



# **FORM 10-K405**

**AIRTRAN HOLDINGS INC - AAI**

**Filed: April 02, 2001 (period: December 31, 2000)**

Annual report. The Regulation S-K Item 405 box on the cover page is checked

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 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, 2000

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 No.: 0-26914

AIRTRAN HOLDINGS, INC.

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(Exact name of registrant as specified in its charter)

Nevada

58-2189551

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(State or other jurisdiction of  
incorporation or organization)

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

9955 AirTran Boulevard, Orlando, Florida 32827

-----  
(Address of principal executive offices) (Zip code)

(407) 251-5600

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(Registrant's telephone number, including area code)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.

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 American Stock Exchange on March 1, 2001, was approximately \$551.3 million. As of March 1, 2001, the registrant had approximately 66,583,000 shares of common stock outstanding.

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 16, 2001 and 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 38-40

PART I

ITEM 1. BUSINESS

THE COMPANY

All of the operations of AirTran Holdings, Inc. (AirTran) are conducted by our wholly owned subsidiary, AirTran Airways, Inc., which is the second-largest affordable-fare scheduled airline in the United States in terms of departures. We offer scheduled airline service serving short-haul markets, primarily from our hub in Atlanta, Georgia. To date, we operate 55 aircraft making approximately 314 flights per day serving 34 cities throughout the eastern United States.

We have created a successful niche for AirTran in selected markets by targeting two primary segments: price-sensitive business and leisure travelers. In addition to offering an affordable-fare alternative to higher-priced airlines, we contribute towards the overall growth of the markets we serve by stimulating demand among travelers who may otherwise utilize ground transportation or not travel at all. Our service is intended not only to satisfy the transportation needs of our target customers, but to provide customers with a travel experience worth repeating. The success of this strategy is evidenced by the 7.6 million revenue passengers we carried in the year ended December 31, 2000. With this traffic and revenue base, our operating margins rank among the highest in the domestic airline industry. We achieved this result through a cost structure that ranks among the lowest in the industry (in terms of cost per available seat mile).

We have undertaken a number of key initiatives in recent years to strengthen our competitive position, the most noteworthy of which is our fleet renewal plan. We are in the process of replacing and upgrading our fleet of aircraft through the acquisition of 50 new Boeing 717 (B717) aircraft by October 2003, 16 of which we operated as of December 31, 2000. We were Boeing's launch customer for the B717, which was designed specifically for efficient short-haul service and is considered among the most modern, innovative, comfortable and environmentally friendly commercial aircraft available today. As a result, we believe the addition of the B717s will enhance our overall image and operating performance. In addition to our fleet renewal plan, other key initiatives implemented in the last two years include:

- . the hiring of a management team with substantial industry experience;
- . innovative pricing and customer retention programs, such as our unique \$25 business class upgrade and special advance and walk-up fares;
- . entry into selected new markets that offer attractive growth opportunities;
- . development of alternate sales distribution channels, including our low-cost internet website; and
- . continuous safety and quality improvements, including maintenance training improvements that have resulted in the receipt of maintenance awards from the Federal Aviation Administration (FAA).

These efforts have resulted in a number of improvements in our operating and financial performance. For the year ended December 31, 2000, our traffic, measured in revenue passenger

miles, grew 18.5% relative to the year ended December 31, 1999, resulting in a 6.7 percentage point increase in load factor. Over the same time period, we were able to improve our yield by 4.9%, resulting in a 16.0% increase in revenue per available seat mile. Revenues and EBITDAR for the year ended December 31, 2000, grew to \$624.1 million and \$116.9 million, respectively. We have also generated significant cash flow as evidenced by the increase in our cash balances from \$76.2 million at December 31, 1999, to \$103.8 million at December 31, 2000.

We expect our improved operating and financial performance to continue, supported by a strong market in our Atlanta hub, solid overall industry revenue fundamentals and an improving competitive environment. To build on these underlying fundamentals and the renewal of our fleet, we have developed a conservative growth plan which leverages our business model by adding flights to existing destinations, adding routes to other cities from Atlanta and selectively entering new markets.

#### COMPETITIVE STRENGTHS

**Strong Customer Acceptance.** We believe that the consistent increases in customer demand for our service demonstrates the success of our affordable-fare, low-cost business model. For the year ended December 31, 2000, as compared to the year ended December 31, 1999, our passenger load factor grew 6.7 percentage points to 70.2% from 63.5%, while our average yield climbed 4.9% to 14.7 cents per revenue passenger mile.

**Low Cost Structure.** Our cost structure ranks among the lowest in the domestic airline industry, in terms of cost per available seat mile, allowing us to be profitable with our affordable-fare pricing strategy, and offering us a measure of protection against potential price competition or declines in demand. Our relatively low operating costs are made possible through our company-wide emphasis on cost controls including what we believe to be our lower labor costs, lower distribution costs and the higher productivity of our workgroups. We expect further cost reductions to result from our ability to leverage our existing infrastructure for future growth and the acquisition of our new B717 aircraft, which have significantly lower maintenance and fuel requirements than our current fleet of McDonnell Douglas DC-9 (DC-9) and Boeing 737 (B737) aircraft.

**Attractive Atlanta Hub and Route Network.** We control 22 gates from a single concourse under long-term leases at Hartsfield Atlanta International Airport, where local traffic growth is projected to grow 8% per year versus a 4% growth rate for other airports nationwide. Atlanta's location favorably positions the airport to provide connecting traffic to major population centers. We are the second-largest airline in Atlanta in terms of the number of departures offered.

**Diversified Traffic Base.** In serving both the leisure and business traveler, we believe we had a revenue mix of 44% leisure and 56% business in 2000. In addition, we now have a hub traffic mix that consists of 54% local passengers and 46% connecting passengers. In addition to providing a number of marketing and cost synergies, this diversification adds stability to our revenues by protecting against factors that may impact individual segments of our business.

**Management Team.** We have in place an experienced management "Leadership Team," all but two of whom joined us in 1999 and 2000. The members of our Leadership Team average 22 years of experience in the airline industry. This Leadership Team is lead by Joe Leonard, our Chairman and

Chief Executive Officer and Bob Fornaro, our President. Messrs. Leonard and Fornaro have held senior management positions with AlliedSignal, Northwest Airlines, Eastern Air Lines, US Airways, and American Airlines.

#### BUSINESS STRATEGY

Continue Affordable Pricing and Other Programs to Generate Additional Customer Traffic. We have consistently maintained our competitive position by providing affordable fares to appeal to price sensitive travelers. We intend to continue this successful strategy, which is made possible by our comparatively low cost structure, to stimulate new demand for air travel. We also believe our fare strategy will continue to attract customers from other higher-priced airlines. We will continue to enhance our affordable approach with innovative marketing, pricing and customer loyalty programs such as including a business class product, advanced seat assignment and a frequent flyer program.

Leverage Growing Atlanta Hub to Selectively Expand Route Structure. We have a strong presence in Atlanta, a market that has grown rapidly in recent years. Atlanta's large traffic base and geographic position provides a strong hub from which we plan to selectively expand our routes. We believe that there are numerous markets in the United States that are underserved by major airlines or present opportunities for an affordable-fare airline. As a result, we intend to selectively add to our route structure from Atlanta by increasing the number of flights to markets we currently serve from Atlanta and by adding new cities and markets. Expansion of our Atlanta hub allows us to leverage our existing infrastructure, which will reduce unit costs and contribute to improvement of our operating margins. In addition, we may selectively add new "point-to-point" routes between cities other than Atlanta that we currently serve and create additional focus cities.

Increase Bookings Through the Internet and Other Distribution Channels. We believe we are the leader in the U.S. airline industry with respect to bookings via the internet, offering lower costs and improved product availability as compared to more traditional direct and agency channels. We employ the internet as an integral portion of our marketing strategy utilizing our website, AIRTRAN.COM, which was launched in May 1998. In addition to being user-friendly and simple, our website is designed to sell tickets efficiently. As a result, we have experienced rapid growth in our internet bookings, which generated over one-third of our total bookings for the quarter ended December 31, 2000.

Fleet Renewal Program. In September 1999, we took delivery of our first B717 as part of a comprehensive plan to replace and upgrade our fleet of aircraft. We have contracted with Boeing for the acquisition of 50 B717 aircraft for delivery through October 2003, 16 of which were delivered through December 31, 2000, and two of which were delivered in January and February 2001. We also have options and purchase rights to acquire up to 50 additional B717 aircraft. The B717 is ideally suited for the short-haul, high-frequency service that we operate. The B717 offers additional operating efficiencies to our already low cost structure. Despite having greater thrust, the new aircraft burns approximately 24% less fuel per hour than our DC-9 and B737 aircraft. With up to 60% fewer parts in its environmental, avionics and electrical systems than the DC-9s, we expect the B717 to significantly reduce our fleet maintenance costs.

Improve Revenue Management Through New Software System. Although we have been able to

generate significant increases in our yield and load factors over the past several years, we believe that further improvement can be achieved with the implementation of an automated revenue management system. We have contracted with PROS Management Systems, an internationally recognized revenue management specialist, to develop, install and implement their revenue management product in order to further achieve improvements in yield and load factor. We anticipate the system will be fully operational during the second quarter of 2001.

#### FARES, ROUTE SYSTEM AND SCHEDULING

Our markets served from Atlanta are located predominantly in the eastern United States. These markets are attractive to us due to the concentration of major population centers within relatively short distances from Atlanta, historically high air fares and the potential for attracting a significant number of leisure and business customers.

We presently serve 33 cities from Atlanta with up to fourteen daily frequencies in certain markets. Our schedules are designed to provide convenient service and connections for our business and leisure travelers and to facilitate connections for our passengers traveling through Atlanta.

We offer a range of fares based on advance purchases of 14 days, 7 days, 3 days and "walk-up" fares. We manage the availability of seats, at each fare level, by day of week and by flight to maximize revenue on peak-travel days. All of our fares are one-way and most are nonrefundable, but can be changed prior to departure with a service charge. Our fares generally do not require a round trip purchase or a minimum stay (e.g., Saturday night stay). Our fare offerings 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. We have established interline ticketing and baggage agreements with Delta, United, US Airways, TWA and American Trans Air, which we believe can increase revenue opportunities for us and assist with accommodating passengers during irregular operations.

In the future, we may add additional service between cities already served by us or may add service to new markets. Alternatively, we may terminate unprofitable routes. Our selection of markets depends on a number of factors existing at the time service to such market is being considered. In our city selection process, we consider the market demographics, the support offered by the airport communities to be served, the ability to stimulate air travel and competitive factors. Consequently, there can be no assurance that we will continue to provide service to all of the markets we currently serve or that we will not provide service to any other particular market.

#### COMPETITION

The airline industry is highly competitive and is served by numerous companies. Airlines compete on the basis of markets served, price, schedule (frequency and flight times), quality of service, amenities, frequent flyer programs and other services. We compete with other airlines primarily on the basis of price, which is made possible by our low cost structure relative to other airlines, and by focusing on selected short-haul markets in the eastern United States. We may face greater competition from existing or new carriers in the future which could result in a negative impact to our business and operating results.

Competitors with greater financial resources than ours may price their fares at or below our fares or increase their service. This competition could prevent us from attaining a share of the passenger traffic necessary to sustain profitable operations. Our ability to meet price competition depends on our ability to operate at costs equal to or lower than our competitors or potential competitors.

Despite the intense competition in the airline industry, we believe that one of our competitive strengths is our control of 22 gates on a single concourse at Hartsfield Atlanta International Airport. Atlanta's central location in the southeastern United States favorably positions the airport to provide connecting traffic to major population centers. We are the second largest airline in Atlanta in terms of the number of departures offered and we consider our position in this major hub to be a significant competitive advantage.

#### MAINTENANCE, REPAIRS AND TRAINING

Since all of our DC-9 and B737 aircraft are more than 20 years old, they will generally require higher maintenance expense than newer aircraft. We believe that our aircraft are mechanically reliable and that in the long-term the estimated cost of maintenance to fly such aircraft will be within industry norms for these fleet types. Amendments to FAA regulations are under consideration, which would require certain heavy maintenance checks and other maintenance requirements for aircraft operating beyond certain operational limits. We would be required to comply with these proposals, if adopted, and with any other aging aircraft issues, regulations or Airworthiness Directives that may be promulgated in the future. There can be no assurance that our maintenance expenses (including costs to comply with aging aircraft requirements) will fall within industry norms.

Aircraft maintenance and repair consists of routine daily or "turn-around" maintenance and major overhaul. Routine daily maintenance is performed at Atlanta by our employees and by contractors at the other cities served by us. Heavy maintenance and other work which require hangar facilities are currently performed at outside maintenance contractors. Other routine daily maintenance contractors are provided by other airlines, which operate DC-9 aircraft or other maintenance companies approved by the FAA, both of which have employees qualified in DC-9 aircraft maintenance. We expect that our maintenance expenses will decline with the addition of the B717 aircraft as a result of the reduced maintenance requirements associated with operating new equipment. However, the B717 aircraft will initially require greater capital expenditures for inventories of spare parts and other costs.

Our maintenance technicians undergo extensive initial and ongoing training to ensure the safety of our aircraft. In March 2000, the FAA awarded AirTran the Diamond Award certificate, the FAA's highest maintenance award. This marks the fifth year in a row we have been bestowed with the FAA's Special Recognition Award for exceeding the required levels of safety training for our maintenance technicians.

## FUEL

The cost of aircraft fuel is a significant expenditure for us. Aircraft fuel expense accounted for approximately 26% of our 2000 operating expenses. Increases in fuel prices or a shortage of supply could have a material adverse effect on our operations and operating results. The impact on our operations is disproportionately higher on average than on our competitors, primarily due to the fact that many of our competitors are currently using a larger percentage of more fuel-efficient aircraft, have favorable hedging positions and, accordingly, have fuel costs that represent a smaller portion of their total costs. Subject to market conditions, we may implement fare increases to offset increases in the price of fuel. There can be no assurance that any such fare increase will completely offset higher fuel costs or not adversely impact our competitive position.

Our fuel prices are currently at historically high levels, having increased from approximately \$0.53 per gallon in the fourth quarter of 1999, to approximately \$1.23 per gallon in the fourth quarter of 2000, net of hedges. Despite this increase, we have been able to achieve improvements in our operating margins through the addition of new, fuel-efficient B717 aircraft which consume 24% less fuel than our existing fleet.

Aircraft fuel costs are highly correlated to oil prices and thus fluctuate with changes in supply and demand for oil. Due to the effect of world and economic events on the price and availability of oil, the future availability and cost of aircraft fuel cannot be predicted with any degree of certainty. Based on our 2001 projected fuel consumption, we estimate that a 10% increase in the average price per gallon of aircraft fuel for the year ended December 31, 2000, would increase our fuel expenses by approximately \$9.7 million, net of fuel hedge instruments currently outstanding for the year ending December 31, 2001. As of December 31, 2000, we had hedged nearly 50% of our projected fuel needs for the first quarter of 2001 at an average price no higher than \$29 per barrel of crude oil, and 30% of our projected fuel needs for the remainder of 2001 at a price no higher than \$24 per barrel of crude oil. We continually monitor market conditions to determine the appropriateness of adding additional fuel hedges.

## DISTRIBUTION, MARKETING AND E-COMMERCE

Our marketing efforts are vital to our success as we seek to position our product to stimulate new customer demand. We focus on two primary market segments: the price sensitive business and leisure travelers. These are the market segments in which the consumers seek value and in which we believe we offer the greatest opportunity for stimulating new demand.

The primary objectives of our marketing activities are to develop an innovative brand identity that is visibly unique and easily contrasted with our competitors. We communicate directly with our existing customer base and attempt to reach potential customers through advertising as well as active public relations efforts. We communicate regularly and frequently with existing and potential customers through the use of advertisements in newspapers, radio, television, billboards, direct mail, e-mail, movie theatres and the internet. These communications feature our destinations, everyday affordable fares and special sales promotions.

We distribute our product through various channels including direct to the consumer via the internet and through travel agents and global distribution systems (GDS). During the fourth quarter 2000,

24.3% of passenger bookings were made through our reservation centers, 37.6% were booked from the consumer and travel agents via the internet and 38.1% were booked through travel agents' GDS. Information on our customers' needs, travel patterns and demographics is collected, organized and stored by our automated reservation system and may be used at a future time for direct marketing efforts. Travel agents presently receive industry standard commissions for all travel agency bookings.

Our website is a leader in the field of airline electronic commerce. Travel Agent magazine ranked our website an "A" for the user friendliness of our online booking engine. In 2001, our website is being enhanced with additional functionality. We will introduce a new hosting environment with larger, more stable servers designed to handle the rapid growth of internet bookings. In addition, we expect to add new features such as automated seat selection for select classes of service, corporate account log-ins and automated A-Plus Rewards.

To attract more business fliers, we launched a business class product in late 1997. Our premium cabin is configured with 2 by 2 oversized seats with more leg and seat room than the typical coach cabin. Targeted to the price-sensitive business flier, our business class is currently available for \$25 over the full coach fare on a confirmed basis or \$25 over certain of our other fares on a walk-up standby basis.

In contrast to most other low-cost airlines, we offer advanced seat selection. Full fare passengers, our most profitable business customers who tend to book at the last minute, are allowed to reserve seats at the time of booking. All other customers may reserve seats one hour prior to departure.

We also offer a self-administered frequent flier program known as "A-Plus Rewards". Our customers may earn either free roundtrip travel or business class upgrades on AirTran, or under certain circumstances free travel on other airlines.

We perform marketing, promotional and media relations in-house. An outside firm assists us in handling advertising and public relations.

We have a marketing agreement with The Hertz Corporation to operate a reservation call and internet booking solicitation agreement under which our customers are able to reserve a Hertz rental car at discounted rates when making a reservation for our flights. In addition, we have marketing programs with American Express to send direct mail to American Express cardholders who regularly fly over our route system. American Express customers who charge their airfare on their American Express card earn free tickets in our A-Plus Rewards program at an accelerated rate.

Air travel in our markets tends to be seasonal, with the highest levels occurring during the winter months to Florida and the summer months to the northeastern United States. Advertising and promotional expenses may be greater in lower traffic periods, as well as when entering a new market, in an attempt to stimulate air travel.

## COMPUTER RESERVATIONS

We are a participant in the major travel agency GDSs, including Amadeus, Galileo, SABRE, SystemOne, and WorldSpan. These systems provide flight schedules, pricing information and allow travel agents to electronically process a flight reservation without contacting our reservations facility.

