised Statutes.

Section 3.11 Election Judges. The Board of Directors, or if the Board shall not have made the appointment, the chairman presiding at any meeting of Shareholders, shall appoint two or more persons to act as election judges to receive, canvass, certify and report the votes cast by the Shareholders at such meeting; but no candidate for the office of Director shall be appointed as an election judge at any meeting for the election of Directors.

Section 3.12 Chairman of Meeting. The Chairman of the Board shall preside at all meetings of the Shareholders; and, in the absence of the Chairman of the Board, the President shall serve as chairman of the meeting.

Section 3.13 Secretary of Meeting. The Secretary of the corporation shall act as secretary of all meetings of the Shareholders; and, in his absence, the chairman of the meeting may appoint any person to act as secretary of the meeting.

Section 3.14 Action by Consent of Shareholders. Any action required or permitted to be taken at a meeting of the Shareholders may be taken without a meeting if a written consent setting forth the action shall be signed by Shareholders holding at least a majority of the voting power, unless a greater vote is required (i) under the corporation's articles of incorporation, (ii) under the corporation's certificate of rights, preferences and privileges filed in accordance with the laws of the State of Nevada, or (iii) under Nevada law, in which event, such greater proportion of written consent shall be required. Any such consent shall be filed with the Secretary of the corporation and shall have the same force and effect as a unanimous vote of the Shareholders.

ARTICLE FOUR DIRECTORS

Section 4.1 Management of Business. Subject to these by-laws, the full and entire management of the affairs and business of the corporation shall be vested in the Board of Directors which shall have and which may exercise all of the powers that may be exercised or performed by the corporation.

Section 4.2 Number, Qualification and Term of Office. The business and affairs of the corporation shall be managed by a Board of Directors which shall consist of such number of members, not less than three nor more than nine, as shall be determined from time to time by resolution of the Board of Directors at any meeting of the Board or by the unanimous written consent of the Board. Each member of the Board of Directors of the corporation shall be elected by a plurality of the votes cast by the shares entitled to vote for the election of Directors. None of the Directors need be a resident of the State of Nevada or hold shares of stock in the corporation. The Directors shall be elected at an annual or special meeting of the Shareholders and shall serve for a term of one (1) year or until their successors are elected and qualified.

Section 4.3 Vacancies.

A. When Vacancies Occur. Vacancies in the Board of Directors shall exist in the case of happening of any of the following events: (1) the death, resignation or removal of any Directors; (2) a declaration of vacancy by the Board of Directors as provided in Paragraph B below; (3) the authorized number of Directors is increased by resolution of the Board of Directors; or (4) at any meeting of Shareholders at which the Directors are elected, the Shareholders fail to elect the full authorized number of Directors to be voted for at that meeting. A reduction of the authorized number of Directors does not remove any Director prior to the expiration of his term in office.

B. Declaration of Vacancy. The Board of Directors may declare vacant the office of any Director in either of the following cases: (1) if he is declared of unsound mind by an appropriate court order or convicted of a felony; or (2) if within sixty (60) days after notice of his election he does not accept the office either in writing or by attending a meeting of the Board of Directors.

C. Filling Vacancies. Unless the Articles of Incorporation or a provision of these By-laws approved by the Shareholders provides otherwise, if a vacancy occurs on the Board of Directors,

including a vacancy resulting from an increase in the number of Directors, the Board of Directors may fill the vacancy. If the Directors remaining in office do not constitute a quorum of the Board, the Directors may fill the vacancy by affirmative vote of a majority of all the Directors remaining in office. Such appointment by the Shareholders or Directors shall continue until the expiration of the term of the Director whose place has become vacant.

Section 4.4 Compensation. For their services as Directors, the Directors may receive a fixed sum salary and reimbursement of expenses of attendance at each meeting of the Board as approved by the Shareholders or Board of Directors from time to time. A Director may serve the corporation in a capacity other than that of Director and receive compensation for the services rendered in such other capacity.

ARTICLE FIVE DIRECTORS' MEETINGS

Section 5.1 Place of Meetings. The meetings of the Board of Directors may be held at the registered office of the corporation or at any place, within or without the State of Nevada, which a majority of the Board of Directors may, from time to time, designate.

Section 5.2 Annual Meeting. The Board of Directors shall meet each year immediately following the annual meeting of the Shareholders at the place such Shareholders' meeting was held or at such other time, date and place as a majority of the Board of Directors may designate. At such annual meeting, Officers shall be elected and such other business may be transacted which is within the powers of the Directors. Notice of the annual meeting of the Board of Directors need not be given.

Section 5.3 Regular Meetings.

A. When Regular Meetings Held. Regular meetings of the Board of Directors (which includes the annual meeting) shall be held not less than every three (3) months.

B. Call of Regular Meetings. All regular meetings of the Board of Directors of the Corporation shall be called by the Chairman of the Board or by the President.

C. Notice of Regular Meetings. Written notice of the time and place of the regular meetings of the Board of Directors shall be delivered personally to each Director or sent to each Director by mail or by other form of written communication (including facsimile transmission) at least two (2) business days before the meeting.

Section 5.4 Special Meetings.

A. Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board or by any two Directors.

B. Notice of Special Meeting. Written notice of the time and place of special meetings of the Board of Directors shall be delivered personally to each Director or sent to each Director by mail or

by other form of written communication (including facsimile transmission) at least two (2) business days before the meeting.

Section 5.5 Waiver of Notice. A Director may waive in writing notice of a special meeting of the Board, either before or after the meeting, and his waiver shall be deemed the equivalent of giving notice. Attendance of a Director at a meeting shall constitute a waiver of notice of that meeting unless he attends for the express purpose of objecting to the transaction of business on the grounds that the meeting has not been lawfully called or convened.

Section 5.6 Purpose of Meeting. Neither the business to be transacted at a regular or special meeting, nor the purpose of such meeting, need be specified in the notice or waiver of notice of such meeting.

Section 5.7 Presence by Telephone. Members of the Board of Directors may participate in a meeting of the Board of Directors by means of a conference telephone or similar communications equipment by which all Directors participating in the meeting can hear each other, and participation in a meeting pursuant to this Section 5.7 shall constitute presence in person at such meeting.

Section 5.8 Quorum. At meetings of the Board of Directors, a majority of the Directors shall constitute a quorum for the transaction of business. Only when a quorum is present may the Board of Directors continue to do business at any such meeting. If a quorum is present, the acts of a majority of Directors in attendance shall be the acts of the Board.

Section 5.9 Adjournment. A meeting of the Board of Directors may be adjourned. Notice of the time and the place of the adjourned meeting and of the business to be transacted thereat, other than by announcement at the meeting at which the adjournment is taken, shall not be necessary. At an adjourned meeting at which a quorum is present, any business may be transacted which could have been transacted at the meeting originally called.

Section 5.10 Manifestation of Dissent. A Director of the corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Director who voted in favor of such action.

Section 5.11 Action by Consent. If all of the Directors, severally or collectively, consent in writing to any action taken or to be taken by the corporation and the writing or writings evidencing their consent are filed with the Secretary of the corporation, the action shall be as valid as though it had been authorized at a meeting of the Board of Directors.