At the time of a booking, we provide our 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 helps to alleviate long lines and achieve a quicker turnaround of aircraft. After the flight has departed our internal information system calculates and records passenger revenue.

## EMPLOYEES

As of February 2001, AirTran employed approximately 4,100 employees comprising approximately 3,600 full-time equivalents.

Training, both initial and recurrent, is provided for most employees. The average training period for all new employees is approximately one to three weeks, depending on classification. Both pilot training and mechanic training are provided by in-house training instructors and at times, may be performed by professional training organizations.

FAA regulations require pilots to be licensed commercial pilots, with specific ratings for aircraft to be flown, and to be medically certified as physically fit. FAA and medical certifications are subject to periodic renewal requirements including recurrent training and recent flying experience. Mechanics, quality-control inspectors and flight dispatchers must be certificated and qualified for specific aircraft. Flight attendants must have initial and periodic competency fitness training and qualification. 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, random and post-accident drug testing.

We have a collective bargaining agreement with our pilots represented by the National Pilots Association. The current contract becomes amendable on April 1, 2001.

Our stores clerks, ground service employees, technical training instructors, and maintenance technicians and inspectors are represented by the International Brotherhood of Teamsters under separate collective bargaining agreements. The stores clerks, ground service employees and technical training instructors' contracts become amendable June 1, 2003, August 19, 2003, and March 6, 2006, respectively. The maintenance technicians and inspectors' contract was recently renewed with an amendable date of October 1, 2005, and includes simplified work rules, industry competitive pay rates and improved retirement for retention.

We have a collective bargaining agreement with our flight attendants represented by the Association of Flight Attendants. The contract becomes amendable on October 21, 2002.

Our dispatchers are represented by the Transport Workers Union and we signed a contract with them in March 2000 which becomes amendable on October 1, 2004.

In February 2000, our customer service, ramp and reservation agents rejected a unionization proposal by the International Association of Machinists and Aerospace Workers in a vote that

received less than 30% support. We are unable to predict whether any of our other employees will elect to be represented by a labor union or other collective bargaining unit. The election by our employees for representation in such an organization could result in employee compensation and working condition demands that may affect operating performance and expenses.

#### AIRPORT OPERATIONS

Ground handling services typically can be placed in three categories - public contact, under-wing and complete ground handling. Public contact services involve meeting, greeting and serving our customers at the check-in counter, gate and baggage claim area. Under-wing ground handling services include, but are not limited to, marshaling the aircraft into and out of the gate, baggage and mail loading and unloading, as well as lavatory and water servicing, de-icing and certain other services. Complete ground handling consists of public contact and under-wing services combined.

We conduct complete handling services in 24 airports, including Atlanta. At other airports, the operations not conducted by our employees are contracted to other air carriers, ground handling companies or fixed base operators. We have employees at each of these cities to oversee our operations.

#### INSURANCE

We carry customary levels of passenger liability insurance, aircraft insurance for aircraft loss or damage and other business insurance. We are 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. We currently maintain liability insurance in amounts and of the type consistent with industry practice. Although we currently believe our insurance coverage is adequate, there can be no assurance that the amount of such coverage will not be changed or that we 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 our insurance could have a material adverse effect on us. Moreover, any aircraft accident, even if fully insured, could cause and has caused a public perception that some of our aircraft are less safe or reliable than other aircraft, which could have and has had a material adverse effect on our business.

#### SEASONALITY AND CYCLICALITY

Our operations are primarily dependent upon passenger travel demand and, as such, may be subject to seasonal variations. The airline industry is highly volatile. General economic conditions directly affect the level of passenger travel. Discretionary travel varies significantly depending on economic conditions. While business travel is not as discretionary, business travel generally decreases during unfavorable economic times, as businesses tend to tighten cost controls.

#### GOVERNMENT REGULATIONS

The airline industry is highly competitive, primarily due to the effects of the Airline Deregulation Act of 1978, which has substantially eliminated government authority to regulate domestic routes and fares. Deregulation has increased the ability of airlines to compete with respect to destination,

flight frequencies and fares. Nevertheless, the airline industry remains highly regulated in other aspects, as more fully described below.

#### DOT Oversight

Although regulation of domestic routes and fares was abolished by the Airline Deregulation Act of 1978, the United States Department of Transportation (DOT) retains the authority to alter or amend any airline's certificate or to revoke such certificate for intentional failure to comply with the terms and conditions of the certificate. In addition, the DOT has jurisdiction over international tariffs and pricing, international routes, computer reservation systems, and economic and consumer protection matters such as advertising, denied boarding compensation, smoking and codeshare arrangements and has the authority to impose civil penalties for violation of the United States Transportation Code or DOT regulations.

#### Aircraft Maintenance and Operations

We are subject to the jurisdiction of the FAA with respect to aircraft maintenance and operations, including equipment, dispatch, communications, training, flight personnel and other matters affecting air safety. The FAA has the authority to issue new or additional regulations. To ensure compliance with its regulations, the FAA conducts regular safety audits and requires all airlines to obtain operating, airworthiness and other certificates, which are subject to suspension or revocation for cause.

The FAA has issued several Airworthiness Directives (ADs) mandating modifications to the older aircraft maintenance programs. These ADs were issued to ensure that the oldest portion of the nation's aircraft fleet remains airworthy and require structural modifications to or inspections of those aircraft. We believe that all of our aircraft are in compliance with the aging aircraft mandates.

We cannot predict the cost of compliance with all present and future rules and regulations and the effect of such compliance on our business, particularly our expansion plans and aircraft acquisition program.

#### FAA Funding

In 1997, a law was enacted imposing new aviation ticket taxes as part of larger tax legislation designed to balance the nation's budget, provide targeted tax relief and fund air traffic control, other FAA programs and airport development. As enacted, these new taxes will be imposed through September 30, 2007. Included in the new law is a phase-in of a modified federal air transportation excise tax structure with a system that includes: a domestic excise tax starting at 9% which decreased to 7.5% in 1999; a domestic segment tax starting at \$1.00 and increasing to \$3.00 by 2002; and an increase in taxes imposed on international travel. Both the domestic segment tax and the international tax are indexed for inflation. The legislation also includes a 7.5% excise tax on certain amounts paid to an air carrier for the right to provide mileage and similar awards (e.g., purchase of frequent flyer miles by a credit card company). As a result of competitive pressures, we and other airlines have been limited in the ability to pass on the cost of these taxes to passengers through fare increases.

#### Fuel Tax

In August 1993, the federal government increased taxes on fuel, including aircraft fuel, by 4.3 cents per gallon. We paid approximately \$14.0 million in fuel taxes in 2000.

#### Passenger Facility Charges

During 1990, Congress enacted legislation to permit airport authorities, with prior approval from the DOT, to impose passenger facility charges (PFCs) as a means of funding local airport projects. These charges, which are intended to be collected by the airlines from their passengers, are limited to \$3.00 per enplanement and to no more than \$12.00 per round trip. To date, we have passed on the cost of the PFCs to our passengers.

#### Slot Restrictions

At New York City's John F. Kennedy Airport and LaGuardia Airport, Chicago's O'Hare International Airport and Washington's Ronald Reagan National Airport, which have been designated "High Density Airports" by the FAA, there are restrictions on the number of aircraft that may land and take off during peak hours. In the future, these take off and landing time slot restrictions and other restrictions on the use of various airports and their facilities may result in curtailment of services by, and increased operating costs for, individual airlines, including us, particularly in light of the increase in the number of airlines operating at such airports. In general, the FAA rules relating to allocated slots at the High Density Airports contain provisions requiring the relinquishment of slots for nonuse and permit carriers, under certain circumstances, to sell, lease or trade their slots to other carriers. We currently utilize 22 slots at LaGuardia Airport.

#### Additional Security and Safety Measures

In 1996 and 1997 the President's Commission on Aviation Safety and Security issued recommendations and the U.S. Congress and the FAA adopted increased safety and security measures designed to increase airline passenger safety and security and protect against terrorist acts. Such measures have resulted in additional operating costs to the airline industry. Examples of increased safety and security measures include the introduction of a domestic passenger manifest requirement, increased passenger profiling, enhanced pre-board screening of passengers and carry on baggage, positive bag match for profile selections, continuous physical bag search at checkpoints, additional airport security personnel, expanded criminal background checks for selected airport employees, significantly expanded use of bomb sniffing dogs, certification of screening companies, aggressive testing of existing security systems, expansion of aging aircraft inspections to include non structural components, development of a new systems approach for air carriers and the FAA to monitor and improve safety oversight and installation of new ground proximity warning systems on all commercial aircraft. We cannot forecast what additional security and safety requirements may be imposed in the future or the costs or revenue impact that would be associated with complying with such requirements.

#### Miscellaneous

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 we are subject to FCC requirements, we have taken and will continue to take all necessary steps to comply with those requirements.

Our operations may become subject to additional federal regulatory requirements in the future. Our 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. We are also subject to state and local laws and regulations at locations where we operate and the regulations of various local authorities that operate the airports we serve.

All international service is subject to the regulatory requirements of the appropriate authorities of the other country involved. Grand Bahama Island is our only international destination. To the extent we seek to provide additional international air transportation in the future, we will be required to obtain necessary authority from the DOT.

#### ENVIRONMENTAL REGULATIONS

The Airport Noise and Capacity Act of 1990 (ANCA) generally recognizes the rights of airport operators with noise problems to implement local noise abatement programs so long as they do not interfere unreasonably with interstate or foreign commerce or the national air transportation system. The ANCA generally requires FAA approval of local noise restrictions on Stage 3 aircraft first effective after October 1990. While we have had sufficient scheduling flexibility to accommodate local noise restrictions imposed to date, our operations could be adversely affected if locally-imposed regulations become more restrictive or widespread.

The Environmental Protection Agency (EPA) regulates operations, including air carrier operations, which affect the quality of air in the United States. We believe we have made all necessary modifications to our fleet to meet emission standards issued by the EPA.

#### HISTORY

We commenced operations in 1993 as ValuJet Airlines, Inc. (ValuJet) with two DC-9 aircraft serving three cities from Atlanta with eight flights per day. In 1995, ValuJet became a wholly owned subsidiary of ValuJet, Inc. ValuJet's operations were interrupted by the suspension of service on June 17, 1996, resuming on September 30, 1996 with limited operations.

ValuJet changed its name to "AirTran Airlines, Inc." (Airlines), and ValuJet, Inc. changed its name to "AirTran Holdings, Inc." in connection with our acquisition of Airways Corporation and its subsidiary, AirTran Airways, Inc. (Airways), in November 1997. As part of that transaction, Airways became a wholly owned subsidiary of AirTran Holdings. From November 1997 until April 1998, we operated under the FAA operating certificates of both Airlines and Airways. Since April 1998, all of our airline operations have been conducted under the Airways operating certificate. The Airlines operating certificate was extinguished in August 1998. In August 1999, Airlines merged with and into Airways.

Our principal executive offices are located at 9955 AirTran Boulevard, Orlando, Florida 32827, and our telephone number is (407) 251-5600. We maintain an internet site at AIRTRAN.COM. The reference to our internet site does not constitute incorporation by reference of the information contained at the site.

#### RISK FACTORS

Investors should carefully consider the following risk factors before making investment decisions regarding our stock.

If we are unable to sustain profitability we may not be able to repay our financing obligations.

We recorded significant net losses in each year from 1996 to 1999. Our earnings before fixed charges for each of these years were inadequate to cover fixed charges. Although we recorded net income of \$47.4 million in 2000, our incurrence of losses or failure to cover fixed charges in the future may have a material adverse effect on our financial condition and our ability to repay our financing obligations.

We have a significant amount of debt which could impair our ability to make principal and interest payments on our debt obligations and lease payments on our lease obligations.

The entire \$150.0 million of our 10.25% senior notes and \$80.0 million of our 10.5% senior secured notes will become due in April 2001. Without the completion of the refinancing transactions with Boeing Capital Services Corporation (see

Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources") and the use of internally generated funds, we will not have sufficient cash to repay the \$230.0 million of this debt by its due date.

We are highly leveraged and will continue to have significant debt obligations. In 2000, we acquired three B717 aircraft by issuing \$63.1 million in promissory notes. In 1999 we issued \$178.9 million of enhanced equipment trust certificates (EETCs), the proceeds of which were used to acquire ten B717 aircraft; eight of those ten EETC financed B717s were delivered in 1999 and the remaining two were delivered in 2000 (those two aircraft were subsequently sold to a third party lessor and leased back from such lessor). Additionally, we may incur substantial additional debt related to aircraft deliveries. See "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

Our ability to make scheduled payments of principal or interest for our financing obligations depends on our future performance and financial results. These results are subject to general economic, financial, competitive, legislative, regulatory, and other factors that are, to some extent, beyond our control.

The amount of our debt could have important consequences to investors, including the following:

- o a substantial portion of our cash flow from operations must be dedicated to debt service and will not be available for operations;
- o our ability to obtain additional financing for aircraft purchases, capital expenditures, working capital, or general corporate purposes could be limited;
- o our vulnerability to adverse economic and industry conditions may be greater than our larger and more financially secure competitors;
- o 23 of our DC-9 aircraft are pledged as collateral to secure our \$80.0 million of 10.5% senior secured notes due 2001;
- o eleven B717 aircraft are pledged as collateral to secure aircraft acquisition debt with a principal balance of \$195.0 million as of December 31, 2000;
- o upon consummation of the Boeing refinancing transactions (See "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources") substantially all of our existing assets (including flight and other equipment, inventory, receivables and our maintenance hangar) and certain assets to be acquired by us in the future will be pledged as collateral to secure the obligations under the Boeing refinancing transactions; and
- o future B717 aircraft to be acquired by us will be pledged as collateral to secure aircraft acquisition debt we incur.

Covenants in our debt instruments could limit how we conduct our business, which could affect our long-term growth potential.

Our debt instruments contain covenants that, among other things, restrict our ability to:

- o incur additional indebtedness;
- o pay dividends and make other distributions;
- o prepay subordinated indebtedness;
- o make investments and other restricted payments;
- o create liens;
- o sell assets;
- o enter into certain mergers; and

- o engage in certain transactions with affiliates.

Our current and future financing arrangements contain and are expected to continue to contain similar or more restrictive covenants. As a result of these restrictions, we may be limited in how we conduct business, and we may be unable to raise additional debt or equity financing to operate during general economic or business downturns, to compete effectively, or to take advantage of new business opportunities. This may affect our ability to generate revenues and make profits. Without sufficient revenues and cash, we may not be able to pay interest and principal on our indebtedness.

Our failure to comply with the covenants and restrictions contained in our indentures and other financing agreements could lead to a default under the terms of those agreements. If such a default occurs, the other parties to these agreements could declare all amounts borrowed and all amounts due under other instruments that contain provisions for cross-acceleration or cross-default due and payable. If that occurs, we may not be able to make payments on our debt, meet our working capital and capital expenditure requirements, or be able to find additional alternative financing. Even if we obtain additional alternative financing, we cannot guarantee investors that this financing would be on favorable or acceptable terms.

Further increases in fuel costs will negatively affect our operating expenses and financial results.

The cost of aircraft fuel is a significant expenditure for us. Aircraft fuel expense accounted for approximately 26% of our 2000 operating expenses. Increases in fuel prices or a shortage of supply could have a material adverse effect on our operations and operating results. The impact to our operations is disproportionately higher on average than to our competitors, primarily due to the fact that many of our competitors are currently using a larger percentage of more fuel-efficient aircraft, have favorable hedging positions and, accordingly, have fuel costs that represent a smaller portion of their total costs. Subject to market conditions, we may implement fare increases to offset increases in the price of fuel. There can be no assurance that any such fare increase will completely offset higher fuel costs or not adversely impact our competitive position.

Our fuel prices are currently at historically high levels, having increased from approximately \$0.53 per gallon in the fourth quarter of 1999, to approximately \$1.23 per gallon in the fourth quarter of 2000, net of hedges. Despite this increase, we have been able to achieve improvements in our operating margins through the addition of new, fuel-efficient B717 aircraft which consume 24% less fuel than our existing fleet.

Aircraft fuel costs are highly correlated to oil prices and thus fluctuate with changes in supply and demand for oil. Due to the effect of world and economic events on the price and availability of oil, the future availability and cost of aircraft fuel cannot be predicted with any degree of certainty. Based on our 2001 projected fuel consumption, we estimate that a 10% increase in the average price per gallon of aircraft fuel for the year ended December 31, 2000, would increase our fuel expenses by approximately \$9.7 million, net of fuel hedge instruments currently outstanding, for the year ending December 31, 2001.

Our operating results may suffer because of competition in the low-fare airline markets we serve.

The airline industry, in general, and the low-fare sector in particular, is highly competitive and is served by numerous companies. We may face greater competition in the future. Any increased competition could have a negative impact on our business and operating results.

The profitability of our operations is influenced by economic conditions as demand for discretionary travel diminishes during economic downturns.

The profitability of our operations is influenced by the condition of the U.S. economy, that may impact the demand for discretionary travel and our competitive pricing position. A substantial portion of our business is discretionary travel, which declines during economic downturns.

We depend heavily on the Atlanta market to be successful.

Our business strategy has focused and is expected to continue to focus on adding flights to and from our Atlanta base of operations. A reduction in our share of the Atlanta market or reduced passenger traffic to or from Atlanta could have a material adverse effect on our financial condition and results of operations. In addition, our dependence on a primary hub and on a route network operating largely on the East Coast makes us more susceptible to adverse weather conditions and other traffic delays along the East Coast than some of our competitors that may be better able to spread these traffic risks over larger route systems.

Airline strategic combinations could have an impact on our operations in ways yet to be determined.

The strategic environment in the airline industry changes from time to time as carriers implement varying strategies in pursuit of profitability, including consolidation to expand operations and increase market strength, and entering into global alliance arrangements. The recent announcement of the proposed mergers of United Airlines and US Airways and of American Airlines and Trans World Airlines, and the acquisition by American Airlines of certain assets of US Airways would materially affect the airline industry. However, because the mergers have not yet been approved or completed, we are unable to predict what effect, if any, the foregoing transactions or other changes in the strategic landscape might have on our business, financial condition and results of operations.

Much of our fleet consists of older airplanes which could increase our costs of maintenance and negatively impact our business and financial results.

As of December 31, 2000, the average age of our operating aircraft fleet was approximately 22 years. As a result, we have incurred increased overall operating costs due to the higher maintenance and other operating costs associated with older aircraft.