Section 5.12 Committees. The Board of Directors may from time to time, by majority resolution of the full Board of Directors, appoint from among its members such Committees as the Board may determine. The members of the Executive Committee, if there is one, shall include the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and such other persons designated by the Board of Directors. If an Executive Committee is formed, such Committee shall, during the interval between

meetings of the Board, advise and aid the Officers of the corporation in all matters in the corporation's interest and the management of its business and generally perform such duties and exercise such powers as may be directed or delegated by the Board of Directors from time to time. The Board may delegate to the Executive Committee authority to exercise all powers of the Board, excepting powers which may not be delegated to such Committee under Nevada law, while the Board is not in session. Vacancies in the membership of any Committee which shall be so appointed by the Board of Directors shall be filled by the Board of Directors at a regular meeting or at a special meeting called for that purpose. All committees shall keep regular minutes of their proceedings and report the same to the full Board when requested or required.

ARTICLE SIX OFFICERS

Section 6.1 Officers. The Officers of the corporation shall consist of those Officers, if any, as the Board of Directors shall designate from time to time. Upon such action by the Board of Directors, the officers of the corporation may include a Chairman of the Board, a Vice Chairman of the Board, a President, a Vice President or Vice Presidents, Secretary, Treasurer and Assistants to the Vice President, Secretary or Treasurer. The Officers shall be elected by and shall serve at the pleasure of the Board of Directors. The same individual may simultaneously hold more than one office in the corporation. The Board of Directors may designate one or more of the officers with the additional titles of Chief Executive Officer, Chief Operating Officer and Chief Financial Officer. The officers so designated shall have those duties incident to the respective designations, in addition to the duties set forth herein.

Section 6.2 Duties of Officers. All Officers of the corporation, as between themselves and the corporation, shall have such authority and perform such duties in the management of the corporation as hereinafter provided in these By-laws or as may be determined by action of the Board of Directors to the extent not inconsistent with these By-laws.

Section 6.3 Chairman of the Board. The Chairman of the Board shall be a member of the Board of Directors. He shall, when present, preside at all meetings of the Board of Directors. He may execute any deeds, mortgages, bonds or other contracts pursuant to authority (which may be general authority) from the Board of Directors, except in cases where the execution thereof shall be expressly delegated by the Board of Directors or by these by-laws to some other officer or agent of the corporation or shall be required by law to be otherwise signed or executed; and in general shall perform all duties incident to the office of Chairman of the Board and such other duties as may be prescribed by the Board of Directors from time to time.

Section 6.4 Vice Chairman of the Board. The Vice Chairman of the Board, if there is one, shall serve in the place of the Chairman of the Board in the absence of the Chairman. The Vice Chairman of the Board shall perform such other duties as may be prescribed by the Board of Directors from time to time.

Section 6.5 President. The President shall have the responsibility for the general supervision of the day-to-day business affairs of the corporation. He shall be responsible for the day-to-day administration of the corporation, including general supervision of the implementation of the policies of the corporation, general and active management of the financial affairs of the corporation and may execute certificates for shares of the corporation, deeds, mortgages, bonds or other contracts under the seal of the

corporation pursuant to authority (which may be general authority) from the Board of Directors except in cases where the execution thereof shall be expressly delegated by the Board of Directors or by these by-laws to some other officer or agent of the corporation or shall be required by law to be otherwise signed or executed. He shall preside at all meetings of the Directors and Shareholders (except when there is a separately elected Chairman of the Board) and shall discharge the duties of a presiding officer. He shall present at each annual meeting of the Shareholders a report of the business of the corporation for the preceding fiscal year. The President shall also perform whatever other duties the Board of Directors may from time to time prescribe.

Section 6.6 Vice Presidents. The Vice President or Vice Presidents shall perform such duties and have such powers as the Chairman of the Board or the Board of Directors may from time to time prescribe. The Board of Directors or the Chairman of the Board may designate the order of seniority of Vice Presidents, in the event there is more than one, and may designate one or more Vice Presidents as Senior Vice Presidents. The duties and powers of the President shall disburse first to the Senior Vice President or to the Vice Presidents in the order of seniority specified by the Board of Directors or the Chairman of the Board.

Section 6.7 Secretary. The Secretary shall (i) keep minutes of all meetings of the Shareholders and Directors, (ii) have charge of the minute books, stock books and seal of the corporation, and (iii) perform such other duties and have such other powers as may, from time to time, be delegated to him by the Board of Directors or Chairman of the Board.

Section 6.8 Treasurer. The Treasurer shall:

(1) Funds - Custody and Deposit. Have charge and custody of, and be responsible for, all funds and securities of the corporation and shall deposit all such funds and other valuable effects in the name and to the credit of the corporation in such depositories as shall be authorized by the Board of Directors.

(2) Funds - Receipt. Give receipts for all moneys due and payable to the corporation.

(3) Funds - Disbursement. Disburse the funds of the corporation, keeping proper vouchers for such disbursements.

(4) Maintain Accounts. Keep and maintain adequate and correct accounts of the corporation's properties and business transactions, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, surplus and shares.

(5) Other Duties. Perform all the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the Board of Directors or Chairman of the Board.

Section 6.9 Assistant Vice Presidents, Assistant Secretary and Assistant Treasurer. Assistants to the Vice Presidents, Secretary and Treasurer may be appointed and shall have such duties as shall be delegated to them by the Board of Directors or Chairman of the Board.

Section 6.10 Delegation of Duties. In case of the absence of any Officer of the corporation, or for any other reason and for any duration that the Board of Directors may deem advisable, the Board of Directors may delegate the powers or duties, or any of them, of such Officer to any other Officer, or to any Director, provided a majority of the entire Board concurs therein.

Section 6.11 Removal of Officers. Any Officer elected or appointed by the Board of Directors may be removed by the Board of Directors whenever, in the judgment of a majority of the members of the Board of Directors, the best interest of the corporation will be served thereby. The removal of any such Officer shall be without prejudice to the contract rights, if any, of the person so removed; however, the election or appointment of an Officer shall not in and of itself create any contract rights.

Section 6.12 Vacancies. When a vacancy occurs in one of the executive offices by death, resignation or otherwise, it shall be filled by the Board of Directors. The Officer so elected shall hold office until his successor is chosen and qualified.

Section 6.13 Compensation. The Board of Directors shall prescribe or fix the salaries, bonuses, pensions, benefits under pension plans and profit sharing plans, stock option plans and all other plans, benefits and compensation to be paid or allowed to or in respect of (i) all Officers and any or all employees of the corporation, including Officers and employees who may also be Directors of the corporation and (ii) the Directors of the corporation, as such. Directors of the corporation shall not be disqualified from voting on their own or any other person's plan, benefit or compensation to be paid by the corporation merely because they or such other person is a Director or an Officer or an employee of the corporation. The Board of Directors may delegate these functions to any Officer not a Director except those determinations involving an Officer or Director.