We are required to comply with all applicable regulations and airworthiness directives issued by the FAA with respect to aging aircraft. As a result, our costs of maintenance, including costs to comply with aging aircraft requirements for our DC-9 and B737 aircraft, may increase in the future.

We believe that our aircraft are mechanically reliable based on the percentage of scheduled flights completed. However, we cannot guarantee that our aircraft will continue to be sufficiently reliable over longer periods of time. Furthermore, given the age of our fleet, any public perception that our aircraft are less than completely reliable could have a material adverse effect on our business.

If we are not able to fulfill our purchase commitments for new aircraft, our growth could be slowed.

We have an agreement to purchase 50 B717 aircraft from an affiliate of Boeing. See "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources." As of December 31, 2000, we had taken delivery of 16 of these aircraft (two additional aircraft were delivered in January and February 2001). We have financing commitments from the airframe manufacturer and/or its affiliates with respect to the 34 firm B717 aircraft scheduled for delivery between January 2001 and October 2003, including lease financing facilities in excess of 100% of the purchase price for the delivery of 14 B717 aircraft delivered or scheduled to be delivered between January 2001 and February 2002. We cannot guarantee that we will be able to obtain satisfactory financing for the portion of the purchase price not included in the airframe manufacturer and/or its affiliates' financing support. Should we default on our obligations, Boeing would have the right to exercise remedies including the right to terminate the purchase agreement and its financing commitments. If we are unable to purchase these aircraft, our ability to increase our number of flights could be negatively impacted. On the other hand, if our growth slows or air travel in general decreases, we may not be able to utilize all the aircraft we have committed to purchase. If we cannot use such aircraft, we may be required to sell or lease such aircraft on terms which will depend upon market conditions at the time. We could suffer a financial loss from any such sales or leases. The retirement of other aircraft in our fleet may also be accelerated in the event our growth slows, air travel decreases generally in our markets, or if significant regulatory requirements are imposed on older aircraft.

Our reputation and financial results could be negatively affected in the event of a major aircraft accident.

A major accident involving our aircraft 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. Moreover, any aircraft accident, even if fully insured, could cause a public perception that our aircraft are less safe or reliable than other airlines, and that could have a negative effect on our business. The occurrence of one or more incidents or accidents involving our aircraft could have a material adverse effect on the public's perception of us and our future operations.

We are required by the DOT to carry liability insurance on each of our aircraft. We currently maintain liability insurance in amounts and of the type consistent with industry practice. Although we currently believe our insurance coverage is adequate, the amount of such coverage may be changed in the future or we may be forced to bear substantial losses from accidents. Substantial claims resulting from an accident in excess of related insurance coverage could have a material adverse impact on our business and financial results.

We are subject to extensive regulation by the FAA, the DOT, and other governmental agencies, compliance with which could cause us to incur increased costs and negatively affect our business and financial results.

We are subject to a wide range of governmental regulation, including regulation by the FAA. For example, in the last several years, the FAA has issued a number of maintenance directives and other regulations relating to, among other things, retirement of older aircraft, security measures, collision avoidance systems, airborne windshear avoidance systems, noise abatement, and increased inspections and maintenance procedures to be conducted on older aircraft. A modification, suspension or revocation of any of our FAA authorizations or certificates could adversely impact our business. We expect to continue to incur expenses for the purpose of complying with the FAA's aging aircraft regulations. In addition, several airports have recently sought to increase substantially the rates charged to airlines, and the ability of airlines to contest such increases has been restricted by federal legislation, DOT regulations, and judicial decisions.

Additional laws and regulations have been proposed that could significantly increase the cost of airline operations by imposing additional requirements or restrictions on operations. Laws and regulations have also been considered that would prohibit or restrict the ownership and/or transfer of airline routes or takeoff and landing slots. Also, the availability of international routes to United States carriers is regulated by treaties and related agreements between the United States and foreign governments that are amendable. We cannot predict what laws and regulations may be adopted or their impact and we cannot guarantee that laws or regulations currently proposed or enacted in the future will not adversely affect us.

ITEM 2. PROPERTY

OPERATING AIRCRAFT FLEET

We operated the following owned and leased aircraft as of December 31, 2000:

Aircraft Type	Average No. of Seats	Owned	Leased	Total	Average Age (Years)
B717	117	11	5	16	0.9
DC-9	106	27	6	33	31.1
B737	119	3	1	4	23.5
Total		41	12	53	21.7

For information concerning the estimated useful lives, residual values, lease terms, operating rent expense and firm orders on additional aircraft, see Note 1 to the consolidated financial statements.

As of December 31, 2000, 36 of our owned operating aircraft were encumbered under debt agreements.

We took delivery of eight B717s in 2000. We purchased and took delivery of two additional B717s in January and February 2001. These aircraft will be used to replace the B737s and DC-9s currently in operation and for growth. We plan to take delivery of ten additional B717 aircraft during the remainder of 2001.

The delivery schedule for our remaining B717s under firm contract as of December 31, 2000, is as follows:

AIRCRAFT TYPE	2001	2002	2003
B717	12	12	10

A preliminary retirement schedule of our aircraft as of December 31, 2000, is as follows:

AIRCRAFT TYPE	2001	2002	2003	2004
DC-9	--	6	6	6
B737	4	--	--	--

The retirement schedule was revised in 2000 due to changes to our B717 purchase contract, as discussed in Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.

The delivery and retirement schedules shown above represent our best estimates as of March 1, 2001. These estimates are regularly reviewed and subject to change based upon certain conditions

including, but not limited to, our future operating and financial results.

#### GROUND FACILITIES

Our principal executive offices are located at the Orlando International Airport in a leased facility consisting of approximately 34,000 square feet of office space. The facility houses our executive offices as well as our operations staff (including in-flight operations and station operations), general administrative staff, computer systems and personnel training facility. The lease agreement for this facility expires in 2007 and may be extended an additional ten years through the exercise of options in five-year increments.

We own an aircraft hangar of approximately 70,000 square feet at the Orlando International Airport, subject to a ground lease with the Greater Orlando Aviation Authority. The ground lease agreement for this facility expires in 2011 and may be extended an additional ten years through the exercise of options in five-year increments. The hangar houses a portion of our maintenance staff, maintenance records and parts inventory.

We also lease the following facilities:

- o approximately 20,000 square feet of office space in Atlanta for use as a reservations center under a lease which expires September 30, 2004
- o approximately 25,000 square feet of space in Atlanta for use as a training center under a lease which expires October 31, 2005
- o approximately 13,000 square feet of space in Savannah, Georgia for a reservations center under a lease which expires in February 2003
- o approximately 91,000 square feet of space in Atlanta for a warehouse and engine repair facility under a lease which expires in May 2002

We have signatory status on the lease of facilities at Hartsfield Atlanta International Airport, which expires in 2010. The check-in-counters, gates and airport office facilities at each of the other airports we serve are leased from the appropriate airport authority or subleased from other airlines. These arrangements may include baggage handling, station operations, cleaning and other services. If these facilities at any additional cities to be served by us are not available at acceptable rates, or if such facilities become no longer available to us at acceptable rates, then we may choose not to service those markets.

#### ITEM 3. LEGAL PROCEEDINGS

All of the lawsuits filed against us seeking damages attributable to those on Flight 592 have been settled, including a settlement in the fourth quarter of 2000 for an amount immaterial to our results of operations or financial condition.

On October 1, 1999, we filed suit in the Superior Court of Gwinnett County, Georgia, against United States Aviation Underwriters, Inc. and United States Aviation Insurance Group for declaratory relief and damages based on claims of breach of contract and tortious breach of

covenant of good faith and fair dealing for matters involving litigation related to Flight 592.

From time to time, we are engaged in other litigation arising in the ordinary course of our business. We do not believe that any such pending litigation will have a material adverse effect on our results of operations or financial condition.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

None.

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PART II

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

MARKET INFORMATION

Our common stock, \$.001 par value, is traded on the American Stock Exchange under the symbol "AAI." Prior to July 14, 2000, our common stock was traded on the NASDAQ National Market under the symbol "AAIR." As of March 1, 2001, there were approximately 4,989 holders of our common stock. The following table sets forth the reported high and low sale prices for our common stock for each fiscal quarter since January 1, 1999.

FISCAL YEAR ENDED DECEMBER 31, 1999 -----	HIGH -----	LOW -----
Quarter Ending March 31, 1999	\$5.13	\$2.75
Quarter Ending June 30, 1999	\$6.00	\$4.13
Quarter Ending September 30, 1999	\$7.25	\$4.94
Quarter Ending December 31, 1999	\$6.06	\$3.50
FISCAL YEAR ENDED DECEMBER 31, 2000 -----	HIGH -----	LOW -----
Quarter Ending March 31, 2000	\$5.09	\$3.72
Quarter Ending June 30, 2000	\$5.00	\$3.88
Quarter Ending September 30, 2000	\$4.94	\$3.94
Quarter Ending December 31, 2000	\$7.38	\$3.88

As of March 1, 2001, the closing price of our common stock was \$8.70.

DIVIDENDS

We have never declared cash dividends on our common stock. In addition, our debt indentures restrict our ability to pay cash dividends. We intend to retain earnings to finance the development and growth of our business. Accordingly, we do not anticipate that any dividends will be declared on our common stock for the foreseeable future. Future payments of cash dividends, if any, will depend on our financial condition, results of operations, business conditions, capital requirements, restrictions contained in agreements, future prospects and other factors deemed relevant by our Board of Directors.

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ITEM 6. SELECTED FINANCIAL DATA

The following financial information for the five years ended December 31, 2000, has been derived from our consolidated financial statements:

	(In thousands, except per share data)				
	2000	1999	1998 (a)	1997	1996
Operating revenues	\$ 624,094	\$ 523,468	\$ 439,307	\$ 211,456	\$ 219,636
Net income (loss)	47,436	(99,394) (b)	(40,738) (c)	(96,663) (d)	(41,469) (e)
Basic earnings (loss) per common share	0.72	(1.53)	(0.63)	(1.72)	(0.76)
Diluted earnings (loss) per common share	0.69	(1.53)	(0.63)	(1.72)	(0.76)
Total assets at year-end	546,255	467,014	376,406	433,864	417,187
Long-term debt including current maturities at year-end	427,903	415,688	245,994	250,712	244,706

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

- (a) See Note 1 to the consolidated financial statements.
- (b) Includes a \$147.7 million impairment loss related to the accelerated retirement of the DC-9 fleet as a result of the introduction of the B717 fleet and a gain of \$19.6 million for a litigation settlement.
- (c) Includes a \$27.5 million impairment loss related to the acceleration of the retirement of four owned B737 aircraft as a result of the elimination of their original route system and continued operating losses upon their redeployment to other routes.
- (d) Includes a \$24.8 million charge related to the shutdown of the airline in 1996 and a \$5.2 million charge for the renaming of the airline in connection with the merger with Airways Corporation in November 1997.
- (e) Includes a \$68.0 million charge related to the shutdown of the airline in 1996, a \$3.9 million gain on the sale of property, a \$13.0 million arrangement fee for aircraft transfer and a \$2.8 million gain on insurance recovery.

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

RESULTS OF OPERATIONS

We achieved record annual revenues, record passenger revenue per available seat mile (RASM), and served a record number of passengers during 2000. This strong financial performance produced an operating profit of \$81.2 million and an operating margin of 13% for the year, even though fuel expense increased by more than 105% over 1999. Air travelers, particularly business travelers, continue to respond to our unique brand of low fares and quality service as we expand into areas of the eastern United States that have traditionally been characterized by high fares.

The tables below set forth selected financial and operating data for the years ended December 31, 2000, 1999 and 1998.

	Twelve Months Ended December 31,		
	2000	1999	1998
Revenue passengers	7,566,986	6,460,533	5,462,827
Revenue passenger miles (RPMs) (000s) (1)	4,115,745	3,473,490	3,244,539
Available seat miles (ASMs) (000s) (2)	5,859,395	5,467,556	5,442,234
Passenger load factor (3)	70.2%	63.5%	59.6%
Break-even load factor (4)	64.7%	59.4%	61.5%
Average yield per RPM (cents) (5)	14.70	14.01	12.97
Passenger revenue per ASM (cents) (6)	10.32	8.90	7.73
Operating cost per ASM (cents) (7)	9.27	8.19	7.91
Operating cost per ASM, excluding aircraft fuel (cents) (8)	6.87	6.94	6.59
Average stage length (miles)	537	528	546
Average cost of aircraft fuel per gallon (cents)	100.89	49.95	54.87
Average daily utilization (hours:minutes) (9)	10:18	9:54	9:42
Number of operating aircraft in fleet at end of period	53	47	50

- (1) The number of scheduled revenue miles flown by passengers
- (2) The number of seats available for passengers multiplied by the number of scheduled miles each seat is flown
- (3) The percentage of aircraft seating capacity that is actually utilized (RPMs divided by ASMs)
- (4) The percentage of seats that must be occupied by revenue passengers in order for us to break even on a pre-tax income basis, excluding nonrecurring items and impairment charges
- (5) The average amount one passenger pays to fly one mile
- (6) Passenger revenue divided by ASMs
- (7) Operating expenses, excluding impairment charges, divided by ASMs
- (8) Operating expenses, excluding aircraft fuel expense and impairment charges, divided by ASMs
- (9) The average number of hours per day that an aircraft flown is operated in revenue service

Operating Expenses per Available Seat Mile:

	Twelve Months Ended December 31,		
	2000	1999 (1)	1998 (1)
Operating expenses			
Salaries, wages and benefits	2.34 (cents)	2.21 (cents)	1.99 (cents)
Aircraft fuel	2.40	1.25	1.32
Maintenance, materials and repairs	1.25	1.58	1.37
Distribution	0.68	0.68	0.64
Landing fees and other rents	0.49	0.49	0.43
Marketing and advertising	0.28	0.29	0.28
Aircraft rent	0.22	0.09	0.13
Depreciation	0.39	0.52	0.53
Other operating	1.22	1.08	1.22
	-----	-----	-----
Total operating expenses	9.27 (cents) =====	8.19 (cents) =====	7.91 (cents) =====

(1) Excludes impairment charges of \$147.7 million and \$27.5 million in 1999 and 1998, respectively.

2000 COMPARED TO 1999

SUMMARY

For 2000, we recorded operating income of \$81.2 million, pre-tax income and net income of \$47.4 million and earnings per common share of \$0.69 on a diluted basis. For 1999, including a pre-tax impairment charge of \$147.7 million and a litigation settlement gain of \$19.6 million, we recorded an operating loss of \$72.0 million, a pre-tax loss of \$96.7 million, a net loss of \$99.4 million and a loss per common share of \$1.53 on a basic and diluted basis. The impairment loss and litigation settlement gain increased our loss per common share by \$1.98.

OPERATING REVENUES

Operating revenues increased by \$100.6 million or 19.2%, primarily due to an increase in passenger revenues. The increase in passenger revenues was principally driven by a 6.7 percentage point increase in load factor and a 4.9% increase in average yield per revenue passenger mile. As a result, our unit revenue or RASM increased 16.0% to 10.3 cents.

During 2000, we increased our capacity, or ASMs, by 7.2% with the addition of eight new Boeing 717 (B717) aircraft. In addition, RPMs increased by 18.5%, resulting in a record load factor of 70.2%. The increase in yield resulted primarily from additional business travelers purchasing higher fares during the year. Notwithstanding the improved yield and passenger load factor, we continue to experience aggressive competition that could negatively impact future yields and loads.

Other revenues decreased \$18.0 million or 54.4%. Excluding a litigation settlement gain of \$19.6 million in 1999, other revenues increased \$1.6 million or 12.1% on a year-over-year basis.

#### OPERATING EXPENSES

Operating expenses decreased by \$52.5 million or 8.8%. Excluding the 1999 pre-tax impairment charge of \$147.7 million to reduce the book value of our DC-9 aircraft, operating expenses increased by \$95.2 million or 21.3%. Operating cost per ASM (CASM) increased by 13.2%, primarily due to a 105.5% increase in aircraft fuel expense. Cost per available seat mile excluding fuel decreased approximately 1.0% to 6.9 cents per ASM.

Salaries, wages and benefits increased 13.8%, or \$16.7 million year-over-year, and 6.2% on a CASM basis, primarily due to contractual wage rate increases and additional personnel required for the higher level of operations in 2000.

Aircraft fuel expense increased 105.5%, or \$72.1 million year-over-year, and 92.0% on a CASM basis, primarily due to increases in the cost of fuel. During 2000, the average cost of aircraft fuel per gallon was approximately \$1.01, compared to an average cost per gallon in 1999 of approximately \$0.50. The cost of aircraft fuel was net of approximately \$5.3 million and \$14.2 million in gains from hedging activities in 2000 and 1999, respectively.

Maintenance, materials and repairs decreased 15.2%, or \$13.1 million year-over-year, and 20.9% on a CASM basis, primarily due to a lesser number of Boeing 737 and DC-9 airframe and engine repairs performed during 2000 in accordance with our maintenance schedule. The timing of maintenance to be performed is determined by the number of hours the aircraft and engines are operated.

Distribution expenses increased 7.2%, or \$2.7 million year-over-year, primarily due to an increase in commissionable sales generated by travel agents, offset by a rate reduction from 8.0% to 5.0% during the fourth quarter of 1999.

Landing fees and other rents increased \$1.7 million compared to the year ended 1999 primarily due to increased departures. On a CASM basis, these expenses remained flat on a year-over-year basis. We operated 101,644 departures in 2000 and 96,858 departures in 1999, an increase of 4.9%.

Aircraft rent increased 159.1%, or \$7.7 million year-over-year, and 141.8% on a CASM basis, primarily due to the lease financing associated with five of the eight new B717s delivered during 2000, as well as the sale and leaseback of seven DC-9 aircraft in the fourth quarter 1999.

Depreciation expense decreased 19.1%, or \$5.4 million year-over-year, and 24.5% on a CASM basis, primarily due to the reduction in book value of our DC-9 fleet as a result of the 1999 impairment charge and the sale and leaseback of seven DC-9 aircraft in 1999.

Other operating expenses increased 20.6%, or \$12.1 million year-over-year, and 12.5% on a CASM basis, primarily due to increased passenger related expenses associated with the greater number of

passengers served, and to costs related to supporting and maintaining our existing automation systems.

#### NON-OPERATING EXPENSES

Interest expense, net, increased 36.7%, primarily due to the debt financing of eight B717 aircraft delivered in the third and fourth quarters of 1999, as well as three B717s delivered in the fourth quarter 2000. The 1999 deliveries were financed utilizing the proceeds from the issuance of enhanced equipment trust certificates (EETCs). Three of the 2000 deliveries were financed utilizing debt issued by an affiliate of the airframe manufacturer. Offsetting a portion of the increased interest expense, interest income increased 76.0% as a result of higher invested cash balances.

We have not recognized any benefit from the future use of operating loss carryforwards, because our evaluation of all the available evidence in assessing the realizability of tax benefits of such loss carryforwards indicates that the underlying assumptions of future profitable operations contain risks that do not provide sufficient assurance to recognize such tax benefits currently. Although we produced operating profits in each quarter in 2000 and 1999, excluding the impairment charge, we do not believe this and other positive evidence, including our projection of future profitable operations, offsets the effect of our recent cumulative losses. As a result, income tax expense was \$0 and \$2.7 million in 2000 and 1999, respectively. The 1999 tax expense resulted from the utilization of a portion of our \$141.0 million of net operating loss (NOL) carryforwards, existing at December 31, 1998, offset in part by alternative minimum tax and the application to goodwill of the tax benefit related to the realization of a portion of the Airways Corporation NOL carryforwards.

#### 1999 COMPARED TO 1998

##### SUMMARY

For 1999, including a pre-tax impairment charge of \$147.7 million and a litigation settlement gain of \$19.6 million, we recorded an operating loss of \$72.0 million, a pre-tax loss of \$96.7 million, a net loss after taxes of \$99.4 million and a loss per common share of \$1.53 on a basic and diluted basis. The impairment loss and litigation settlement gain increased our loss per common share by \$1.98. For 1998, including a pre-tax impairment charge of \$27.5 million, we recorded an operating loss of \$18.6 million, a pre-tax loss and a net loss after taxes of \$40.7 million and a loss per common share of \$0.63 on a basic and diluted basis. The impairment loss increased our loss per common share by \$0.43.

##### OPERATING REVENUES

Passenger revenues increased by 15.6%, or \$65.6 million in 1999 compared to 1998. The growth in our passenger revenue stems from increasing traffic demand in both the business and leisure market segments. Business class loads were up significantly in 1999 compared to 1998. Adjustments in pricing and inventory strategies also led to gains in leisure traffic. Yield increased by 8.0%, from 13.0 cents to 14.0 cents. Unit revenue increased 15.1%, from 7.7 cents to 8.9 cents - better improvements than any major airline in the industry.

Traffic, or RPMs, increased 7.1% or 229.0 million RPMs on a 0.5% increase in capacity, or ASMs. For the year ended December 31, 1999, load factor increased 3.9 points to 63.5% versus 59.6% for the year ended December 31, 1998.

Other revenue increased 121.8%, or \$18.2 million, in 1999 compared to 1998, due to the \$19.6 million gain from a litigation settlement.

#### OPERATING EXPENSES

Excluding the impairment charges in 1999 and 1998, operating expenses increased \$17.4 million or 4.0% year-over-year. Our operating cost per ASM, excluding impairment charges, increased 3.5% to 8.19 cents in 1999 from 7.91 cents in 1998.

Salaries, wages and benefits increased 11.3%, or \$12.3 million, due to a 6.1% increase in overall headcount and contractual wage increases for our union-represented labor groups.

Aircraft fuel expense decreased year-over-year by \$3.6 million, or 5.0%, due to a 9.0% decrease in the average fuel cost per gallon offset by a 4.4% increase in fuel consumption.

Maintenance increased 15.8% or \$11.8 million, due to a volume increase of five check lines as a result of completing our structural life improvement program and six additional engine overhauls. The timing of maintenance to be performed is determined by the number of hours an aircraft and engine are flown.

Commissions paid to travel agents increased \$2.4 million or 6.9%, due to an increase in commissionable sales, offset by a rate reduction from 10.0% to 8.0% during the second quarter of 1998 and a further reduction to 5.0% during the fourth quarter of 1999.

Landing fees and other rents increased \$3.6 million compared to the year ended 1998, due to increased departures. We operated 5.1% more departures in 1999 than 1998, at 96,858 and 92,141, respectively.

Aircraft rent decreased \$2.4 million in 1999 from 1998 due to the return to the lessor of five leased B737 aircraft throughout the year.

Other operating expenses decreased by \$7.3 million, or 11.0%, primarily due to the decline of credit card chargebacks and communications costs.

In the fourth quarter of 1999, we decided to accelerate the retirement of our owned DC-9 fleet to accommodate the introduction of the B717 fleet. It was originally our intent to use the B717s to increase overall capacity while continuing to use the DC-9s into 2005. However, during 1999, the new management team (including our Chief Executive Officer and President, who joined us in 1999) reevaluated our near- and long-term fleet strategy and the components underlying such strategy. By October 1999, we determined that it would be cost-beneficial to begin to retire the DC-9s. As a result, we developed a fleet plan which provided for the retirement of the DC-9s between December 31, 1999 and October 2003, generally coinciding with the delivery of the B717s. Our Board of Directors approved the plan in October 1999. In connection with our decision to accelerate the retirement of

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

#### NON-OPERATING EXPENSES

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

Income tax expense was \$2.7 million and \$0 in 1999 and 1998, respectively. The 1999 tax expense resulted from the utilization of a portion of our \$141 million of net NOL carryforwards, existing at December 31, 1998, offset in part by alternative minimum tax and the application to goodwill of the tax benefit related to the realization of a portion of the Airways Corporation NOL carryforwards. As of December 31, 1999, we had not recognized any benefit from the use beyond 1999 of NOL carryforwards, because our evaluation of all the available evidence in assessing the realizability of tax benefits of such loss carryforwards indicates that the underlying assumptions of future profitable operations contain risks that do not provide sufficient assurance to recognize such tax benefits currently. Although we produced operating profits in each quarter in 1999, excluding the impairment charge, we do not believe this and other positive evidence, including our projection of future profitable operations, offsets the effect of our recent cumulative losses.

#### LIQUIDITY AND CAPITAL RESOURCES

We rely primarily on operating cash flows to provide working capital. We presently have no lines of credit or short-term borrowing facilities. As of December 31, 2000, our cash and cash equivalents including restricted cash were \$103.8 million compared to \$76.2 million at December 31, 1999, and our working capital deficit was \$35.1 million compared to \$7.3 million at December 31, 1999. We generally must satisfy all of our working capital expenditure requirements from cash provided by operating activities, from external capital sources or from the sale of assets. Substantial portions of our assets have been pledged to secure various issues of our outstanding indebtedness. To the extent that the pledged assets are sold, the applicable financing agreements generally require the sales proceeds to be applied to repay the corresponding indebtedness. To the extent that our access to capital is constrained, we may not be able to make certain capital expenditures or to continue to implement certain other aspects of our strategic plan, and would potentially be unable to achieve the full benefits expected therefrom. We expect to continue generating positive working capital through our operations; however, we cannot predict whether current trends and conditions will continue, or the effects of

competition or other factors, such as increased fuel prices, that are beyond our control.

As of December 31, 2000, our cash and cash equivalents including restricted cash increased by \$27.7 million from December 31, 1999. Net cash provided by operating activities was \$69.4 million in 2000 compared to \$75.7 million in 1999, which included a 1999 litigation settlement gain of \$19.6 million. Excluding the gain, our net cash from operating activities increased by \$13.3 million. The increase in operating cash flows was primarily the result of an increase in operating income. Cash provided by operating activities in 2000 was primarily used for debt service. Net cash provided by investing activities was \$3.7 million, which primarily related to the sale of two B717s and the use of unexpended debt proceeds from 1999 offset by the acquisition of two B717s and the scheduled progress payments for future B717 aircraft deliveries. Cash used for financing activities was \$53.1 million, which primarily related to the payment of long-term debt.

Initially, we contracted with an affiliate of Boeing to purchase 50 B717 aircraft for delivery between 1999 and 2002, with options to purchase an additional 50 B717s. During the second quarter of 2000, we revised our contracts with Boeing relating to the purchase and financing of our future B717 aircraft deliveries. The revised contract provides for a delivery schedule as follows: 1999 (eight aircraft - all delivered), 2000 (eight aircraft - all delivered), 2001 (12 aircraft), 2002 (12 aircraft), and 2003 (10 aircraft). In connection with our agreement with Boeing, we also recharacterized the 50 option aircraft to provide for 25 options, 20 purchase rights, and five rolling options. The options and purchase rights, to the extent exercised, would provide for delivery to us of all of our B717s on or before September 30, 2005. Prior to this revision, we had committed to purchase 50 B717 aircraft during the following years: 1999 (eight aircraft), 2000 (eight aircraft), 2001 (16 aircraft), and 2002 (18 aircraft). Also prior to the revision, the 50 option aircraft, if exercised, would have been available for delivery between January 2003 and January 2005.

During the third quarter of 1998, we reached an agreement with Boeing to defer the progress payments due and payable prior to the first delivery until the first delivery, which occurred in September 1999. Accordingly, progress payments resumed in September 1999, and we paid \$6.8 million and \$6.6 million in progress payments in 2000 and 1999, respectively. In 2000, we again deferred certain progress payments. There can be no assurance that cash provided by operations will be sufficient to meet the progress payments for future B717 deliveries. If we exercise our options and purchase rights to acquire up to an additional 50 B717 aircraft, additional payments could be required for these aircraft beginning in 2001.

As of December 31, 2000, our debt related to asset financing totaled \$277.9 million, with respect to which aircraft and certain other equipment are pledged as security. Included in such amount is \$131.8 million of 10.63% EETCs, of which a portion of interest and principal is payable semiannually through April 2017 and \$80.0 million of 10.50% senior secured notes due April 2001. In addition, we have \$150.0 million of 10.25% senior notes due April 2001.

The EETC proceeds were used to replace loans for the purchase of the first ten B717 aircraft delivered, and all ten aircraft were pledged as collateral for the EETCs. Eight EETC-financed B717s were delivered in 1999, and the remaining two deliveries occurred in 2000. During 2000, we sold and leased back two of the EETC-financed B717s in a leveraged lease transaction reducing the outstanding

principal amount of the EETCs by \$35.9 million. Unexpended proceeds from the EETCs issue were \$0 and \$39.2 million at December 31, 2000, and December 31, 1999, respectively.

During 2000, we took delivery of eight new B717 aircraft that were financed as follows: two were delivered and subsequently sold and leased back from the lessors (as discussed in the immediately preceding paragraph); three were leased from an affiliate of the airframe manufacturer; and three were purchased with promissory notes provided by an affiliate of the airframe manufacturer (the promissory notes were fully repaid in February 2001).

We entered into an amended and restated financing commitment with Boeing Capital Services Corporation (Boeing Capital) on March 22, 2001, in order to refinance the senior notes and senior secured notes due April 2001 and to provide additional liquidity. The cash flow generated from the Boeing Capital transactions, together with internally generated funds, will be sufficient to retire the \$150.0 million senior notes and the \$80.0 million senior secured notes at maturity. Funding of the refinancing is subject to various matters including: our being current on all payment obligations to Boeing; maintaining our corporate existence; continuing to be a certificated air carrier; not voluntarily or involuntarily terminating or suspending our operations; and, there being no total loss of an aircraft, the result of which would have a material and adverse effect on us or our business. The components of the refinancing are as follows (in thousands):

Senior secured notes due 2008	\$ 169,500
Subordinated notes due 2009	17,500
Convertible notes due 2009	17,500
	-----
	\$ 204,500
	=====

The new senior secured notes to be issued by our subsidiary, AirTran Airways, will bear a fixed rate of interest to be determined at closing equal to the sum or difference of 12.25% and changes in Boeing Capital's cost of borrowing from and after November 9, 2000, to closing. Principal payments of approximately \$3.3 million plus interest will be payable semiannually. In addition, there are certain mandatory prepayment events, including a \$3.1 million prepayment upon the consummation of each of 12 sale-leaseback transactions for B717 aircraft expected to occur between April 2001 and February 2002. The new senior secured notes will be secured by substantially all of the assets of AirTran Airways not otherwise encumbered, and are noncallable for four years. In the fifth year, they can be prepaid at a premium of 4% and in the sixth year at a premium of 2%. In connection with the issuance of the new senior secured notes, we will issue detachable warrants to Boeing Capital for the purchase of 4% of our common stock (approximately 3.0 million shares) for \$4.51 per share. The warrants have an estimated value of \$12.6 million and expire in five years. This amount will be amortized to interest expense over the life of the new senior secured notes.

The subordinated notes will bear interest at the higher of: (a) 13%, or (b) the rate on the new senior secured notes plus 1%. Interest is payable quarterly in arrears, and no principal payments are due prior to maturity in 2009 except for mandatory quarterly prepayments equal to 25% of AirTran Airways' net income.

The stated interest rate on the convertible notes will be 7.75%, except that they will bear a higher rate of interest if our average common stock price during a calendar month is below \$6.42, or if we have not registered under the Securities Act of 1933 the common stock to be issued upon conversion of the notes. Interest will be payable semiannually in arrears. The notes are convertible at any time into approximately 3.2 million shares of our common stock. This conversion rate represents a beneficial conversion feature valued at approximately \$5.6 million. This amount will be amortized to interest expense over the life of the convertible notes. We will be able to require Boeing Capital's conversion of the notes under certain circumstances.

The subordinated notes and convertible notes will be secured by: (1) a pledge of all of our rights under the B717 aircraft purchase agreement with the McDonnell Douglas Corporation (an affiliate of Boeing Capital), and (2) a subordinated lien on the collateral securing the new senior secured notes.

During 2000, we obtained a lease financing commitment from Boeing Capital which provided for the purchase and sale-leaseback of up to 20 B717 aircraft (three of the 20 leases were completed in 2000). In connection with the Boeing Capital transactions, the lease financing commitment was amended to: (a) increase the term of the leases for the remaining 17 aircraft from 18 years to 18.5 years, and (b) increase Boeing Capital's purchase price by \$3.1 million per aircraft or \$52.7 million in the aggregate. To date, five of the sale-leaseback transactions have closed in 2001. Upon closing of each sale-leaseback transaction occurring on or after funding of the new senior secured notes, we must make a principal payment of \$3.1 million on the new senior secured notes.

To the extent we do not utilize the lease financing commitment (or such commitment is unavailable because of expiry or otherwise), we will be required to obtain a portion of the B717 financing from sources other than Boeing Capital. We believe that, with the support to be provided by Boeing and its affiliates (from the lease financing commitment and other provisions of the B717 purchase agreement), aircraft-related debt and/or lease financing should be available when needed. However, we cannot assure investors that we will be able to secure financing on terms attractive to us, if at all. To the extent we cannot secure acceptable financing, we may be required to modify our aircraft acquisition plans or to incur financing costs higher than anticipated.

In addition, in partial consideration of the refinancing transactions, we have granted Boeing an option to cause us to purchase or lease up to four additional B717 aircraft per year during 2001, 2002, and 2003. If we elect to lease, Boeing Capital will provide financing substantially equivalent to the lease financing commitment. These aircraft, and Boeing Capital's commitment to provide financing thereof, are supplemental to the 50 firm aircraft which are the subject of our existing purchase agreement with Boeing.

#### RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended in June 2000 by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, which requires companies to recognize all derivatives as either assets or liabilities in the balance sheet and measure such instruments at fair value. As amended by SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133, we will adopt SFAS 133 effective January 1, 2001. Adoption of these new accounting standards will result in a cumulative after-tax reduction to net income of approximately \$0.7 million, and an increase to other comprehensive income of approximately \$1.3 million, in the first quarter of 2001. The adoption will also impact assets and liabilities recorded on the balance sheet. The ongoing effects will depend upon future market conditions and our hedging activities.

#### FORWARD-LOOKING STATEMENTS

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

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

- o our performance in future periods;
- o our ability to maintain profitability and to generate working capital from operations;
- o our ability to take delivery of and to finance aircraft;
- o our ability to restructure and/or refinance our indebtedness;
- o the adequacy of our insurance coverage; and
- o the results of litigation or investigations.

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

- o consumer demand and acceptance of services offered by us;
- o our ability to achieve and maintain acceptable cost levels;
- o fare levels and actions by competitors;

- o regulatory matters, general economic conditions, commodity prices; and
- o changing business strategy and results of litigation.

Additional information concerning factors that could cause actual results to vary materially from the future results indicated, expressed or implied in such forward-looking statements is contained elsewhere in this Form 10-K for the year ended December 31, 2000.

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

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

##### MARKET RISK-SENSITIVE INSTRUMENTS AND POSITIONS

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

##### Interest Rates

As of December 31, 2000 and 1999, the fair value of our long-term debt was estimated to be \$439.0 million and \$392.3 million, respectively, based upon discounted future cash flows using current incremental borrowing rates for similar types of instruments or market prices. Market risk, estimated as the potential increase in fair value resulting from a hypothetical one percent decrease in interest rates, was approximately \$11.1 million as of December 31, 2000, and approximately \$11.0 million as of December 31, 1999.

##### Aircraft Fuel

Our results of operations are impacted by changes in the price of aircraft fuel. Excluding the impairment charges, aircraft fuel accounted for 25.9% and 15.3% of our operating expenses in 2000 and 1999, respectively. Based on our 2001 projected fuel consumption, a 10% increase in the average price per gallon of aircraft fuel for the year ending December 31, 2000, would increase fuel expense for the next twelve months by approximately \$9.7 million, net of hedging instruments outstanding at December 31, 2000. Comparatively, based on 2000 fuel usage, a 10% increase in fuel prices would have resulted in an increase in fuel expense of approximately \$10.0 million, net of hedging instruments utilized during 2000. In 2000, we entered into fuel-hedging contracts consisting of fixed-price swap agreements and collar structures to protect against increases in aircraft fuel prices. At December 31, 2000, we had hedged approximately 50% of our projected fuel requirements for the first quarter of 2001 and approximately 30% of our projected requirements for the remainder of 2001.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The response to this Item is submitted as a separate section of this report. See pp. 46-66.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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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 our annual meeting of stockholders to be held May 16, 2001, 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 our annual meeting of stockholders to be held May 16, 2001, 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 "STOCK OWNERSHIP" in the Proxy Statement to be used in connection with the solicitation of proxies for our annual meeting of stockholders to be held May 16, 2001, 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 our annual meeting of stockholders to be held May 16, 2001, which Proxy Statement is to be filed with the Commission.