ARTICLE SEVEN SEAL

Section 7.1 Seal. The seal of the corporation shall be in such form as the Board of Directors may, from time to time, determine. In the event it is inconvenient to use such a seal at any time, the signature of the corporation followed by the words "Corporate Seal" enclosed in parentheses or scroll shall be deemed the seal of the corporation. The seal shall be in the custody of the Secretary and affixed by him or any Assistant Secretary on the certificates of stock and such other papers as may be directed by law, by these by-laws or by the Chairman of the Board, President or Board of Directors.

ARTICLE EIGHT AMENDMENTS

Section 8.1 Amendments. These by-laws may be amended at any meeting of the Board of Directors by the affirmative vote of a majority of the Directors except as otherwise provided herein or except as prohibited by law.

ARTICLE NINE
INDEMNIFICATION

Section 9.1 Definitions. As used in this Article, the term:

A. "Corporation" means this corporation and includes any domestic or foreign predecessor entity of this corporation in a merger or other transaction in which the predecessor's existence ceased upon consummation of the transaction.

B. "Director" means an individual who is or was a Director of the Corporation or an individual who, while a Director of the Corporation, is or was serving at the Corporation's request as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise. A Director is considered to be serving an employee benefit plan at the Corporation's request if his duties to the Corporation also impose duties on, or otherwise involve services by, him to the plan or to participants in or beneficiaries of the plan. "Director" includes, unless the context requires otherwise, the estate or personal representative of a Director.

C. "Expenses" includes attorneys' fees.

D. "Liability" means the obligation to pay a judgment, settlement, penalty, fine (including an excise tax assessed with respect to an employee benefit plan), or reasonable expenses incurred with respect to a proceeding.

E. "Officer" means an individual who is or was an officer of the Corporation or an individual who, while an officer of the Corporation, is or was serving at the Corporation's request as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise. An officer is considered to be serving an employee benefit plan at the Corporation's request if his duties to the Corporation also impose duties on, or otherwise involve services by, him to the plan or to participants in or beneficiaries of the plan. "Officer" includes, unless the context requires otherwise, the estate or personal representative of an officer.

F. "Party" includes an individual who was, is, or is threatened to be made a named defendant or respondent in a proceeding.

G. "Proceeding" means any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative and whether formal or informal but shall include an action or suit by or in the right of the Corporation only if such action or suit is to procure a judgment in the Corporation's favor.

Section 9.2 Basic Indemnification Arrangement.

A. Except as provided in subsections 9.2D and 9.2E below, the Corporation shall indemnify any Officer or Director in the event he is made a party to a proceeding because he is or was a director or officer against liability incurred by him in the proceeding if he acted in good faith and in a manner he believed to be in or not opposed to the best interests of the Corporation and, in the case of any criminal proceeding, he had no reasonable cause to believe his conduct was unlawful.

B. An Officer's or Director's conduct with respect to an employee benefit plan for a purpose he believed in good faith to be in the interests of the participants in and beneficiaries of the plan is conduct that satisfies the requirement of subsection 9.2A.

C. The termination of a proceeding by judgment, order, settlement, or conviction, or upon a plea of nolo contendere or its equivalent shall not, of itself, be determinative that any Officer or Director did not meet the standard of conduct set forth in subsection 9.2A.

D. The Corporation shall not indemnify any Officer or Director under this Article in connection with a proceeding by or in the right of the Corporation in which such Officer or Director was adjudged liable to the Corporation, unless and only to the extent the court in which the proceeding was brought or other court of competent jurisdiction determines upon application that in view of all circumstances of the case, the Officer or Director is fairly and reasonably entitled to indemnity for such expenses as the court deems proper.

E. Indemnification permitted under this Article in connection with a proceeding is limited to liability and expenses actually and reasonably incurred in connection with the proceeding.

Section 9.3 Advances for Expenses.

A. The Corporation shall pay for or reimburse the reasonable expenses incurred by an Officer or Director as a party to a proceeding in advance of final disposition of the proceeding if he furnishes the Corporation a written undertaking (meeting the qualifications set forth below in subsection 9.3B), executed personally or on his behalf, to repay any advances if it is ultimately determined that he is not entitled to any indemnification under this Article or otherwise.

B. The undertaking required by subsection 9.3A above must be an unlimited general obligation of such Officer or Director but need not be secured and may be accepted without reference to financial ability to make repayment.

Section 9.4 Authorization of and Determination of Entitlement to Indemnification.

A. The Corporation shall not indemnify any Officer or Director under Section 9.2 unless a separate determination has been made in the specific case that indemnification of such Officer or Director is permissible in the circumstances because he has met the standard of conduct set forth in subsection 9.2A or unless ordered by a court or advanced pursuant to Subsection 9.3; provided, however, that regardless of the result or absence of any such determination, to the extent that such Officer or Director has been successful, on the merits or otherwise, in the defense of any proceeding to which he was a party, or in defense of any claim, issue or matter therein, because he is or was a Director or Officer, the Corporation shall indemnify such Officer or Director against liability incurred by him in connection therewith.

B. The determination referred to in subsection 9.4A above shall be made, at the election of the Board of Directors:

1. By the Board of Directors of the Corporation by majority vote of a quorum consisting of Directors not at the time parties to the proceeding;

2. By special independent legal counsel:

(a) selected by the Board of Directors in the manner prescribed in subparagraph 1 immediately above; or

(b) if a quorum of the Board of Directors cannot be obtained under subparagraph 1 immediately above, selected by a majority vote of the full Board of Directors (in which selection Directors who are parties may participate); or

3. By the Shareholders provided that shares owned by or voted under the control of Directors or Officers who are at the time parties to the proceeding may not be voted on the determination.

C. Evaluation as to reasonableness of expenses of an Officer or Director in the specific case shall be made in the same manner as the determination that indemnification is permissible, as described in subsection 9.4B above, except that if the determination is made by special legal counsel, evaluation as to reasonableness of expenses shall be made by those entitled under subsection 9.4B2 to select counsel.

Section 9.5 Limitations on Indemnification of Officers and Directors. Nothing in this Article shall require or permit indemnification of an Officer or Director for any liability if a final adjudication establishes that his acts or omissions involved intentional misconduct, fraud or a knowing violation of law and was material to the cause of action.

Section 9.6 Witness Fees. Nothing in this Article shall limit the Corporation's power to pay or reimburse expenses incurred by an Officer or Director in connection with his appearance as a witness in a proceeding at a time when he has not been made a named defendant or respondent in the proceeding.

Section 9.7 Non-exclusivity, Etc. The rights of an Officer or Director hereunder shall be in addition to any other rights with respect to indemnification, advancement of expenses or otherwise that such Officer or Director may have under the Corporation's By-laws or the Nevada Revised Statutes or otherwise.

Section 9.8 Intent. It is the intention of this corporation that this Article of the By-laws of this Corporation and the indemnification hereunder shall extend to the maximum indemnification possible under the laws of the State of Nevada and if one or more words, phrases, clauses, sentences or sections of this Article should be held unenforceable for any reason, all of the remaining portions of this Article shall remain in full force and effect.