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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 3.2 - Bylaws (As amended on March 27, 2000).
    - Exhibit 10.19 - Letter Agreement dated March 22, 2001, among the Company, AirTran Airways, Inc. and Boeing Capital Services Corporation. \*.
    - Exhibit 13 - Portions of the Company's Annual Report to Stockholders for the year ended December 31, 2000 (to be deemed filed only to the extent required by the Instructions to Exhibits for Reports on Form 10-K).
    - Exhibit 23 - Consent of Independent Auditors.
- (b) AirTran Holdings, Inc. (the Company) has filed the following Current Reports on Form 8-K:
- | Date of Report   | Subject of Report                                                                                                                                                          |
|------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| October 16, 2000 | Press release announcing financial results for the quarter and nine months ended September 30, 2000, and selected operating and financial statistics for the same periods. |
- (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 March 27, 2000)                                                                                                                |
| 4.1 | See the Articles of Incorporation filed as Exhibit 3.1 and Bylaws filed as Exhibit 3.2                                                               |
| 4.1 | Indenture dated as of April 17, 1996, among the Company, its subsidiaries and Bank of Montreal Trust Company, as Trustee (3)                         |
| 4.2 | First Supplemental Indenture dated August 26, 1996, among the Company, its subsidiaries, Bank of Montreal Trust Company and Fleet National Bank (11) |
| 4.3 | Second Supplemental Indenture dated August 5, 1997, among the Company, its subsidiaries and State Street Bank and Trust (10)                         |
| 4.4 | Third Supplemental Indenture dated November 17, 1997, among the Company, its subsidiaries and State Street Bank and Trust (11)                       |
| 4.5 | Indenture dated August 13, 1997, among the Company, its subsidiaries and The Bank of New York, as Trustee (4)                                        |
| 4.6 | First Supplemental Indenture dated November 17, 1997, among the Company, its subsidiaries and The Bank of New York (11)                              |

4.7	Second Supplemental Indenture dated April 23, 1999, among the Company, its subsidiaries and The Bank of New York (16)
4.8	Third Supplemental Indenture dated December 30, 1999, among the Company, its subsidiaries and The Bank of New York (16)
10.1	Incentive Stock Option Agreement dated June 1, 1993, between ValuJet Airlines, Inc. and Lewis H. Jordan (5) (6)
10.2	1993 Incentive Stock Option Plan (5) (6)
10.3	1994 Stock Option Plan (5) (6)
10.4	1995 Employee Stock Purchase Plan (7)
10.5	Purchase Agreement between McDonnell Douglas Corporation and ValuJet Airlines, Inc. dated December 6, 1995. The Commission has granted confidential treatment with respect to certain portions of this Agreement (8)
10.6	Agreement and Lease of Premises Central Passenger Terminal Complex Hartsfield Atlanta International Airport (8)
10.7	1996 Stock Option Plan (6) (9)
10.8	Consulting Agreement dated November 17, 1997, between the Company and Robert L. Priddy (6) (10)
10.9	Consulting Agreement dated November 17, 1997, between the Company and Lewis H. Jordan (6) (10)
10.10	Airways Corporation 1995 Stock Option Plan (6) (12)
10.11	Airways Corporation 1995 Directors Stock Option Plan (6) (12)
10.12	Lease of headquarters in Orlando, Florida, dated November 14, 1995 (13)
10.13	Orlando International Lease and Use Agreement (14)
10.14	Orlando Tradeport Maintenance Hangar Lease Agreement by and between Greater Orlando Aviation Authority and Page AvJet Corporation dated December 11, 1989 (15)
10.15	Amendment No. 1 to Orlando Tradeport Maintenance Hangar Lease Agreement by and between Greater Orlando Aviation Authority and Page AvJet Corporation dated June 22, 1990 (15)
10.16	Agreement and Second Amendment to Orlando Tradeport Maintenance Hangar Lease Agreement by and between Greater Orlando Aviation Authority and the Company dated January 25, 1996 (15)
10.17	Employment Agreement dated as of January 4, 1999, between the Company and Joseph B. Leonard (11)
10.18	Note Purchase Agreement dated as of November 3, 1999, among the Company, AirTran Airways, Inc., State Street Bank and Trust Company of Connecticut National Association and First Security Bank, National Association (16)
10.19	Letter Agreement dated March 22, 2001, among the Company, AirTran Airways, Inc. and Boeing Capital Services Corporation *
13	Portions of the Company's Annual Report to Stockholders for the year ended December 31, 2000 (to be deemed filed only to the extent required by the Instructions to Exhibits for Reports on Form 10-K)
21	Subsidiaries of the Registrant (16)
23	Consent of Independent Auditors

- (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 Form S-4, registration number 333-33837, filed with the Commission on August 18, 1997 and amendments thereto.
- (3) 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.
- (4) Incorporated by reference to the Company's Registration Statement on Form S-4, registration number 333-37487, filed with the Commission on October 9, 1997 and amendments thereto.
- (5) 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.
- (6) 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.
- (7) 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.
- (8) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1995, Commission File No. 0-24164, filed with the Commission on March 29, 1996 and amendment thereto.
- (9) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1996, Commission File No. 0-24164, filed with the Commission on March 31, 1997.
- (10) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1997, Commission File No. 0-26914, filed with the Commission on March 27, 1998.
- (11) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1998, Commission File No. 0-26914, filed with the Commission on March 31, 1999.
- (12) Incorporated by reference to Airways Corporation's Registration Statement on Form S-4, registration number 33-93104, filed with the Commission.
- (13) Incorporated by reference to the Quarterly Report on Form 10-Q of Airways Corporation (Commission File No. 0-26432) for the quarter ended December 31, 1995.
- (14) Incorporated by reference to the Quarterly Report on Form 10-Q of Airways Corporation (Commission File No. 0-26432) for the quarter ended December 31, 1996.
- (15) Incorporated by reference to the Annual Report on Form 10-K of Airways Corporation (Commission File No. 0-26432) for the year ended March 31, 1997.
- (16) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1999, Commission File No. 0-26914, filed with the Commission on March 30, 2000.

\* Confidential treatment has been requested for certain confidential portions of this exhibit pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. In accordance with this rule, these confidential portions have been omitted from this exhibit and filed separately with the Securities and Exchange Commission.

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.

AIRTRAN HOLDINGS, INC.

By: /s/ JOSEPH B. LEONARD

-----  
Joseph B. Leonard  
Chairman and Chief Executive Officer  
Date: April 2, 2001

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/ JOSEPH B. LEONARD April 2, 2001

-----  
Joseph B. Leonard  
Chairman of the Board and  
Chief Executive Officer

/s/ STANLEY J. GADEK April 2, 2001

-----  
Stanley J. Gadek  
Senior Vice President, Finance  
and Chief Financial Officer (Principal Accounting  
and Financial Officer)

/s/ DON L. CHAPMAN April 2, 2001

-----  
Don L. Chapman  
Director

/s/ JOHN K. ELLINGBOE April 2, 2001

-----  
John K. Ellingboe  
Director

April 2, 2001

-----  
Lewis H. Jordan  
Director

/s/ ROBERT L. PRIDDY April 2, 2001

-----  
Robert L. Priddy  
Director

April 2, 2001

-----  
Robert D. Swenson  
Director

April 2, 2001

-----  
William J. Usery  
Director

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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, 2000

AirTran Holdings, Inc.

Orlando, Florida

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The following consolidated financial statements of AirTran Holdings, Inc. are incorporated by reference in Item 8:

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The following consolidated financial statements schedule of AirTran Holdings, 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 regulations 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  
AirTran Holdings, Inc.

We have audited the accompanying consolidated balance sheets of AirTran Holdings, Inc., as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2000. 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 auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AirTran Holdings, Inc., at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States. 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.

/s/ ERNST & YOUNG LLP  
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Atlanta, Georgia  
January 21, 2001  
except for Note 5 as to which the date is March 22, 2001

AIRTRAN HOLDINGS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
<b>OPERATING REVENUES:</b>			
Passenger	\$ 604,826	\$ 486,487	\$ 420,901
Cargo	4,183	3,888	3,488
Other	15,085	33,093	14,918
Total operating revenues	624,094	523,468	439,307
<b>OPERATING EXPENSES:</b>			
Salaries, wages and benefits	137,391	120,737	108,461
Aircraft fuel	140,404	68,331	71,922
Maintenance, materials and repairs	73,238	86,374	74,577
Distribution	39,972	37,278	34,886
Landing fees and other rents	28,752	27,004	23,366
Marketing and advertising	16,412	15,643	15,112
Aircraft rent	12,616	4,869	7,241
Depreciation	23,087	28,533	28,591
Other operating	71,071	58,952	66,216
Impairment loss	--	147,735	27,492
Total operating expenses	542,943	595,456	457,864
<b>OPERATING INCOME (LOSS)</b>	<b>81,151</b>	<b>(71,988)</b>	<b>(18,557)</b>
<b>INTEREST (INCOME) EXPENSE:</b>			
Interest income	(5,602)	(3,183)	(3,181)
Interest expense	39,317	27,850	25,362
Interest (income) expense, net	33,715	24,667	22,181
Income (Loss) Before Income Taxes	47,436	(96,655)	(40,738)
Provision For Income Taxes	--	2,739	--
<b>NET INCOME (LOSS)</b>	<b>\$ 47,436</b>	<b>\$ (99,394)</b>	<b>\$ (40,738)</b>
<b>EARNINGS (LOSS) PER COMMON SHARE</b>			
Basic	\$ 0.72	\$ (1.53)	\$ (0.63)
Diluted	\$ 0.69	\$ (1.53)	\$ (0.63)
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>			
Basic	65,759	65,097	64,641
Diluted	69,175	65,097	64,641

See accompanying notes to consolidated financial statements.

AIRTRAN HOLDINGS, INC.  
CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	DECEMBER 31,	
	2000	1999
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 78,127	\$ 58,102
Restricted cash	25,710	18,069
Accounts receivable, less allowance of \$1,231 and \$927 at December 31, 2000 and 1999, respectively	9,388	7,599
Spare parts, materials and supplies, less allowance for obsolescence of \$6,171 and \$2,260 at December 31, 2000 and 1999, respectively	10,536	5,816
Prepaid expenses	14,136	14,058
Total current assets	137,897	103,644
PROPERTY AND EQUIPMENT:		
Flight equipment	340,952	244,662
Less: Accumulated depreciation	(23,300)	(4,973)
	317,652	239,689
Purchase deposits for flight equipment	26,194	22,562
Other property and equipment	27,461	24,914
Less: Accumulated depreciation	(16,018)	(13,436)
	11,443	11,478
Total property and equipment	355,289	273,729
OTHER ASSETS:		
Intangibles resulting from business acquisition	15,080	15,628
Trade names	22,401	23,234
Unexpended debt proceeds - restricted	--	39,232
Debt issuance costs	5,608	5,733
Other assets	9,980	5,814
TOTAL ASSETS	\$ 546,255	\$ 467,014
	=====	=====

See accompanying notes to consolidated financial statements. (Continued)

AIRTRAN HOLDINGS, INC.  
CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	DECEMBER 31,	
	2000	1999
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	\$ 8,678	\$ 10,410
Accrued liabilities	68,049	57,456
Air traffic liability	33,765	23,491
Current portion of long-term debt	62,491	19,569
	172,983	110,926
Total current liabilities		
Long-term debt, less current portion	365,412	396,119
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY (DEFICIT):		
Preferred stock, \$.01 par value per share, 5,000 shares authorized, no shares issued or outstanding	--	--
Common stock, \$.001 par value per share, 1,000,000 shares authorized, and 65,823 and 65,698 shares issued and outstanding at December 31, 2000 and 1999, respectively	66	66
Additional paid-in capital	151,044	150,589
Accumulated deficit	(143,250)	(190,686)
	7,860	(40,031)
Total stockholders' equity (deficit)		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 546,255	\$ 467,014

See accompanying notes to consolidated financial statements.

AIRTRAN HOLDINGS, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)  
(IN THOUSANDS)

	COMMON STOCK				TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
	SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	
BALANCE AT DECEMBER 31, 1997	64,312	\$ 64	\$ 144,937	\$ (50,554)	\$ 94,447
Issuance of common stock for exercise of options	563	1	1,790	--	1,791
Issuance of common stock under stock purchase plan	23	--	130	--	130
Net loss and comprehensive loss	--	--	--	(40,738)	(40,738)
	64,898	65	146,857	(91,292)	55,630
BALANCE AT DECEMBER 31, 1998	64,898	65	146,857	(91,292)	55,630
Issuance of common stock for exercise of options	226	--	1,031	--	1,031
Issuance of common stock under stock purchase plan	51	--	202	--	202
Issuance of common stock in litigation settlement	523	1	2,499	--	2,500
Net loss and comprehensive loss	--	--	--	(99,394)	(99,394)
	65,698	66	150,589	(190,686)	(40,031)
BALANCE AT DECEMBER 31, 1999	65,698	66	150,589	(190,686)	(40,031)
Issuance of common stock for exercise of options	63	--	190	--	190
Issuance of common stock under stock purchase plan	62	--	265	--	265
Net income and comprehensive income	--	--	--	47,436	47,436
	65,823	66	151,044	\$(143,250)	\$ 7,860
BALANCE AT DECEMBER 31, 2000	65,823	\$ 66	\$ 151,044	\$(143,250)	\$ 7,860

See accompanying notes to consolidated financial statements.

AIRTRAN HOLDINGS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
<b>OPERATING ACTIVITIES:</b>			
Net income (loss)	\$ 47,436	\$ (99,394)	\$ (40,738)
Adjustments to reconcile net income (loss) to cash provided by (used for) operating activities:			
Depreciation and amortization	26,078	30,432	31,525
Impairment loss	--	147,735	27,492
Provisions for uncollectible accounts	4,626	4,022	8,003
Deferred income taxes	--	2,387	--
Changes in current operating assets and liabilities:			
Restricted cash	(7,641)	(4,610)	(7,494)
Accounts receivable	(6,415)	(3,837)	(11,425)
Spare parts, material and supplies	(5,312)	(1,657)	(1,878)
Other assets	(3,943)	(5,169)	5,911
Accounts payable and accrued liabilities	4,289	(636)	(19,476)
Air traffic liability	10,274	6,469	2,106
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<b>69,392</b>	<b>75,742</b>	<b>(5,974)</b>
<b>INVESTING ACTIVITIES:</b>			
Purchases of property and equipment	(77,709)	(187,667)	(66,716)
(Payment) refund of aircraft purchase deposits	(6,770)	4,374	--
Restricted funds for aircraft purchases	39,232	(39,232)	--
Proceeds from disposal of equipment	48,980	24,815	370
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<b>3,733</b>	<b>(197,710)</b>	<b>(66,346)</b>
<b>FINANCING ACTIVITIES:</b>			
Issuance of long-term debt	--	244,756	6,100
Payments of long-term debt	(53,555)	(76,801)	(10,844)
Proceeds from sale of common stock	455	1,233	1,921
<b>NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES</b>	<b>(53,100)</b>	<b>169,188</b>	<b>(2,823)</b>
Net increase (decrease) in cash and cash equivalents	20,025	47,220	(75,143)
Cash and cash equivalents at beginning of period	58,102	10,882	86,025
Cash and cash equivalents at end of period	\$ 78,127	\$ 58,102	\$ 10,882
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW ACTIVITIES:</b>			
Cash paid for interest, net of amounts capitalized	\$ 35,607	\$ 23,911	\$ 21,557
Cash paid (refunded) for income taxes	1,141	420	(9,686)
Noncash financing and investing activities:			
Acquisition of equipment for debt	63,144	--	--
Acquisition of equipment for capital leases	2,627	--	--
Purchase and sale-leaseback of equipment	62,608	--	--

See accompanying notes to consolidated financial statements.

AIRTRAN HOLDINGS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Our consolidated financial statements include the accounts of AirTran Holdings, Inc. and our wholly owned subsidiaries, including our principal subsidiary, AirTran Airways, Inc. Significant intercompany accounts and transactions have been eliminated in consolidation.

AirTran Holdings, Inc. (AirTran) offers affordable scheduled air transportation and mail service, serving short-haul markets primarily in the eastern United States.

USE OF ESTIMATES

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

CASH, CASH EQUIVALENTS AND RESTRICTED CASH

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

ACCOUNTS RECEIVABLE

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

SPARE PARTS, MATERIALS AND SUPPLIES

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

PROPERTY AND EQUIPMENT

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

The B717 fleet has a salvage value of 10% and useful life of 25 years. In conjunction with the 1999 impairment charge, the DC-9 fleet was written down to its fair market value. Accordingly, the salvage values were revised to 38% - 52%, and the useful lives were revised to one to three years. In

AIRTRAN HOLDINGS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2000

conjunction with the 1998 impairment charge, the B737 fleet was written down to its fair market value, and we believe that the fair market value is indicative of its salvage value. The useful lives of the B737 aircraft were revised to two years. Aircraft parts are depreciated over the respective fleet life to a salvage value of 5%.

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

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

	1997 SALVAGE VALUE	1998 SALVAGE VALUE	1997 USEFUL LIFE	1998 USEFUL LIFE
Airframes	10%	40%	10-20 years	10-12 years
Engines	10%	10%	3 years	10-12 years
Aircraft parts	5-50%	5%	3 years	fleet life

The revised salvage value of our DC-9 fleet ranged from approximately \$0.4 million to \$2.6 million per aircraft. The effect of this change for the year ended December 31, 1998, was to increase income by approximately \$12 million or \$0.19 per share. At the time, these estimates more accurately reflected our expectations of estimated fair values at the anticipated dates of disposal.

MEASUREMENT OF IMPAIRMENT

In accordance with Statement of Financial Accounting Standard (SFAS) No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of, we record impairment losses on long-lived assets used in operations when events or circumstances indicate that the assets may be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the net book value of those assets. See Note 10.

INTANGIBLES

The trade name and intangibles resulting from business acquisitions consist of cost in excess of net assets acquired, and are being amortized using the straight-line method over 30 years. Accumulated amortization at December 31, 2000 and 1999, was approximately \$5.1 million and \$3.7 million, respectively.

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

AIRTRAN HOLDINGS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2000

CAPITALIZED INTEREST

Interest attributable to funds used to finance the acquisition of new aircraft is capitalized as an additional cost of the related asset. Interest is capitalized at our 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 2000, 1999, and 1998, approximately \$8.8 million, \$6.7 million and \$3.3 million of interest cost was capitalized, respectively.

AIRCRAFT AND ENGINE MAINTENANCE

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

ADVERTISING COSTS

Advertising costs are charged to expense in the period the costs are incurred. Advertising expense was approximately \$15.7 million, \$14.8 million and \$14.8 million for the years ended December 31, 2000, 1999, and 1998, 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.

STOCK-BASED COMPENSATION

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

SFAS No. 123, Accounting for Stock-Based Compensation, provides an alternative to APB Opinion No. 25 in accounting for stock-based compensation issued to employees. However, we will continue to account for stock-based compensation in accordance with APB Opinion No. 25. See Note 8.

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended in June 2000 by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, which requires companies to recognize all derivatives as either assets or liabilities in the balance sheet and measure such instruments at fair value. As amended by SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective

AIRTRAN HOLDINGS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2000

Date of FASB Statement No. 133, we will adopt SFAS 133 effective January 1, 2001. Adoption of these new accounting standards will result in a cumulative after-tax reduction to net income of approximately \$0.7 million, and an increase to other comprehensive income of approximately \$1.3 million, in the first quarter of 2001. The adoption will also impact assets and liabilities recorded on the balance sheet. The ongoing effects will depend upon future market conditions and our hedging activities. See Note 3.

RECLASSIFICATION

Certain 1999 and 1998 amounts have been reclassified to conform with 2000 classifications.

2. COMMITMENTS AND CONTINGENCIES

At December 31, 2000, our contractual commitments consisted primarily of scheduled aircraft acquisitions. Initially, we contracted with an affiliate of Boeing to purchase 50 B717 aircraft for delivery between 1999 and 2002, with options to purchase an additional 50 B717s. During the second quarter of 2000, we revised our contracts with Boeing relating to the purchase and financing of our future B717 aircraft deliveries. The revised contract provides for a delivery schedule as follows: 1999 (eight aircraft - all delivered), 2000 (eight aircraft - all delivered), 2001 (12 aircraft), 2002 (12 aircraft), and 2003 (10 aircraft). In connection with our agreement with Boeing, we also recharacterized the 50 option aircraft to provide for 25 options, 20 purchase rights, and five rolling options. The options and purchase rights, to the extent exercised, would provide for delivery to us of all of our B717s on or before September 30, 2005. Prior to this revision, we had committed to purchase 50 B717 aircraft during the following years: 1999 (eight aircraft), 2000 (eight aircraft), 2001 (16 aircraft), and 2002 (18 aircraft). Also prior to the revision, the 50 option aircraft, if exercised, would have been available for delivery between January 2003 and January 2005.

Aggregate funding needed for these and all other aircraft commitments was approximately \$669 million at December 31, 2000. Of this amount, approximately \$6.9 million and \$12.5 million are required to be paid in progress payments in 2001 and 2002, respectively. After progress payments, the balance of the total purchase price must be paid or financed upon delivery of each aircraft. While the major airframe manufacturer is required to provide credit support for a limited portion of third-party financing, we will be required to obtain financing from other sources relating to these deliveries. If we exercise our options and purchase rights to acquire up to an additional 50 aircraft, additional payments could be required beginning in 2001. In conjunction with these contractual commitments, we have made nonrefundable deposits of approximately \$26.2 million at December 31, 2000.

In November 1997, we filed a suit against SabreTech and its parent corporation seeking to hold them responsible for the accident involving Flight 592. On September 23, 1999, we settled the lawsuit against SabreTech and its parent. The net proceeds of \$19.6 million from the settlement are included in other revenue in the 1999 statement of operations.

Several stockholder class action suits were filed against us and certain of our current and former executive officers and directors. The suits were subsequently consolidated into a single action. On

AIRTRAN HOLDINGS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2000

December 31, 1998, we entered into a Memorandum of Understanding to settle the consolidated lawsuit. Although we denied that we violated any of our obligations under the federal securities laws, we paid \$2.5 million in cash and \$2.5 million in common stock in the settlement which was approved on October 28, 1999.

From time to time, we are engaged in other litigation arising in the ordinary course of our business. We do not believe that any such pending litigation will have a material adverse effect on our results of operations or financial condition.

3. FUEL PRICE RISK MANAGEMENT

We entered into fuel-hedging contracts consisting of fixed price swap agreements and collar structures to protect against increases in aircraft fuel prices. The change in market value of such agreements has a high correlation to the price changes of the fuel being hedged. Periodic settlements under the agreements are recognized as a component of fuel expense when the underlying fuel being hedged is used. Gains and losses on the agreements would be recognized immediately should the changes in the market value of the agreements cease to have a high correlation to the price changes of the fuel being hedged. As of December 31, 2000, we hedged approximately 50 percent of our projected first quarter 2001 fuel needs at a price no higher than \$29 per barrel of crude oil, and approximately 30 percent of our projected needs for the remainder of 2001 at a price no higher than \$24 per barrel of crude oil. The fair value of our fuel-hedging agreements at December 31, 2000, representing the amount we would receive upon termination of the agreement, totaled \$0.8 million. If in the future a fuel-hedging contract were terminated, any resulting gain or loss would be deferred and amortized to fuel expense over the remaining life of the contract. A default by the broker-dealer to an agreement would expose us to potential fuel price risk on the remaining fuel purchases, in that we would be required to purchase fuel at the current fuel price, rather than according to the hedging agreement. We do not enter into fuel-hedging contracts for trading purposes.

4. ACCRUED LIABILITIES

	December 31,	
	2000	1999
	(In thousands)	
Accrued maintenance	\$ 19,307	\$ 24,278
Accrued interest	13,105	9,447
Accrued salaries, wages and benefits	10,617	8,961
Deferred gain	10,122	6,300
Accrued federal excise taxes	4,348	2,176
Other	10,550	6,294
	-----	-----
	\$ 68,049	\$ 57,456
	=====	=====

AIRTRAN HOLDINGS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2000

5. LONG-TERM DEBT, INCLUDING CAPITAL LEASE OBLIGATIONS

	December 31,	
	2000	1999
	(In thousands)	
Aircraft notes payable through 2017, 10.63% weighted average interest rate	\$ 131,826	\$ 178,850
Senior notes due April 2001, 10.25% interest rate	150,000	150,000
Senior secured notes due April 2001, 10.50% interest rate	80,000	80,000
Promissory notes for aircraft and other equipment payable through 2018, 8.27 % to 11.76% interest rates	64,043	6,838
Capital lease obligations	2,034	--
	-----	-----
	427,903	415,688
Less current maturities	(62,491)	(19,569)
	-----	-----
	\$ 365,412	\$ 396,119
	=====	=====

We completed a private placement of \$178.9 million enhanced equipment trust certificates (EETCs) on November 3, 1999. The EETC proceeds were used to replace loans for the purchase of the first ten B717 aircraft delivered, and all ten aircraft were pledged as collateral for the EETCs. In March 2000, we sold and leased back two of the B717s in a leveraged lease transaction reducing the outstanding principal amount of the EETCs by \$35.9 million. Principal and interest payments on the EETCs are due semiannually through April 2017. Unexpended proceeds from the EETCs issue at December 31, 2000 and December 31, 1999 were \$0 and \$39.2 million, respectively.

We entered into an amended and restated financing commitment with Boeing Capital Services Corporation (Boeing Capital) on March 22, 2001, in order to refinance the senior notes and senior secured notes due April 2001 and to provide additional liquidity. The cash flow generated from the Boeing Capital transactions, together with internally generated funds, will be sufficient to retire the \$150.0 million senior notes and the \$80.0 million senior secured notes at maturity. Funding of the refinancing is subject to various matters including: our being current on all payment obligations to Boeing; maintaining our corporate existence; continuing to be a certificated air carrier; not voluntarily or involuntarily terminating or suspending our operations; and there being no total loss of an aircraft, the result of which would have a material and adverse effect on us or our business. The components of the refinancing are as follows (in thousands):

Senior secured notes due 2008	\$ 169,500
Subordinated notes due 2009	17,500
Convertible notes due 2009	17,500
	-----
	\$ 204,500
	=====

The new senior secured notes to be issued by our subsidiary, AirTran Airways, will bear a fixed rate of interest to be determined at closing equal to the sum or difference of 12.25% and changes in Boeing Capital's cost of borrowing from and after November 9, 2000, to closing. Principal payments of approximately \$3.3 million plus interest will be payable semiannually. In addition, there are certain mandatory prepayment events, including a \$3.1 million prepayment upon the consummation of each of 12 sale-leaseback transactions for B717 aircraft expected to occur between April 2001 and February

AIRTRAN HOLDINGS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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2002. The new senior secured notes will be secured by substantially all of the assets of AirTran Airways not otherwise encumbered, and are noncallable for four years. In the fifth year, they can be prepaid at a premium of 4% and in the sixth year at a premium of 2%. In connection with the issuance of the new senior secured notes, we will issue detachable warrants to Boeing Capital for the purchase of 4% of our common stock (approximately 3.0 million shares) for \$4.51 per share. The warrants have an estimated value of \$12.6 million and expire in five years. This amount will be amortized to interest expense over the life of the new senior secured notes.

The subordinated notes will bear interest at the higher of: (a) 13%, or (b) the rate on the new senior secured notes plus 1%. Interest is payable quarterly in arrears, and no principal payments are due prior to maturity in 2009 except for mandatory quarterly prepayments equal to 25% of AirTran Airways' net income.

The stated interest rate on the convertible notes will be 7.75%, except that they will bear a higher rate of interest if our average common stock price during a calendar month is below \$6.42, or if we have not registered under the Securities Act of 1933 the common stock to be issued upon conversion of the notes. Interest will be payable semiannually in arrears. The notes are convertible at any time into approximately 3.2 million shares of our common stock. This conversion rate represents a beneficial conversion feature valued at approximately \$5.6 million. This amount will be amortized to interest expense over the life of the convertible notes. We will be able to require Boeing Capital's conversion of the notes under certain circumstances.

The subordinated notes and convertible notes will be secured by: (1) a pledge of all of our rights under the B717 aircraft purchase agreement with the McDonnell Douglas Corporation (an affiliate of Boeing Capital), and (2) a subordinated lien on the collateral securing the new senior secured notes.

During 2000, we obtained a lease financing commitment from Boeing Capital which provided for the purchase and sale-leaseback of up to 20 B717 aircraft (three of the 20 leases were completed in 2000). In connection with the Boeing Capital transactions, the lease financing commitment was amended to: (a) increase the term of the leases for the remaining 17 aircraft from 18 years to 18.5 years, and (b) increase Boeing Capital's purchase price by \$3.1 million per aircraft or \$52.7 million in the aggregate. To date, five of the sale-leaseback transactions have closed in 2001. Upon closing of each sale-leaseback transaction occurring on or after funding of the new senior secured notes, we must make a principal payment of \$3.1 million on the new senior secured notes.

In addition, in partial consideration of the refinancing transactions, we have granted Boeing an option to cause us to purchase or lease up to four additional B717 aircraft per year during 2001, 2002, and 2003. If we elect to lease, Boeing Capital will provide financing substantially equivalent to the lease financing commitment. These aircraft, and Boeing Capital's commitment to provide financing thereof, are supplemental to the 50 firm aircraft which are the subject of our existing purchase agreement with Boeing.

During the last quarter of 2000, we financed the acquisition of three B717 aircraft with promissory notes from Boeing. Subsequent to December 31, 2000, these notes were repaid through the sale and lease back of the three B717s. Accordingly, these notes are classified as long term debt.

AIRTRAN HOLDINGS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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During 2000, we entered into capital lease agreements for various capital assets (see Note 6).

Certain aircraft and engines with a book value totaling approximately \$260.3 million serve as collateral on the senior secured notes, EETCs and promissory notes.

The following table shows our maturities of long-term debt and capital lease obligations for the next five years, based on the maturities of the refinanced debt discussed above (in thousands):

2001	\$	62,491
2002		19,881
2003		10,270
2004		11,479
2005		15,115
Thereafter		245,523
Promissory notes repaid in 2001 through the sale of equipment		63,144
		-----
	\$	427,903
		=====

6. LEASES

Total rental expense charged to operations for aircraft, facilities and office space for the years ended December 31, 2000, 1999, and 1998 was approximately \$30.9 million, \$21.7 million and \$23.9 million, respectively.

We lease six DC-9s, one B737, and five B717s under operating leases with terms that expire through 2018. We have the option to renew the DC-9 leases for one or more periods of not less than six months. We have the option to renew the B717 leases for periods ranging from one to four years. The B717 leases have purchase options at or near the end of the lease term at fair market value, and two have purchase options based on a stated percentage of the lessor's defined cost of the aircraft at the end of the thirteenth year of the lease term. We also lease facilities from local airport authorities or other carriers, as well as office space under operating leases with terms ranging from one month to thirteen years. In addition, we lease ground equipment and certain rotables under capital leases.

The amounts applicable to capital leases included in property and equipment were (in thousands):

	DECEMBER 31,	
	2000	1999
	-----	-----
Flight equipment	\$ 2,627	\$ --
Less: Accumulated depreciation	(111)	--
	-----	-----
	\$ 2,516	\$ --
	=====	=====

AIRTRAN HOLDINGS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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The following schedule outlines the future minimum lease payments at December 31, 2000, under noncancelable operating leases and capital leases with initial terms in excess of one year (in thousands):

	Capital Leases	Operating Leases
2001	\$ 546	\$ 33,015
2002	568	33,571
2003	564	34,233
2004	535	27,274
2005	95	25,969
Thereafter	--	189,467
	2,308	\$ 343,529
		=====
Less: amount representing interest	(274)	
	2,034	
Present value of future payments	2,034	
Less: current obligations	(437)	
	1,597	
Long-term obligations	\$ 1,597	
	=====	

Capital lease obligations are included in long-term debt in the balance sheet.

7. EARNINGS (LOSS) PER COMMON SHARE

The following table sets forth the computation of basic and diluted earnings (loss) per common share (in thousands, except per share data):

	2000	1999	1998
NUMERATOR:			
Net income (loss)	\$ 47,436	\$ (99,394)	\$ (40,738)
	=====	=====	=====
DENOMINATOR:			
Weighted average shares outstanding, basic	65,759	65,097	64,641
Effect of dilutive stock options	3,416	--	--
	69,175	65,097	64,641
Adjusted weighted average shares outstanding, diluted	69,175	65,097	64,641
	=====	=====	=====
Basic earnings (loss) per common share	\$ 0.72	\$ (1.53)	\$ (0.63)
	=====	=====	=====
Diluted earnings (loss) per common share	\$ 0.69	\$ (1.53)	\$ (0.63)
	=====	=====	=====

The assumed conversions of 2.3 million stock options in 2000, and all stock options in 1999 and 1998, were antidilutive and excluded from the computation of weighted average shares outstanding used in computing diluted earnings (loss) per common share.

AIRTRAN HOLDINGS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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8. STOCK OPTION PLANS

The 1993 Incentive Stock Option Plan provides up to 4.8 million options to be granted to officers, directors and key employees to purchase shares of common stock at prices not less than the fair value of the shares on the dates of grant. With respect to individuals owning more than 10% of the voting power of all classes of our common stock, the exercise price per share shall not be less than 110% of the fair value of the shares on the date of grant.

The 1994 Stock Option Plan provides up to 4 million incentive stock options or nonqualified options to be granted to our officers, directors, key employees and consultants.

The 1996 Stock Option Plan provides up to 5 million incentive stock options or nonqualified options to be granted to our officers, directors, key employees and consultants.

In connection with the acquisition of Airways Corporation (Airways) in 1997, we assumed the Airways Corporation 1995 Stock Option Plan (Airways Plan) and the Airways Corporation 1995 Director Stock Option Plan (Airways DSOP). Under the Airways Plan, up to 1.2 million incentive stock options or nonqualified options may be granted to our officers, directors, key employees or consultants. Under the Airways DSOP, up to 150,000 nonqualified options may be granted to directors.

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

Pro forma information regarding net income (loss) and earnings (loss) per common share is required by SFAS No. 123, which also requires that the information be determined as if we had accounted for our 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 2000, 1999, and 1998, respectively: risk-free interest rates of 6.2%, 5.0% and 5.4%; no dividend yields; volatility factors of the expected market price of our common stock of 0.596, 0.648 and 0.710; and a weighted average expected life of the options of 5 years.

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

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

AIRTRAN HOLDINGS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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Our pro forma information is as follows (in thousands, except per share data):

	2000	1999	1998
	-----	-----	-----
Pro forma net income (loss)	\$ 45,059	\$ (102,173)	\$ (42,279)
Pro forma earnings (loss) per common share:			
Basic	0.69	(1.57)	(0.65)
Diluted	0.65	(1.57)	(0.65)

The pro forma net income (loss) and earnings (loss) per common share information presented above reflect stock options granted during 1995 and in later years, in accordance with SFAS No. 123. Accordingly, the full effect of calculating compensation expense for stock options under SFAS No. 123 is not reflected in the pro forma net income (loss) and earnings (loss) per common share amounts above, because compensation expense is recognized over the stock option's vesting period and compensation expense for stock options granted prior to January 1, 1995, is not considered.

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

	Options	Price Range	Weighted Average Price
	-----	-----	-----
Balance at December 31, 1997	8,116,430	\$0.17 - 23.19	\$ 4.84
Granted	235,000	5.50 - 8.13	7.67
Exercised	(562,580)	0.17 - 5.69	2.81
Canceled	(997,870)	0.17 - 21.38	7.16
	-----		
Balance at December 31, 1998	6,790,980	0.17 - 23.19	4.71
Granted	2,571,000	3.03 - 6.41	3.52
Exercised	(226,420)	0.17 - 5.50	4.56
Canceled	(495,040)	3.13 - 21.50	7.04
	-----		
Balance at December 31, 1999	8,640,520	0.17 - 23.19	4.16
Granted	1,097,500	4.00 - 4.75	4.28
Exercised	(63,000)	0.17 - 3.88	3.02
Canceled	(570,760)	3.31 - 21.50	5.46
	-----		
Balance at December 31, 2000	9,104,260	\$0.17 - 23.19	\$ 4.17
	=====		
Exercisable at December 31, 2000	6,464,245	\$0.17 - 23.19	\$ 4.00
	=====		

AIRTRAN HOLDINGS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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The following table summarizes information concerning currently outstanding and exercisable options:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.17	2,400,000	2.5	\$ 0.17	2,400,000	\$ 0.17
1.00 - 3.31	2,716,800	6.0	3.02	1,716,800	3.00
3.75 - 4.50	1,658,000	8.1	4.06	420,500	3.81
4.53 - 6.88	1,135,060	6.4	5.27	866,397	5.29
7.13 - 13.25	541,000	6.0	7.78	535,668	7.77
18.38 - 23.19	653,400	5.1	19.00	524,880	19.01
0.17 - 23.19	9,104,260	5.4	4.17	6,464,245	4.00

The weighted average fair value of options granted during 2000, 1999, and 1998, with option prices equal to the market price on the date of grant, was \$2.45, \$2.07 and \$7.98, respectively. There were no options granted during 2000, 1999, and 1998 with option prices less than the market price of the stock on the date of grant.