ARTICLE TEN DEALINGS

Section 10.1 Related Transactions. No contract or other transaction between this corporation and any other firm, association or corporation shall be affected or invalidated by the fact that any of the members of the Board of Directors of this corporation are interested in or are members, shareholders, governors or directors of such firm, association or corporation; and no contract, act or

transaction of this corporation with any individual firm, association or corporation shall be affected or invalidated by the fact that any of the members of the Board of Directors of this corporation are parties to or interested in such contract, act or transaction or are in any way connected with such individual, firm, association or corporation. Each and every individual who may become a member of the Board of Directors of this corporation is hereby relieved from any liability that might otherwise exist from contracting with this corporation for the benefit of himself or herself or any firm, association or corporation in which he or she may in any way be interested. Notwithstanding the above, the provisions of this Section 10.1 shall be applicable only in the absence of fraud and only where the interest in such transaction of an interested party has been disclosed and the interested party, if a Director, has abstained from a vote thereon.

ARTICLE ELEVEN
DIVIDENDS AND RESERVES

Section 11.1 Dividends. The Board of Directors of the corporation may from time to time declare, and in such event the corporation shall pay, dividends on the corporation's outstanding shares in cash, property or the corporation's own shares, except when the corporation is insolvent or when the declaration or payment thereof would be contrary to any restrictions contained in the Articles of Incorporation or any applicable law, subject to the following:

A. Dividends may be declared and paid in the corporation's own shares out of any treasury shares that have been reacquired by the corporation.

B. Dividends may be declared and paid in the corporation's own authorized but unissued shares, provided that such shares shall be issued at not less than the par value thereof and there shall be transferred to stated capital at the time such dividend is paid an amount at least equal to the aggregate par value of the shares to be issued as a dividend.

C. The corporation shall have the use of any cash or property declared as a dividend that is unclaimed until the time it escheats to the applicable jurisdiction. Any stock declared as a dividend or unclaimed shall be voted by the Board of Directors.

Section 11.2 Reserves. Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the Directors, from time to time, in their absolute discretion, think proper as a reserve fund to meet contingencies or for equalizing dividends or for repairing or maintaining any property of the corporation or for such other purpose as the Directors shall think conducive to the interest of the corporation, and the Directors may modify or abolish any such reserve in the manner by which it was created.

ARTICLE TWELVE
CORPORATE BOOKS AND RECORDS

Section 12.1 Minutes of Corporate Meetings. The corporation shall keep at its principal office, or such other place as the Board of Directors may order, a book of minutes of all meetings of its Directors and of its Shareholders, with the time and place of holding, whether annual, regular or special,

and, if special, how authorized, the notice thereof given, the names of those present at Directors' meetings, the number of shares present or represented at Shareholders' meetings and the proceedings thereof.

Section 12.2 Share Register. The corporation shall keep at the principal office, or at the office of the transfer agent, a share register showing the names of the Shareholders and their addresses, the number of shares held by each and the number and date of cancellation of every certificate surrendered for cancellation. The above specified information may be kept by the corporation on punch cards, magnetic tape or other information storage device related to electronic data processing equipment provided that such card, tape or other equipment is capable of reproducing the information in clearly legible form.

ARTICLE THIRTEEN
GENERAL PROVISIONS

Section 13.1 Fiscal Year. The fiscal year of the corporation shall be fixed by resolution of the Board of Directors.

Section 13.2 Authority for Execution of Contracts and Instruments. The Board of Directors, except as otherwise provided in these By-laws, may authorize any Officer or Officers, agent or agents to enter into any contract or execute and delivery any instrument in the name and on behalf of the corporation, and such authority may be general or confined to specified instances; and, unless so authorized, no Officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable pecuniarily for any purpose or in any amount.

Section 13.3 Signing of Checks, Drafts, Etc. All checks, drafts or other order for payment of money, notes or other evidences of indebtedness issued in the name of or payable to the corporation shall be signed or endorsed by such person or persons and in such manner as shall be determined from time to time by resolution of the Board of Directors.

AS ADOPTED BY THE DIRECTORS OF THE CORPORATION ON JULY 20, 1995. AS AMENDED BY THE DIRECTORS OF THE CORPORATION ON DECEMBER 12, 1996.

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VALUJET, INC.

1996 STOCK OPTION PLAN

1. PURPOSE AND EFFECT OF THE PLAN. This Stock Option Plan (the "Plan") is intended to promote the interests of ValuJet, Inc., a Nevada corporation (the "Company") and its stockholders by encouraging certain selected directors, consultants and key employees (including officers of the Company) who will be responsible for the future growth and continued development of the Company to own, and to increase their ownership of, the Company's stock thereby giving them, as shareholders, an increased personal interest in, and a greater concern for, the Company's success and progress. The Plan is also intended to aid the Company in competing with other enterprises for the services of new executives and key employees needed to help insure continued development.

2. NAME. The Plan shall be known as "ValuJet, Inc. 1996 Stock Option Plan."

3. DEFINITION OF TERMS. In addition to words and terms that may be defined elsewhere in the Plan, the following words and terms as used in the Plan shall have the following meanings unless the context or use fairly indicates another or different meaning or intent, which definitions shall be equally applicable to both the singular and plural forms of such words and terms.

- A. "Board" shall mean the Board of Directors of the Company.
- B. "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.
- C. "Committee" shall have the meaning set forth in Item 5 hereof.
- D. "Common Stock" shall mean the common stock of the Company, \$.001 par value per share.
- E. "Disinterested Persons" shall mean disinterested persons within the meaning of Rule 16b-3, as promulgated under the Securities and Exchange Act of 1934, as amended.
- F. "Employee" shall mean any employee of the Company, including officers or directors of the Company who are employees of the Company.
- G. "Fair Market Value" shall mean the fair market value of a share of Common Stock on a particular date determined as follows. In the event the Company's Common Stock is listed upon an established stock exchange, Fair Market Value shall be deemed to be the closing price of the Company's Common Stock on such stock exchange on such date or, if no sale of the Company's Common Stock shall have been made on any stock exchange on that day, the Fair Market Value shall be determined as such price for the next preceding day upon which a sale shall have occurred. In the event the Company's Common Stock is not listed upon an established exchange but is quoted on the National Association of Securities Dealers Automated Quotation System ("NASDAQ"), the Fair Market Value shall be deemed to be the closing sale price (if included in the national market list) or the mean between the closing dealer "bid" and "asked" prices for the Company's Common Stock as quoted on NASDAQ for such date, and if no closing sale price or "bid" and "asked" prices are quoted for that day, the Fair Market Value shall be determined by reference to such prices on the next preceding day on which such prices are quoted. In the

event the Company's said Common Stock is neither listed on an established stock exchange nor quoted on NASDAQ, the Fair Market Value on such date shall be determined by the Committee.

H. "ISO" shall mean any Option under this Plan which is intended to be an incentive stock option under Code Section 422.

I. "Non-Employees" shall mean any consultant of the Company or director of the Company who is not an employee of the Company.

J. "NQSO" shall mean any Option granted under this Plan which is not intended to qualify as an incentive stock option under Code Section 422.

K. "Option" shall mean a stock option, whether an ISO or NQSO, granted under the Plan.

L. "Option Price" shall mean the purchase price of a share of Common Stock under an Option.

M. "Participant" shall mean an Employee or Non-Employee to whom an Option is granted under the Plan.

N. "Parent" shall mean any corporation which at the time qualifies as a parent of the Company under the definition of "parent corporation" contained in Code Section 424(e).