At December 31, 2000, we had reserved a total of 11,982,990 shares of common stock for future issuance, upon exercise of stock options.

9. INCOME TAXES

Our provision for income taxes for the years ended December 31, 2000, 1999, and 1998 was \$0, \$2.7 million and \$0, respectively. The components of our provision for income taxes is as follows (in thousands):

	2000	1999	1998
Current provision:			
Federal	\$ --	\$ 352	\$ --
State	--	--	--
Total current provision	--	352	--
Deferred provision:			
Federal	--	2,010	--
State	--	377	--
Total deferred provision	--	2,387	--
Provision for income taxes	\$ --	\$ 2,739	\$ --

AIRTRAN HOLDINGS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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A reconciliation of taxes computed at the statutory federal tax rate on income (loss) before income taxes to the provision for income taxes is as follows (in thousands):

	2000	1999	1998
	-----	-----	-----
Tax computed at federal statutory rate	\$ 16,603	\$ (33,829)	\$ (14,258)
State income tax (benefit), net of federal tax benefit	1,469	(3,089)	(606)
Goodwill	483	517	7,705
Alternative minimum tax	--	909	--
Benefit of preacquisition net operating loss carryforwards	--	2,387	--
Other	54	(434)	(110)
Valuation reserve, including the effect of changes to prior year deferred tax assets	(18,609)	36,278	7,269
	-----	-----	-----
	\$ --	\$ 2,739	\$ --
	=====	=====	=====

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 our deferred tax liabilities and assets are as follows (in thousands):

	December 31,	
	2000	1999
	-----	-----
Deferred tax liabilities:		
Depreciation	\$ 590	\$ --
Rent expense	988	--
	-----	-----
Gross deferred tax liabilities	1,578	--
Deferred tax assets:		
Depreciation	--	21,740
Accrued liabilities	1,181	1,011
Nonqualified stock options	931	930
Federal operating loss carryforwards	47,959	37,938
State operating loss carryforwards	4,606	6,741
AMT credit carryforwards	3,770	3,526
Other	3,358	4,024
	-----	-----
Gross deferred tax assets	61,805	75,910
Valuation allowance	(60,227)	(75,910)
	-----	-----
Net deferred tax assets	1,578	--
	-----	-----
Total net deferred tax liabilities	\$ --	\$ --
	=====	=====

For financial reporting purposes, a valuation allowance has been recognized at December 31, 2000 and 1999, to reduce the net deferred income tax assets to zero. We have not recognized any benefit from the future use of operating loss carryforwards because management's evaluation of all the available

AIRTRAN HOLDINGS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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evidence in assessing the realizability of the tax benefits of such loss carryforwards, indicates that the underlying assumptions of future profitable operations contain risks that do not provide sufficient assurance to recognize such tax benefits currently. Although we produced operating profits in each quarter in 2000 and 1999, excluding the impairment charge, we do not believe this and other positive evidence, including projections of future profitable operations, offset the effect of our recent cumulative losses.

At December 31, 2000, we had net operating loss carryforwards for income tax purposes of approximately \$137 million that begin to expire in 2012. In addition, our Alternative Minimum Tax credit carryforwards for income tax purposes were \$3.8 million.

Prior to the Airways merger, Airways generated net operating loss carryforwards of \$23.1 million. The use of preacquisition operating loss carryforwards is subject to limitations imposed by the Internal Revenue Code. We do not anticipate that these limitations will affect utilization of the carryforwards prior to expiration. For financial reporting purposes, a valuation allowance of \$8.1 million was recognized to offset the deferred tax assets related to those carryforwards. When realized, the tax benefit for those items will be applied to reduce goodwill related to the acquisition of Airways. During 1999, we utilized \$6.3 million of Airways' net operating loss carryforwards, and reduced goodwill by the \$2.4 million tax benefit of such utilization.

#### 10. IMPAIRMENT LOSS

In the fourth quarter of 1998, we decided to accelerate the retirement of our four owned B737 aircraft as a result of the elimination of their original route system and continued operating losses upon their redeployment to other routes. The B737s, which were acquired in the Airways merger, will be replaced with B717 aircraft. In the fourth quarter of 1999, we decided to accelerate the retirement of our 42 DC-9 aircraft to accommodate the introduction of our B717 fleet. It was our original intent to use the B717s to increase overall capacity while continuing to use the DC-9s into 2005. However, during 1999, the new management team (including our Chief Executive Officer and President, who joined AirTran in 1999) reevaluated our near- and long-term fleet strategy and the components underlying such strategy. By October 1999, we determined that it would be cost-beneficial to begin to retire the DC-9s. As a result, we developed a fleet plan which provided for the retirement of the DC-9s between December 31, 1999, and October 2003, generally coinciding with the delivery of the B717s. The Board approved the plan in October 1999.

In connection with each of the decisions to accelerate the retirement of these aircraft, we performed evaluations to determine, in accordance with SFAS No. 121, whether future cash flows (undiscounted and without interest charges) expected to result from the use and eventual disposition of these aircraft would be less than the aggregate carrying amount of these aircraft and related assets and, for the B737s, an allocation of cost in excess of net assets acquired resulting from the Airways merger. SFAS No. 121 requires that, when a group of assets being tested for impairment was acquired as part of a business combination that was accounted for using the purchase method of accounting, any cost in excess of net assets acquired that arose as part of the transaction must be included as part of the asset grouping. As a result of the evaluations, management determined that the estimated future cash flows

AIRTRAN HOLDINGS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2000

expected to be generated by these aircraft would be less than their carrying amounts and, for the B737s, allocated cost in excess of net assets acquired, and therefore these aircraft are impaired as defined by SFAS No. 121. Consequently, the original cost bases of these assets were reduced to reflect the fair market value at the date the decisions were made, resulting in a \$27.5 million impairment loss on the B737s in 1998 and a \$147.7 million impairment loss on the DC-9s in 1999. We considered recent transactions and market trends involving similar aircraft in determining the fair market value.

11. FINANCIAL INSTRUMENTS

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

The fair values of our long-term debt are based on quoted market prices, if available, or are estimated using discounted cash flow analyses, based on our current incremental borrowing rates for similar types of borrowing arrangements. The carrying amounts and estimated fair values of our long-term debt were \$427.9 million and \$439.0 million, respectively, at December 31, 2000, and \$415.7 million and \$392.3 million, respectively, at December 31, 1999.

12. EMPLOYEE BENEFIT PLANS

Effective January 1, 1998, we consolidated our 401(k) plans (the Plan). All employees are eligible to participate in the consolidated Plan, a defined contribution benefit plan which qualifies under Section 401(k) of the Internal Revenue Code. Participants may contribute up to 15% of their base salary to the Plan. Contributions to the Plan by AirTran are discretionary. The amount of our contributions to the Plan expensed in 2000, 1999, and 1998 were approximately \$0.5 million, \$0.3 million and \$0.3 million, respectively.

Under the 1995 Employee Stock Purchase Plan, employees who complete twelve months of service are eligible to make quarterly purchases of our common stock at up to a 15% discount from the market value on the offering date. The Board of Directors determines the discount rate before each offering date. We are authorized to issue up to 4 million shares of common stock under this plan. During 2000, 1999, and 1998 the employees purchased a total of 61,626, 51,318 and 23,023 shares, respectively, at an average price of \$4.30, \$3.94 and \$5.65 per share, respectively, which represented a 5% discount from the market price on the offering dates.

AIRTRAN HOLDINGS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2000

13. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for 2000 and 1999 is as follows (in thousands, except per share data):

	Quarter			
	First	Second	Third	Fourth
Fiscal 2000				
Operating revenues	\$ 132,408	\$ 160,769	\$ 161,459	\$ 169,458
Operating income	11,838	31,622	17,103	20,588
Net income	2,902	22,588	8,891	13,055
Basic earnings per share	0.04	0.34	0.14	0.20
Diluted earnings per share	0.04	0.33	0.13	0.19

	Quarter			
	First	Second	Third	Fourth
Fiscal 1999				
Operating revenues	\$ 119,873	\$ 140,015	\$ 143,483	\$ 120,097
Operating income (loss)	9,001	21,455	29,570	(132,014)
Net income (loss)	3,054	14,959	23,167	(140,574)
Basic earnings (loss) per share	0.05	0.23	0.36	(2.15)
Diluted earnings (loss) per share	0.05	0.22	0.34	(2.15)

The results of the fourth quarter of 1999 include an impairment charge of \$147.7 million related to the DC-9 fleet. The results of the third quarter of 1999 include net proceeds of \$19.6 million from the settlement of a lawsuit against a third-party maintenance provider.

Year-end adjustments resulted in decreasing income before income taxes during the fourth quarter of 2000 by approximately \$1.6 million, the majority of which relates to revisions of expenses recorded in earlier quarters during 2000.

Year-end adjustments resulted in increasing the loss before income taxes during the fourth quarter of 1999 by approximately \$5.3 million. Of this amount, approximately \$3.2 million relates to revised revenue amounts recorded in earlier quarters during 1999, and approximately \$2.1 million relates to changes in management's estimates and assumptions primarily related to accruals for vacation and group health insurance.

During the year, we provide for income taxes using anticipated effective annual tax rates. The rates are based on expected operating results and permanent differences between book and tax income. Adjustments are made each quarter for changes in the anticipated rates used in previous quarters. If the actual annual effective rates had been used in each of the quarters of 2000 and 1999, net income for the first through fourth quarters of 2000 would have been \$3.0 million, \$23.6 million, \$9.2 million, and \$11.6 million, respectively, and net income (loss) for the first through the fourth quarters of 1999 would have been \$3.3 million, \$15.2 million, \$22.8 million, and (\$140.7 million), respectively.

AIRTRAN HOLDINGS, INC.  
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS  
(IN THOUSANDS)

	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS- DESCRIBE	DEDUCTIONS- DESCRIBE	BALANCE AT END OF PERIOD
Year ended December 31, 2000					
Allowance for Doubtful Accounts	\$ 927	\$ 4,626	\$ --	\$ 4,322 (1)	\$ 1,231
Allowance for Obsolescence	2,260	3,962	--	51 (2)	6,171
Valuation Allowance for Deferred Taxes	75,910	(15,683)	--	--	60,227
<b>Total</b>	<b>79,097</b>	<b>(7,095)</b>	<b>--</b>	<b>4,373</b>	<b>67,629</b>
Year ended December 31, 1999					
Allowance for Doubtful Accounts	1,325	4,022	--	4,420 (1)	927
Allowance for Obsolescence	4,259	1,406	--	3,405 (2)	2,260
Valuation Allowance for Deferred Taxes	39,632	36,278	--	--	75,910
<b>Total</b>	<b>45,216</b>	<b>41,706</b>	<b>--</b>	<b>7,825</b>	<b>79,097</b>
Year ended December 31, 1998					
Allowance for Doubtful Accounts	1,354	8,003	--	8,032 (1)	1,325
Allowance for Obsolescence	2,217	2,042	--	--	4,259
Valuation Allowance for Deferred Taxes	29,000	7,269	3,363 (3)	--	39,632
<b>Total</b>	<b>\$ 32,571</b>	<b>\$ 17,314</b>	<b>\$ 3,363</b>	<b>\$ 8,032</b>	<b>\$ 45,216</b>

(1) Uncollectible amounts charged to allowance for doubtful accounts.

(2) Obsolete items charged to allowance for obsolescence.

(3) Valuation allowance resulting from the acquisition of Airways Corporation.

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BY-LAWS  
OF  
AIRTRAN HOLDINGS, 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. The Board of Directors shall consist of three classes, designated as Class I, Class II, and Class III, respectively, with the size of each class determined from time to time by resolution of the Board of Directors; each of which classes shall, however, consist of a number of directors as equal as possible, with no class having more than one director more than any other class. Notwithstanding the foregoing, at least twenty-five percent (25%) of the members of the Board of Directors shall be subject to election each year. Except for the initial directors in each class who shall be elected at the 2000 annual meeting of shareholders and who shall have terms of office of three, two and one years, respectively, each class of directors shall thereafter have a term of office of three years and until their respective successors shall have been elected and qualified, or until a director's earlier resignation or removal.

#### 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. AS AMENDED BY THE DIRECTORS AND SHAREHOLDERS OF THE CORPORATION AS OF NOVEMBER 17, 1997. AS AMENDED BY THE BOARD OF DIRECTORS OF THE CORPORATION ON MARCH 27, 2000.

-14-

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March 22, 2001

Boeing Capital Services Corporation  
P.O. Box 3707 MC 6Y-12  
Seattle, Washington 98124

Re: Financing commitment among AirTran Airways, Inc. ("Airways") and AirTran Holdings, Inc. ("Holdings") on the one hand (collectively, the "AirTran Parties"), and Boeing Capital Services Corporation ("BCC" or "Boeing") on the other, in connection with Airways' and Holdings' refinancing of \$230 million of debt instruments due April 2001

Ladies and Gentlemen:

The following are the amended and restated terms and conditions upon which BCC commits to participate in the refinancing of the referenced debt instruments. This document supercedes the documents dated January 23, 2001 and March 9, 2001.

A. OVERVIEW: This document relates to:

(1) Airways' issuance to BCC of \$185 million principal amount of Senior Secured Notes;

(2) Holdings' issuance to BCC of \$35 million principal amount of debt instruments: (i) a \$17.5 million subordinated loan (the "Subordinated Notes") and (ii) a \$17.5 million subordinated convertible loan by BCC to Holdings (the "Convertible Notes"); and

(3) certain amendments to future sale-leaseback financing transactions between Airways and BCC.

B. DESCRIPTION OF THE SENIOR NOTES

- o ISSUER: Airways.
- o SECURITIES OFFERED: \$185 million principal amount of senior secured notes (the "Senior Notes").
- o MATURITY DATE: 7 years from date of closing.

- o INTEREST RATE: The base rate of interest payable with respect to the Senior Notes is 12 1/4%, payable semiannually in arrears. The base rate shall be increased or decreased, as the case may be, based upon changes in BCC's cost of borrowing for the period between November 9, 2000 and the date of funding of the Senior Notes.
- o AMORTIZATION: Principal equal to \$\*\*\*(\$\*\*\* over \*\*\*) will be paid on each interest payment date. In addition, principal equal to \$3.1 million plus accrued interest on such \$3.1 million portion of the Senior Notes will be paid on the delivery date of each Transaction Aircraft (as herein defined). To the extent Transaction Aircraft are delivered prior to funding of the Senior Notes, the initial principal amount of the Senior Notes will be reduced by \$3.1 million per Transaction Aircraft delivered on or before such date. If all 17 Transaction Aircraft shall not have been delivered by April 15, 2002 (or such later date provided in the Purchase Agreement occasioned by delivery delays caused by Boeing), an amount of principal equal to \$3.1 million times the number of Transaction Aircraft less than 17 delivered, plus accrued interest on such principal amount will be due on such date. On the scheduled maturity date, all then outstanding principal will be due and payable together with all outstanding principal and interest. Boeing may at its election by notice delivered to issuer decrease the amortization of all or a portion of the Senior Notes to facilitate Boeing's sale of some or all of the Senior Notes to a third party.
- o RANKING: The Senior Notes will rank senior in right of payment to any of Airways' subordinated indebtedness, and will rank equally with any senior indebtedness, including indebtedness outstanding under the proposed senior credit facility subject to the intercreditor provision set forth below.
- o COLLATERAL: Subject to a lien to be provided to support a proposed \$\*\*\* senior credit facility, the Senior Notes will be secured by a lien on certain of Airways' assets including:
 

27 owned DC9s; 3 owned 737s; the stock of a special purpose corporation that will own 8 B717s; all present aircraft engines; all spare parts whether now existing or hereafter acquired; Airways' maintenance hangar in Orlando, Florida; non-flight fixed assets; Airways' accounts receivable whether now existing or hereafter acquired; and solely with respect to Senior Notes held by Boeing (and not subject to any prior lien to the senior credit facility), the MDC/Airways 717 purchase agreement and advance payments held by Boeing pursuant to the 717 purchase agreement.
- o PREPAYMENT: Except as set forth below, no optional prepayment may be made with respect to the Senior Notes prior to the fourth (4th) anniversary of the

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 \*\*\* Denotes information that has been omitted from this Exhibit pursuant to a confidential treatment request filed with the Commission.

issue date of the Senior Notes (subject to certain mandatory prepayments with respect to change of control, sale of assets, excess cash flow, etc if required by BCC). Thereafter issuer may prepay in whole or in part the Senior Notes at a premium of 4% in year 5, 2% in year 6 and 0% in year 7. If prior to April 16, 2004, Airways sells equity securities (not including any securities referred to in this term sheet), the net sales proceeds of such sale of equity may be applied to redeem up to \*\*\*% of the principal amount of the Senior Notes at \*\*\*% (subject to adjustment as contemplated by the second sentence of "Description of Senior Notes- Interest Rate" (e.g. if the final rate after interest rate adjustment is \*\*\*%, the redemption price would be \*\*\*%)) of their principal amount plus accrued and unpaid interest. Prepayments permitted in accordance with the terms hereof may be partial prepayments.

- o FUNDING DATE: A date designated by Airways to BCC on 10 days' notice but in all cases on or before April 16, 2001. Except with respect to any proceeds arising from the sale/leaseback of a Transaction Aircraft prior to the funding date of the Senior Notes, the net proceeds of the issuance of the Senior Notes, the Convertible Note and the Subordinated Notes (less the fees payable to BCC and described below) shall not flow directly to Airways or Holdings, as the case may be, but instead shall be paid to Bank of New York and State Street Bank, trustees of the outstanding indebtedness, for the exclusive purpose of retiring those certain 10 1/2% Senior Secured Notes of Airways (the "10 1/2% Notes") and those certain 10 1/4% Senior Notes of Holdings (the "10 1/4% Notes"). BCC shall have no obligation to fund unless Airways and Holdings shall have (in concert with the funding to be provided by BCC) paid to such trustees funds sufficient to retire all existing obligations under the 10 1/2% Notes and the 10 1/4% Notes and to cause Bank of New York, the trustee for the 10 1/2% Notes, to release all of the collateral covered by the indenture governing such notes.
- o OTHER TERMS: Except as otherwise set forth in this document, the Indenture to govern the Senior Notes will provide for terms and conditions substantially in accord with those set forth in the "Description of the Notes" provisions set forth in the October 27, 2000 "red herring" Rule 144A Offering Circular (the "Offering Circular") of Airways, mutatis mutandis, including those relating to change of control, subsidiary guarantees, asset sale proceeds, debt incurrence, excess cash flow, dividends, stock redemption and issuance, liens, affiliate transactions, mergers, registration rights. Except as provided in said Offering Circular or otherwise set forth herein, there will be no financial covenants, collateral maintenance tests, or ratios. The Subordinated Notes and the Convertible Notes will also have the benefits of these covenants.

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- o SENIOR CREDIT FACILITY: \$\*\*\*carve-out.
  - o WARRANTS: Holdings shall issue to BCC warrants to purchase 4% of Holdings' common stock (on a fully diluted basis). Such warrants shall be detachable with a 5-year term. The warrants shall be registered contemporaneously with the Senior Notes and shall be priced at \$4.51 per share.
- C. DESCRIPTION OF THE SUBORDINATED NOTES AND THE CONVERTIBLE NOTES
- o OVERVIEW: BCC shall make two separate loans to Holdings: (a) a \$17.5 million subordinated loan by BCC to Holdings to be evidenced by the Subordinated Notes; and (b) a \$17.5 million convertible loan by BCC to Holdings to be evidenced by the Convertible Notes.
  - o MATURITIES: Eight years each. Except as specifically set forth herein, the Convertible Notes will have no optional prepayments and the Subordinated Notes will have no optional prepayments without the written consent of BCC.
  - o INTEREST PAYMENTS: Semi-annual in arrears. Interest coupon for the Subordinated Notes is 13.25%, subject to a parallel adjustment for interest rate fluctuation as described in "Description of the Senior Notes- Interest Rate", provided that in no event shall the interest rate be less than 13%. For the Convertible Notes, the stated interest rate will be 7.75% (subject to the provisions of the paragraph entitled "Convertibility" below). If any payments of interest on either the Subordinated Notes or the Convertible Notes are not paid when due, in addition to any other rights of BCC, the loan principal will be increased by the amount of such missed payment and interest will be due going forward on the entire increased amount (and the amount of common stock into which the convertible loan is convertible will correspondingly increase based on the increased principal amount of the Convertible Notes) at an interest rate 200 basis points higher than the prior interest rate until the loans are brought current. Other customary remedies will apply.
  - o \*\*\* FOR THE SUBORDINATED NOTES AND CONVERTIBLE NOTES: \$\*\*\*in the aggregate, \*\*\*.
  - o CONVERTIBILITY: BCC may convert some or all of the Convertible Notes into Holdings common stock in one or more tranches of not less than \$1 million (or the remainder if less than \$1 million remains outstanding). Upon any conversion, Holdings shall pay to BCC accrued and unpaid interest to the date of conversion on the notes so converted. The conversion price per share shall be \$5.42. The underlying common shares shall be registered concurrently with the Senior Notes. So long as any of the Convertible Notes is

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outstanding and until such time as BCC shall be eligible to convert the convertible subordinated loan ("eligible" to be defined as having the actual ability to sell all the stock obtainable from conversion of the loan for a net amount sufficient to pay the outstanding principal plus all accrued and unpaid interest to the date of sale; with "actual ability" to be defined as BCC having obtained a written offer for cash from a creditworthy buyer to purchase the stock for the amount described above in the definition of "eligible"), Airways shall make increased interest payments under the Convertible Notes such that the rate of interest payable to BCC on the Convertible Notes will be the interest rate on the Senior Notes plus 1.00%. Commencing the first calendar month after the common stock underlying the Convertible Notes has been registered and is freely marketable by BCC without restriction, if Holdings common stock has closed on a national exchange at an average price of \$6.42 for such calendar month, Holdings may at its option by giving written notice within 5 business days from the end of such month (after which the option for such month shall lapse and no longer be available) require BCC to convert \$2.5 million of the Convertible Notes.

- o DISTRIBUTIONS TO HOLDINGS BY AIRWAYS AND PREPAYMENT OF LOANS BY HOLDINGS: Airways will covenant to make cash distributions to Holdings equal to the maximum amount permitted to be distributed to Holdings under the Indenture governing the Senior Notes, which if Airways shall have net income, will be 50% of Airways' net income on a quarterly basis. 50% of the amounts distributed to Holdings shall be used by Holdings to prepay the outstanding principal of the Subordinated Notes at par.
  - o COLLATERAL: The Subordinated Notes and the Convertible Notes shall be secured by an enforceable lien on the collateral pledged to the Senior Noteholders and the bank lender subordinated in right of payment to the Senior Noteholders and the bank lender.
- D. CERTAIN AMENDMENTS TO EXISTING SALE-LEASEBACK TRANSACTION
- o DESCRIPTION OF LEASE TRANSACTION: Sale-leaseback financing for the fourth through twentieth B-717-200 aircraft to be delivered under the Purchase Agreement (the "Transaction Aircraft") to be financed under the May 8, 2000 letter agreements (the "Existing Terms Sheet", which shall be amended to provide that the Rolls-Royce financing referred to in the Existing Terms Sheet shall be provided or arranged by BCC and, unless consented to by BCC (which may be withheld at the sole discretion of BCC), that each of such 17 aircraft to be lease financed by AirTran shall be Transaction Aircraft).
  - o SALES PRICE/ LESSOR'S COST: An amount equal to or greater than the purchase price (as calculated in accordance with the Purchase Agreement) for a Transaction Aircraft at the time of delivery; provided that any such greater amount shall not exceed the lesser of: (a) the amount which is \$3.1MM in

excess of the purchase agreement price and (b) the current appraised market value (the "CMV") of such Transaction Aircraft as determined by a mutually acceptable appraiser to be engaged by Airways (at Airways' expense) (such greater amount as determined in accordance with (a) or (b) less the purchase price, the "FMV Premium").

- o RENT: As set forth in the Existing Term Sheet (the "Pre-Adjusted Rent") for the portion of lessor's cost equal to the \*\*\*. \*\*\* (the "FMV Supplement"; the sum of \*\*\* and the \*\*\* shall comprise the "Transaction Aircraft Rent"). The Transaction Aircraft Rent will be adjusted at each delivery based on changes in interest rates as provided in the Existing Terms Sheet.
- o TERM: Increased to 18.5 years for the Transaction Aircraft, plus any renewals as provided in the applicable lease.
- o \*\*\*: \*\*\*

E. MISCELLANEOUS

- o EXPENSES: Airways and Holdings shall pay the reasonable out-of-pocket fees and expenses of Boeing and BCC in connection with the negotiation and documentation of the Senior Notes, the Convertible Notes, and the Subordinated Notes (including, the expenses of outside counsel). The Existing Terms Sheet shall govern counsel expense reimbursement for the leases for the Transaction Aircraft.
- o EETC: Boeing shall consent to the proposed amendment to the 1999 EETC to permit Airways to grant a second lien on the EETC 717s utilizing a sale/leaseback structure, contingent upon the holders of the A and B tranches agreeing. Airways shall use its best reasonable efforts to obtain such agreement on or before funding of the Senior Notes. If, however, despite such efforts the consents shall not be procured, BCC shall nevertheless purchase the Senior Notes from Airways and Airways and BCC shall, until such time as such consents shall have been procured, pursue alternative structuring arrangements in order to provide substantially equivalent benefits and protections to BCC.
- o CONTINGENT AIRCRAFT: Boeing shall have the option to cause Airways to, at Airways' option, purchase or lease up to 12 717 aircraft (the "Contingent Aircraft") during 2001, 2002, and 2003. Airways shall have no obligation to accept more than four Contingent Aircraft during any 12-month period and no

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more than two in any calendar quarter. The purchase price shall be \*\*\*. Airways shall have the option to lease or own any or all of the Contingent Aircraft. In the event Airways shall elect to lease one or more of the Contingent Aircraft, BCC shall provide lease financing as described in the Existing Terms Sheet (not taking into account the modifications set forth in this document re \*\*\*) and such financing shall be supplemental to the 20 aircraft commitment provided for in the Existing Terms Sheet. Boeing or BCC, as the case may be, shall advise Airways at the earliest practicable date of its intent to cause Airways to accept a Contingent Aircraft but in all cases notice shall be delivered to Airways not less than 125 days in advance. In addition, the following terms shall apply with respect to the Contingent Aircraft: (a) the Contingent Aircraft shall be factory new aircraft or deemed to be new aircraft for all purposes of the purchase agreement, including Boeing and other vendor warranties. Boeing shall ensure that Airways may bridge- without incremental risk, burden, or expense- to Airways' fleet hour agreement with Rolls-Royce and other power-by-the hour agreements, (b) Airways shall have no obligation to accept a Contingent Aircraft unless Boeing shall have ensured that training slots and simulator time are reasonably available sufficiently in advance of scheduled delivery, (c) the Contingent Aircraft shall be delivered to Airways in Airways' standard configuration and livery and if a Contingent Aircraft is not new, the interiors shall be refurbished with Airways interiors (including matching seats).

- o CONSENTS; BINDING INTENT: Except as otherwise set forth herein, a consent required of any party may not be unreasonably withheld or delayed. This financing commitment sets forth each of the essential terms with regard to the purchase and sale of the Senior Note, the Convertible Notes and the Subordinated Notes and the other transactions contemplated hereby and is intended by the parties to constitute a legally binding obligation of each such party to sell or purchase or otherwise consummate each of the transactions contemplated hereby subject only to the terms, provisions and conditions set forth in this document. Each of BCC and the AirTran Parties represents that: (a) it has the requisite corporate and other approvals to consummate the transactions described in or contemplated by this financing commitment, (b) it is validly existing as a corporation under the laws of its state of incorporation and has the legal capacity to enter into, execute, deliver, and perform its obligations under, this document, and (c) this document has been duly authorized, executed and delivered by such party.
- o CONDITIONS PRECEDENT: The parties agree to execute and deliver prior to funding of the transactions contemplated hereby, mutually acceptable definitive documentation consistent with the terms of this document (including conforming revisions to the Airways/MDC purchase agreement and the

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Existing Terms Sheet). The funding of the transaction contemplated hereby shall be subject to the following:

- o The AirTran Parties shall be current on all payment obligations to The Boeing Company and its subsidiaries provided that, for purposes of this sentence, the AirTran Parties shall be deemed to be current on all payment obligations if not more than \$\*\*\* in the aggregate are in arrears and any such amount in arrears shall be the subject of a current dispute between Boeing and such AirTran.
- o The AirTran Parties shall have maintained in full force and effect their corporate existence, rights (charter and statutory), licenses, permits, approvals and governmental franchises necessary to the conduct of its respective business unless the Board of Directors of Airways has determined that the preservation thereof is no longer in the interest of the AirTran Parties and that termination of the corporate existence is not material to the AirTran Parties.
- o Airways shall continue to be an air carrier certificated under applicable law and shall not have received notice from the United States Department of Transportation ("DOT") or the Federal Aviation Administration ("FAA") of any loss of such certification or that any investigation by the DOT or FAA has been commenced in relation to the potential revocation thereof.
- o Revenue passenger miles of Airways for the fiscal quarter ending March 31, 2001 shall be no less than \*\*\*% of the revenue passenger miles for the same period in the prior year.
- o Revenues of Airways for the fiscal quarter ending March 31, 2001 shall be no less than \*\*\*% of the revenues for the same period in the prior year.
- o AirTran shall be a "citizen of the United States" as contemplated by applicable U.S. aviation law.
- o None of the following events shall have occurred or be continuing:
  - (a) the acceleration of obligations or the termination of a lease upon the occurrence of an "Event of Default" under a BCC financing arrangement with Airways;
  - (b) Airways' hull and liability insurance for flight equipment shall have been canceled or declared ineffective;

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- (c) Airways and Holdings shall fail to maintain at all times their corporate existence, or they shall otherwise wind-up, liquidate, or dissolve;
- (d) Airways shall voluntarily or involuntarily terminate or suspend all or a substantial portion of its commercial airline operations, or Airways shall cease to be a certificated air carrier or its certificate shall be suspended in any manner;
- (e) Airways or Holdings consents to the appointment of or the taking of possession by a receiver, trustee, or liquidator of itself or of substantially all of its property, or Airways or Holdings admits in writing its inability to pay its debts generally as they come due, or does not pay its debts generally as they become due or makes a general assignment for the benefit of creditors, or Airways or Holdings files a voluntary petition in bankruptcy or a voluntary petition or an answer seeking reorganization, liquidation or other relief in a case under any bankruptcy laws or other insolvency laws (as in effect at such time) or an answer admitting the material allegations of a petition filed against Airways in any such case, or Airways or Holdings seeks relief by voluntary petition, answer, or consent under the provisions of any other bankruptcy or other similar law providing for the reorganization or winding-up of corporations
- (f) an order, judgment, or decree is entered by any court of competent jurisdiction appointing, without Airways' or Holdings's consent, a receiver, trustee, or liquidator of Airways or Holdings or of substantially all of its property, or substantially all of Airways's or Holdings's property is sequestered, or granting any other relief in respect of Airways or Holdings as a debtor under any bankruptcy laws or other insolvency Laws (as in effect at such time), and any such order, judgment, or decree of appointment or sequestration remains in force undismitted, unstayed, and unvacated; or
- (g) a petition against Airways or Holdings in a case under any bankruptcy laws or other insolvency laws (as in effect at such time) is filed and not withdrawn or dismissed, or if, under the provisions of any law providing for reorganization or winding-up of corporations that applies to Airways or Holdings, any court of competent jurisdiction assumes jurisdiction, custody, or control of Airways or Holdings or of substantially all of the property of Airways or Holdings, and such jurisdiction, custody or control remains in force unrelinquished, unstayed, and unterminated; or
- (h) Boeing terminates the Purchase Agreement, because of Airways's payment default thereunder, at a time when firmly committed 717-200 aircraft otherwise would have been deliverable to Airways thereunder.

- (i) a final non-appealable uninsured judgment or judgments for the payment of money is or are entered by a court or courts of competent jurisdiction against AirTran or Holdings and such judgment or judgments remain unsatisfied, undischarged, unbonded or unstayed which individually or in the aggregate exceed \$\*\*\*.
- (j) Since the date of this letter agreement, Airways shall have experienced a total loss of any aircraft in passenger service the result of which has or is reasonably likely to have a material and adverse effect upon the condition (financial or other), business, earnings, properties, net worth or results of operations of the AirTran Parties taken as a whole.
- (k) (i) trading in Holdings' Common Stock shall have been suspended by the U.S. Securities and Exchange Commission or the American Stock Exchange, (ii) trading in securities on the American Stock Exchange or the Nasdaq National Market shall have been suspended or limited or minimum prices shall have been established on either of such Exchange or National Market, in each case by action of the governing body thereof or by order of the Securities and Exchange Commission, (iii) a banking moratorium shall have been declared either by federal or New York State authorities, (iv) there shall have occurred any declaration by the United States of a national emergency or war or the trading of corporate bonds on the American Stock Exchange or Nasdaq National Market shall have been halted or suspended or (v) any action shall have been taken by any federal, state or local government or agency in respect of its monetary or fiscal affairs which shall have resulted in the trading of corporate bonds on the American Stock Exchange or Nasdaq National Market being halted or suspended.
- (l) since the date of this letter agreement, Liens shall have been imposed upon the properties of Airways or Holdings by any Governmental Authority securing, in any individual case or in the aggregate, obligations in excess of \$\*\*\*.
- (m) without the prior written consent of Boeing, a change shall have been made after the date of this letter agreement in the Articles or Certificate of Incorporation or Bylaws of any AirTran Party.
- (n) without the prior written consent of Boeing, there shall have been a disposition after the date of this letter agreement by any AirTran Party out of the ordinary course of business of assets having, individually or in the aggregate, a fair market value (as determined in good faith by

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the Board of Directors of Holdings) in excess of \$\*\*\* (exclusive of the sale and leaseback of up to eight Boeing 717 Aircraft in the first and second quarters of 2001).

- (o) without the prior written consent of Boeing, Holdings shall have created after the date of this letter agreement any Lien on the common stock of Airways or its subsidiaries securing indebtedness for money borrowed (other than in connection with any senior revolving credit facility permitted hereunder).
- (p) without the prior written consent of Boeing, any AirTran Party shall have created after the date of this letter agreement any Lien or encumbrance on any of the Collateral securing any obligations individually or in the aggregate in excess of \$\*\*\*.
- (q) without the prior written consent of Boeing, Airways shall have incurred after the date of this letter agreement any additional indebtedness for money borrowed in excess of \$\*\*\* (exclusive of loans to finance progress payments payable to McDonnell Douglas Corporation and/or the acquisition of Boeing 717 Aircraft and other loans which would be permitted under paragraph (c) of the "Limitations on Indebtedness" as set forth on pages 51-52 of the Offering Circular).
- (r) Without the prior written consent of Boeing, any AirTran Party shall have made one or more capital expenditures or entered into one or more contracts for capital expenditures after the date of this letter which individually or in the aggregate exceeds \$\*\*\* (excluding for purposes of this sub-clause (r), any capitalized portions of airframe, engine, or component maintenance, aircraft progress payments payable to Boeing and its affiliates, and spare parts removed and purchased from the consigned inventory of B-717 spare parts).

[remainder of page intentionally omitted]

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Subject to agreed thresholds, Boeing will have cross defaults among its transactions with the AirTran Parties (which are not transferable to non-Boeing affiliates other than Rolls-Royce and its affiliates). If the foregoing accurately represents your understanding, please sign below and return a copy to AirTran Airways.

Very truly yours,

/s/ STEVEN A. ROSSUM

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Steven A. Rossum  
Vice President and Treasurer  
AirTran Holdings, Inc. and  
AirTran Airways, Inc.

Acknowledged and agreed:

Boeing Capital Services Corporation

By: /s/ JORDAN S. WELTMAN

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JORDAN S. WELTMAN

Title: Managing Director- Customer Financing

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