O. "SEC" shall mean the Securities and Exchange Commission.

P. "Subsidiary" shall mean any corporation which at the time qualifies as a subsidiary of the Company under the definition of "subsidiary corporation" contained in Code Section 424(f).

4. CHARACTERIZATION OF OPTIONS. Options granted in accordance with the

terms hereof within the limits prescribed by Item 9A(iv) hereof and which are specified in the option agreement as intended to be incentive stock options, are to be incentive stock options as provided in Code Section 422. All other Options granted hereunder shall be nonqualified options as provided in Code Section 83.

5. ADMINISTRATION. The Plan shall be administered by a Stock Option

Committee (the "Committee") consisting of not less than two members all of whom shall be Disinterested Persons.

A. The Committee shall be appointed by the Board from its membership. Until such time as the Committee is appointed, the entire Board shall serve as the Committee. The members of the Committee shall serve at the pleasure of the Board, which shall have the power, at any time and from time to time, to remove members from the Committee or to add members thereto. Vacancies on the Committee, however caused, shall be filled by the Board.

B. Except as provided in Item 7, members of the Committee shall not include any person who is not, during the one (1) year preceding the date on which such member is first appointed to the Committee and during the time he serves on the Committee, granted or awarded equity securities or options therefor under this Plan or any other plan of the Company or any of its affiliates.

C. The Committee may interpret the Plan, prescribe, amend and rescind any rules and regulations necessary or appropriate for the administration of the Plan and make such other determinations and take such other action as it deems necessary or desirable for the administration of the Plan and the protection of the Company except as otherwise reserved to the Board or the shareholders of the Company. Without limiting the generality of the foregoing, the Committee, in its discretion, may treat all or any part of any period during which a Participant is on military duty or on an approved leave of absence from the Company as a period of employment of such Participant by the Company for purposes of accrual of his rights under his Option. In addition, the Committee shall have the specific authority to grant Options with different terms to different Participants and shall further have the specific authority to require a minimum holding period between the grant and exercise of any Option, to determine that the Options granted to a Participant may be exercised only in installments and to specify such conditions precedent to the exercise of any Option as the Committee may deem advisable. The Committee may at any time, with the consent of the Participant, at its sole discretion, cancel any Option and issue to the Participant a new Option for any equivalent or lesser number of shares of Common Stock, and at a lesser Option Price. Any interpretation, determination or other action made or taken by the Committee shall be final, binding and conclusive.

D. No member of the Committee shall be liable for any action taken or omitted or determination made in good faith with respect to the Plan or any Option granted under the Plan.

6. SHARES SUBJECT TO PLAN. Options may be granted by the Company from -----
time to time to purchase an aggregate of 5,000,000 shares of Common Stock subject to adjustment as provided in Item 11 below. The shares issued upon exercise of Options granted under the Plan may be authorized and unissued shares or shares held by the Company as treasury stock. If any Option granted under the Plan shall terminate, expire or, with the consent of the Participant, be cancelled as to any shares, new Options may thereafter be granted covering any such shares.

7. ELIGIBILITY. Options may be granted to those Employees and Non-----
Employees of the Company selected by the Committee in its sole discretion from time to time who have and exercise key management functions for the Company or who discharge other responsibilities important to the success of the Company. Notwithstanding anything to the contrary in this Plan, Options may be granted to a director who is a member of the Committee if otherwise exempt from Section 16(b) of the Securities Exchange Act of 1934 pursuant to Regulation

Section 240.16b-3, SEC interpretations thereof or any subsequently promulgated rule or regulation. The granting of an Option to any Participant shall neither entitle such Participant to, nor disqualify such Participant from, participation in any future Option grants.

8. GRANT OF OPTIONS. The Committee shall have the authority, subject

to the terms of the Plan, to: (a) determine and designate from time to time those directors, consultants and key employees (including officers) to whom Options are to be granted; (b) determine the number of shares subject to each Option; (c) determine the duration of the exercise period for any Option; (d) determine that the Options granted to a Participant may be exercised only in installments; and (e) specify such other terms and conditions of each Option as the Committee in its sole discretion deems advisable. The date of grant of an Option under the Plan will be the date on which the Option is awarded by the Committee.

9. TERMS AND CONDITIONS OF OPTIONS. Each Option shall be evidenced by

an Option Agreement which shall contain such terms and conditions consistent with the provisions of the Plan as may be approved by the Committee and shall be signed by an executive officer of the Company and the Participant. Each Option granted under the Plan shall be subject to such terms and conditions as follows:

A. Terms of ISO's. ISO's granted hereunder shall be subject to

the terms and conditions contained in subparagraphs (i)-(viii) below and to such other terms and conditions as the Committee may deem appropriate; provided, however, that no Option that is intended to qualify as an ISO shall be subject to any condition that is inconsistent with the provisions of Code Section 422(b). In the event that any condition imposed hereunder on an Option intended to qualify as an ISO is at any time determined by the Internal Revenue Service or a court of competent jurisdiction to be inconsistent with Code Section 422, then such Option shall be deemed to have been granted without such condition and such Option shall continue in effect under such remaining terms and conditions as may be applicable as if the invalid condition had not been included.

(i) Option Period. Each ISO Option Agreement shall specify the period

during which the ISO thereunder is exercisable (which shall not exceed ten years from the date of grant) and shall provide that the ISO shall expire at the end of such period.

(ii) Option Price. The Option Price per share shall be determined by

the Committee at the time any ISO is granted and shall not be less than one hundred percent (100%) of the Fair Market Value of a share of Common Stock on the day that the ISO is granted. Such price shall be subject to adjustment as provided in Item 11.

(iii) Ten Percent Stockholders. ISO's shall not be granted to any

Employee who, immediately before the ISO is granted, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of its Parent or Subsidiary; provided, however, that this prohibition shall not apply if at the time such ISO is granted the Option Price is at least one hundred ten percent (110%) of the Fair Market Value of the Common Stock and such ISO is not exercisable after the expiration of five (5) years from the date such ISO is granted.

(iv) Limit on Incentive Stock Options. To the extent the aggregate

Fair Market Value of the shares (valued at the time of grant in accordance with subparagraph 2 above) with respect to which ISO's (determined without regard to this subparagraph 4) are exercisable for the first time by any individual during any calendar year (under all incentive stock option plans of the Company and any Parent and Subsidiary) exceeds \$100,000, such ISO's in excess of \$100,000 shall be treated as Options which are NQSO's. This subparagraph (iv) shall be applied by taking ISO's into account in the order in which they were granted.

(v) Termination of Employment other than as a Result of Death or

Disability. An ISO of any Participant who shall cease to be an Employee other

than as a result of his death or disability (as defined in (vi) below) shall be exercisable only to the extent exercisable on the date of termination of employment and must be exercised on or before the option expiration date specified in the Option Agreement but in no event later than the date that is three (3) months following the date of termination of employment. To the extent any ISO is not exercisable on the date of termination of employment, such ISO shall terminate on the date of termination of employment. To the extent any ISO is not exercised within the time period provided, such ISO shall terminate as of the date of expiration of such time period. Nothing in the Plan shall be construed as imposing any obligation on the Company to continue the employment of any Participant or shall interfere or restrict in any way the rights of the Company to discharge any Employee at any time for any reason whatsoever, with or without cause.

(vi) Termination of Employment as a Result of Death or Disability. In

the event of the death or disability of the Participant while in the employ of the Company, the personal representative of the Participant (in the event of his death) or the Participant (in the event of his disability) may, subject to the provisions hereof and before the date (the "Option Termination Date") specified in the ISO Option Agreement, which date is not later than the earlier of the ISO's expiration date or the expiration of one (1) year after the date of such death or disability, exercise the ISO granted to such Participant to the same extent the Participant might have exercised such ISO on the date of his death or disability, but, unless otherwise provided in the ISO Option Agreement, not further or otherwise. To the extent any ISO is not, and does not in accordance with the terms of the Option Agreement become, exercisable as of the date of the death or disability of a Participant, such ISO shall terminate on the date of death or disability. To the extent any ISO is not exercised within the time period provided, such ISO shall terminate as of the date of expiration of such time period. For purposes of this subparagraph (vi), a Participant shall be considered to be subject to a disability when such Participant is disabled within the meaning of Code Section 22(e)(3), and the date of any such disability shall be deemed to be the day following the last day the Participant performed services for the Company.

(vii) Period to Exercise Option. Any ISO granted hereunder may,

prior to its expiration or termination, be exercised from time to time, in whole or in part, up to the total number of shares with respect to which it

shall have then become exercisable. An ISO granted hereunder may become exercisable in installments as determined by the Committee; provided, however, that if the Committee grants an ISO or ISO's exercisable in more than one installment, and if the employment of a Participant holding such ISO is terminated, then unless the ISO Option Agreement provides otherwise, the ISO shall be exercisable in accordance with the terms of subparagraph (v) or (vi) only as to such number of shares as to which the Participant had the right to exercise the ISO on the date of termination of employment.

(viii) Non-Employees. No ISO may be granted to any person who is a Non-Employee.

B. Terms of NQSO's. NQSO's granted hereunder shall be subject to the terms and conditions contained in subparagraphs (i)-(iii) below and to such other terms and conditions as the Committee may deem appropriate.

(i) Option Period. Each NQSO Option Agreement shall specify the period during which the NQSO thereunder is exercisable (which shall not exceed ten years from the date of grant) and shall provide that the NQSO shall expire at the end of such period.

(ii) Option Price. The Option Price per share shall be determined by the Committee at the time any NQSO is granted. Such price shall be subject to adjustment as provided in Item 11.

(iii) Period to Exercise Option. Any NQSO granted hereunder may, prior to its expiration or termination, be exercised from time to time, in whole or in part, up to the total number of shares with respect to which it shall have then become exercisable. An NQSO granted hereunder may become exercisable in installments as determined by the Committee and reflected in the NQSO Option Agreement.

10. EXERCISE OF OPTION. The exercise of any Option under the Plan shall be subject to the provisions of Paragraphs A, B and C below.

A. Method of Exercising Option. Any Option granted hereunder or any portion thereof (in whole shares only) may be exercised by the Participant by (i) delivering to the Company at its main office (attention its Secretary, Assistant Secretary or Chief Financial Officer) written notice which shall set forth the Participant's election to exercise a portion of all of his Option, the number of shares with respect to which the Option rights are being exercised, and such other representations and agreements as may be required by the Company to comply with applicable securities laws, and (ii) paying in full the Option Price of the shares purchased. Upon receipt of such notice and payment, the Company shall issue and deliver to the Participant a certificate for the number of shares of Common Stock with respect to which Options were so exercised. In the Option Agreement, the Committee may require the exercise of Options by any Participant to comply with the requirements of the SEC.

B. Payment of Option Price. The Option Price of the shares as to

which an Option is exercised shall be paid in full to the Company at the time of exercise. The payment may be made either in cash or its equivalent or, where permitted by law and approved by the Committee in its sole discretion: (i) by delivery of a promissory note on terms and conditions acceptable to the Committee; (ii) by cancellation of indebtedness of the Company to the Participant; (iii) by surrender of shares of Common Stock of the Company having a Fair Market Value equal to the exercise price of the Option; (iv) by instructing the Company to withhold shares otherwise issuable pursuant to an exercise of an Option having a Fair Market Value equal to the exercise price of the Option (including withheld shares); (v) by waiver of compensation due or accrued to the Participant for services rendered; or (vi) by any combination of the foregoing. Participants who are not Employees shall not be entitled to purchase shares of Common Stock with a promissory note unless the note is adequately secured by collateral other than the shares so purchased.

Notwithstanding anything to the contrary above, the Committee, in its discretion, may suspend or terminate the right of Participants to pay in a form other than cash should the Committee deem such action to be in the best interests of the Company.

C. Withholding Taxes. The Company may, in its discretion, require

a Participant to pay to the Company at the time of exercise the amount that the Company deems necessary to satisfy its obligation to withhold federal, state or local income or other taxes incurred by reason of the exercise. Upon the exercise of an Option requiring tax withholding, a Participant may make a written election to have shares of Common Stock withheld by the Company from the shares otherwise to be received. The number of shares so withheld shall have an aggregate Fair Market Value on the date of exercise sufficient to satisfy the applicable withholding taxes. The acceptance of any such election by a Participant shall be at the sole discretion of the Committee. Where the exercise of an Option does not give rise to an obligation to withhold federal income taxes on the date of exercise, the Company may, in its discretion, require a Participant to place shares of Common Stock purchased under the Option in escrow for the benefit of the Company until such time as federal income tax withholding is required on amounts included in the gross income of the Participant as a result of the exercise of an Option or the disposition of shares of Common Stock acquired pursuant thereto. At such time, the Company, in its discretion, may require the Participant to pay to the Company the amount that the Company deems necessary to satisfy its obligation to withhold federal, state or local income or other taxes incurred by reason of the exercise of the Option or the disposition of shares of Common Stock, in which case the shares of Common Stock will be released from escrow to the Participant. Alternatively, subject to acceptance by the Committee, in its sole discretion, a Participant may make a written election to have shares of Common Stock held in escrow applied toward the Company's obligation to withhold federal, state or local income or other taxes incurred by reason of the exercise of the Option or the disposition of shares of Common Stock based on the Fair Market Value of the shares on the date of the termination of the escrow arrangement. Upon application of such shares toward the Company's withholding obligation, any shares of Common Stock held in escrow and not, in the judgment of the Committee, necessary to satisfy such obligation shall be released from escrow to the Participant.

D. No Fractional Shares. Notwithstanding anything herein to the

contrary, no fractional shares may be issued under the Plan.

11. CAPITAL ADJUSTMENTS. The number and price of shares of Common Stock

covered by each Option, the number of shares that become exercisable at any one time and the total number of shares that may be optioned and sold under the Plan shall be proportionately adjusted to reflect any stock dividend, stock split or share combination of the Common Stock or any recapitalization of the Company. In the event of any merger, consolidation, reorganization, liquidation or dissolution of the Company or any exchange of shares involving the Common Stock, any Option granted under the Plan shall automatically be deemed to pertain to the securities and other property which a holder of the number of shares of Common Stock covered by the Option would have been entitled to receive in connection with any such event. No Option granted pursuant to this Plan which was intended to be an incentive stock option at the time of grant shall be adjusted in a manner that causes the Option to fail to qualify as an incentive stock option within the meaning of Code Section 422. Except as expressly provided in this Item 11, the Participant shall have no rights by reason of any change in the Common Stock of the Company. The grant of an Option pursuant to this Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets. The Committee shall have the sole discretion to make all interpretations and terminations required under this Item to the extent it deems equitable and appropriate.

12. RESERVATION OF SHARES. The Company, during the term of any Options

granted hereunder, will at all times reserve and keep available, and will seek to obtain from any regulatory body having jurisdiction any requisite authority in order to issue and sell such number of shares of Common Stock as shall be sufficient to satisfy the requirements of the Options granted under the Plan. If, in the opinion of the Company's counsel, the issuance or sale of any shares of the Company's stock hereunder shall not be lawful for any reason, including the inability of the Company to obtain from any regulatory body having jurisdiction authority deemed by such counsel to be necessary for such issuance or sale, the Company shall not be obligated to issue or sell any such shares.

13. SECURITIES LAWS. Upon the exercise of an Option at a time when there

is not in effect under the Securities Act of 1933, as amended (the "Act"), a current registration statement relating to the shares of Common Stock to be received upon such exercise, the Participant shall represent and warrant in writing to the Company that the shares purchased are being acquired for investment and not with a view to the distribution thereof and shall agree to the imposition of a legend on the certificate or certificates representing said shares in substantially the following form and such other restrictive legends as are required or advisable under the provisions of any applicable laws:

This stock certificate and the shares represented hereby have not been registered under the Securities Act of 1933, as amended (the "Act"), nor under the securities laws of any state and shall not be transferred at any time in the absence of (i) an effective registration statement under the Act and any other applicable state law with respect to such shares at such time; or (ii) an opinion of counsel satisfactory to the Company and its counsel to the effect that such transfer at such time will not violate the Act or any applicable state securities laws; or (iii) a "no action" letter from the Securities and Exchange Commission and a comparable ruling from any applicable state agency with respect to such state's securities laws.

No shares of Common Stock shall be issued or sold upon the exercise of any Option unless and until (i) the full amount of the purchase price has been paid as provided in Item 10 hereof and (ii) the then applicable requirements of the Act, the applicable securities laws of any other jurisdiction, as any of the same may be amended, the rules and regulations of the SEC and any other regulations of any securities exchange on which the Common Stock may be listed shall have been fully complied with and satisfied.

14. TRANSFERABILITY OF OPTIONS. No Option shall be assignable or

transferable by a Participant except by will or by the laws of descent and distribution. Any distributee by will or by the laws of descent and distribution shall be bound by the provisions of the Plan. During the life of a Participant, the Option shall be exercisable only by such Participant. Any attempt to assign, pledge, transfer, hypothecate or otherwise dispose of an Option and any levy of execution, attachment or similar process on an Option shall be null and void.

15. NO RIGHTS AS STOCKHOLDERS. A Participant shall not have any rights as

a stockholder with respect to any shares covered by any Option granted hereunder until the issuance of a stock certificate for such shares. No adjustment shall be made on the issuance of a stock certificate to a Participant as to any dividends or other rights for which the record date occurred prior to the date of issuance of such certificate.

16. INDEMNIFICATION AND EXCULPATION. Each person who is or shall have been

a member of the Board or of the Committee shall be indemnified and held harmless by the Company against and from any and all loss, costs, liability or expense that may be imposed upon or reasonably incurred by him in connection with or resulting from any claim, action, suit or proceeding to which he may be or become involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him in settlement thereof (with the Company's written approval) or paid by him in satisfaction of a judgment in any such action, suit or proceeding, except a judgment in favor of the Company based upon a finding of his lack of good faith; subject, however, to the condition that upon the institution of any claim, action, suit or proceeding against him, he shall in writing give the Company an opportunity, at its expense, to handle and defend the same before he undertakes to handle and defend it on his own behalf. The foregoing right of indemnification shall not be exclusive of any other right to which such person may be entitled as a matter of law or otherwise, or any power that the Company may have to indemnify him or hold him harmless. Each member of the Board or of the Committee and each officer and employee of the Company shall be fully justified in relying or acting in good faith upon any information furnished in connection with the administration of the Plan by any appropriate person or persons other than himself. In no event shall any person who is or shall have been a member of the Board or of the Committee, or an officer or employee of the Company, be held liable for any determination made, or other action taken, or any omission to act in reliance upon any such information as referred to in the preceding sentence, or for any action (including the furnishing of information) taken, or any omission to act, when any such determination, action or omission is made in good faith.

17. USE OF PROCEEDS. Proceeds from the sale of stock pursuant to Options

granted under the Plan shall constitute general funds of the Company.

18. AMENDMENT AND DISCONTINUANCE. The Board of the Company may terminate

or amend the Plan in any respect at any time, except that no action of the Board may alter or impair a Participant's rights under any outstanding Option without his consent and, without the prior approval of the shareholders: (i) the total number of shares that may be optioned and sold under the Plan may not be increased (except by adjustment pursuant to Item 11); (ii) the price at which shares may be purchased pursuant to Options granted hereunder may not be reduced (except by adjustment pursuant to Item 11); (iii) the expiration date of the Plan may not be extended; (iv) the class or persons eligible to participate in the Plan may not be changed; (v) the benefits accruing to the Participants under the Plan may not be materially increased, and (vi) the requirements for eligibility to participate in the Plan may not be materially modified.

19. TERM OF PLAN. The Plan shall be effective as of the date of the

adoption of the Plan by the Board and the shareholders of the Company and shall expire on March 31, 2004, unless sooner terminated as provided in Item 18 hereof.

20. GENERAL. Except as the same may be governed by the Code and any

applicable federal securities laws, the Plan and any Options granted hereunder shall be governed by and construed in accordance with the laws of the State of Georgia. The granting of an Option shall impose no obligation upon the Participant to exercise such Option. As herein used, the singular number shall include the plural, the plural the singular, and the use of any gender shall be applicable to all genders, unless the context or use shall fairly require a different construction. Section or paragraph headings are employed herein solely for convenience of reference, and such headings shall not affect the validity, meaning or enforceability of any provision of the Plan. All references herein to "Item" or "paragraph" shall mean the appropriately numbered Item or paragraph of the Plan except where reference is made to the Code or any other specified law or instrument.

AS APPROVED BY THE DIRECTORS OF THE COMPANY ON JANUARY 30, 1996.

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[ON VALUJET LETTERHEAD]

October 28, 1996

Mr. D. Joseph Corr
3 Windermere
Houston, TX 77063

Dear Joe:

On behalf of the Board of Directors and ValuJet, Inc., it is my pleasure to confirm our offer for you to join our company as President and Chief Executive Officer of ValuJet Airlines, Inc.

The following terms and conditions would apply:

- You would join ValuJet as soon as practical, preferably November 1 or November 4.
- It is understood that you have matters in progress which would require your attention during transition. With due consideration for ValuJet's needs for your services, a reasonable number of days off would be allowed to facilitate your early acceptance of this position and resolution of your other open matters.
- You would receive base compensation of \$250,000 per annum paid bi-weekly. You would be eligible for a bonus amount up to \$250,000 based upon a defined incentive plan. This plan would be developed and established in conjunction with a business plan for ValuJet Airlines, subject to Board approval by December 1, 1996, unless otherwise delayed with prior Board approval.
- You would be eligible for benefits consistent with those provided other senior members of management.
- You would receive options to purchase 450,000 shares of ValuJet stock. The shares would fully vest in three equal installments at the end of months 12, 24, and 36. The beginning date for these periods would be the date of your acceptance of this offer. The strike price for purchase of the options would be set at the price of the stock at close of business on the day of acceptance as reported in the next edition of the Wall Street Journal. The options would be subject to terms and conditions of ValuJet's current Stock Option Plan or equivalent. Options would be "non-qualified" based upon certain Internal Revenue Service rules and regulations.
- You would, after an initial 90-day period, be eligible for severance pay if your employment were to be terminated by the Company for other than cause. Upon such termination, you would receive a single lump sum payment equal to your annual base salary. Any stock options which would have become vested during the next 12 month period would become fully vested on the date of termination by the Company for other than cause.

Mr. Joe Corr
October 28, 1996
Page two

- This agreement would be effective for a contract term of three years.
- You would be reimbursed for reasonable and actual housing expense during your first 90-day period. You would receive a one-time lump sum payment thereafter of \$20,000 to assist you in the cost of relocating to the Atlanta area.
- For the purposes of this agreement "cause" shall mean your conviction of any felony or a material breach of your obligations hereunder.
- ValuJet shall provide you indemnification throughout the term of your employment for your acts in your capacity as an officer and director of the Company to such extent as exists on the date hereof, provided, however, that if such indemnification is diminished or is required to be diminished under any applicable law, statute or other governmental regulation, such diminution shall not constitute a violation of this provision.

Joe, we are enthusiastic about your joining our team and playing such an important role in building our airline to the next level of great success. We look forward to your early reply and hope you will choose to accept this offer.

If by November 1 the above agreement is acceptable, please sign and date one original and return it to me as soon as possible. The other original is for your records.

/s/ Robert L. Priddy

Robert L. Priddy
Chairman and C.E.O.

/s/ D. Joseph Corr

Agreed
D. Joseph Corr

October 29, 1996

Date

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VALUJET, INC.
COMPUTATION OF EARNINGS PER SHARE (1)

	Year Ended December 31,		
	1994	1995	1996
PRIMARY:			
Weighted average common and common equivalent shares outstanding during the period	40,943,908	54,493,801	54,701,949
Net effect of dilutive stock options and stock warrants - based on the treasury stock method using the average market price	4,454,604	5,299,199	-
Effect of Common and Preferred Stock issued and stock options and warrants granted subsequent to May 12, 1993 computed in accordance with the treasury stock method as required by the SEC (2)	2,221,364	-	-
Total common and common equivalent shares	47,619,876	59,793,000	54,701,949
Net income (loss)	\$20,731,980	\$67,762,598	\$(41,469,299)
Plus: Reduction in interest expense from reduction of debt (3)	208,703	-	-
Plus: Additional interest income received from excess funds invested in short-term securities (3)	2,097	-	-
Adjusted Net income (loss)	\$20,942,780	\$67,762,598	\$(41,469,299)
Net income (loss) per share	\$ 0.44	\$ 1.13	\$ (0.76)
FULLY DILUTED:			
Weighted average common and common equivalent shares outstanding during the period	40,943,908	54,493,801	54,701,949
Net effect of dilutive stock options and stock warrants - based on the treasury stock method using the ending market price, if higher than the average market price	4,476,556	5,375,290	-
Effect of Common and Preferred Stock issued and stock options and warrants granted subsequent to May 12, 1993 computed in accordance with the treasury stock method as required by the SEC (2)	2,221,364	-	-
Total common and common equivalent shares	47,641,828	59,869,091	54,701,949
Net income (loss)	\$20,731,980	\$67,762,598	\$(41,469,299)
Plus: Reduction in interest expense from reduction of debt (3)	193,195	-	-
Plus: Additional interest income received from excess funds invested in short-term securities (3)	-	-	-
Adjusted Net income (loss)	\$20,925,175	\$67,762,598	\$(41,469,299)
Net income (loss) per share	\$ 0.44	\$ 1.13	\$ (0.76)

- (1) All share information has been adjusted to reflect two two-for-one stock splits effected in the form of stock dividends which were payable on March 24, 1995 and November 21, 1995.
- (2) Pursuant to Securities and Exchange Commission Staff Accounting Bulletin No. 83, Common and Preferred Stock issued and stock options and warrants granted at prices below the initial public offering price of \$3.125 per share during the 12-month period immediately preceding the initial filing date of the Company's Registration Statement for its initial public offering have been included as outstanding for all periods presented using the treasury stock method.
- (3) In accordance with APB 15, for periods in which the number of shares of common stock obtainable on exercise of options and warrants in the aggregate exceed 20 percent of the number of common shares outstanding at the end of the period for which the computation was being made, the treasury stock method was modified in determining the dilutive effect of the options and warrants on earnings per share data. In those circumstances, all options and warrants were assumed to have been exercised and the aggregate proceeds therefrom to have been applied in two steps:
- a. First, as if the funds obtained were first applied to the repurchase of outstanding common shares at the average market price during the

period (treasury stock method) but not to exceed 20 percent of outstanding shares.

- b. Second, as if the balance of the funds were applied first to reduce short-term or long-term borrowings and any remaining funds were invested in U.S. Government securities or commercial paper, with appropriate recognition of any income tax effect.

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EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

ValuJet Airlines, Inc., a Nevada corporation

ValuJet Investment Corp., a Nevada corporation

ValuJet Management Corp., a Nevada corporation

ValuJet Capital Corp., a Nevada corporation

ValuJet I, Ltd., a Nevada corporation

ValuJet II, Ltd., a Nevada corporation

ValuJet Reservation Partners, L.P., a Georgia limited partnership

ValuJet Corporate Partners, L.P., a Georgia limited partnership

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CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-87658) pertaining to the ValuJet Airlines, Inc. 1993 Incentive Stock Option Plan and the ValuJet Airlines, Inc. 1994 Stock Option Plan, in the Registration Statement (Form S-8 No. 33-91624) pertaining to the ValuJet Airlines, Inc. 1995 Employee Stock Purchase Plan and in the Registration Statement (Form S-3 No. 33-83048) of ValuJet Airlines, Inc. of our report dated February 10, 1997, except for Note 4, as which the date is March 27, 1997, with respect to the consolidated financial statements and schedule of ValuJet, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 1996.

ERNST & YOUNG LLP

Atlanta, Georgia
March 27, 1996
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