

To Our Shareholders:

One decade. Not exactly an eternity in the business world, but for a company that started with just a small number of planes and routes, from an airport that had not quite matured yet, reaching the ten-year mark is certainly a noteworthy milestone.

The fact that 1999 marked our first decade of service is something we are all very proud of. But more importantly, the major developments that occurred during this past year have formed the foundation of our future growth, and set Atlantic Coast on a course that we expect to take us well into the next decade.

The very use of the name “Atlantic Coast” represents the major development of this past year. Before, we typically referred to ourselves simply as Atlantic Coast Airlines. Now, we are really three companies—the publicly-traded parent company, Atlantic Coast Airlines Holdings, Inc. (ACAI), the United Express operation Atlantic Coast Airlines (ACA), and the new subsidiary that will partner with Delta Air Lines as part of the Delta Connection program, Atlantic Coast Jet (ACJet).

Our ability to expand, diversify and work in partnership with two of the finest international carriers in the world is a testament to the success of our first decade. We have worked hard to develop a reputation as one of the finest regional carriers in the U.S., and we have been rewarded with the most exciting growth opportunities we could possibly imagine.

In order to satisfy this growth, we expect to take delivery of 28 regional jets during 2000 alone. Our current plan calls for the combined Atlantic Coast operations to fly a minimum of 91 regional jets before the end of 2002, making us the fastest-growing regional airline company in America. We are proud to be continuing our partnership with Bombardier Inc., the manufacturer of the 50-passenger Canadair Regional Jet, and are pleased to also be bringing the new 32-passenger Fairchild-Dornier 328JET into the increasingly jet-oriented fleet.

In an age in which technology is the major driver of the world’s business, the regional jet is a technological solution that is exactly right for the time. In our particular case, the explosion of technology companies headquartered in the Northern Virginia/Dulles business corridor—America Online, MCI Worldcom and others—allows the RJ to serve as a perfect reflection of an environment in which technology is leading business growth.

In fact, Washington Dulles International Airport was the fastest-growing major airport in America during 1999, officially surpassing Reagan National as the number-one airport in the Washington area. We are proud to say that Dulles is now, “...the East Coast hub of United Airlines—the world’s largest airline.” The strength of the partnership between United and ACA was one of the major reasons why the commitment of resources necessary to establish Dulles as a major hub was such a good business decision for their company, as well as ours.

The success we have had working with United at Chicago O’Hare is also impressive. ACA now has a fully-functioning all-jet station there—operated by our own people, with service to 10 destinations as of the end of 1999. There may be other growth opportunities at O’Hare as time goes on, offering the potential of an ever-expanding mini-hub.

So, we can now count on relationships with two world-class airline partners and two jet aircraft manufacturing partners as well. We are clearly in excellent company.

We are also in much-improved surroundings. During the late spring, our Dulles operation moved into the new \$21 million United Express Concourse “A”. The move has proven to be a great benefit to our originating passengers, to those who connect to/from United flights as well as to our own operations staff and flight crews. It is a more spacious, comfortable, and efficient facility—and improves the entire United Express experience in every way. It serves as another dramatic example of how far we have come as an airline.

The growth at Dulles created the inevitable result that there would be greater competitive pressure than we had ever seen before. And while we were concerned about this change in the marketplace, we remained confident in our position, and continued to concentrate on our own operations and marketing efforts. This strategy turned out to be the correct one—there are clear indications that the market share held by United/United Express remains very strong.

There are other challenges, of course—managing costs in an environment of high fuel prices, attracting the candidates we need to continue growing, deciding where best to deploy our new regional jets, enhancing revenue opportunities in each market we serve—these are the things we work on every day. And new solutions are being found in all areas. For instance, our training programs have been greatly improved. Simulator training for our flight crews on all ACA aircraft—including our jet fleet—now takes place at a new complex within five minutes of our headquarters, rather than at facilities as far away as Canada and Europe. Not only is this training much more efficient than in the past, it is also technically superior.

But technology, efficiency and financial management are only part of the equation. The airline business is still a people business, and our company is comprised of excellent people—who are constantly aiming high, toward new and greater achievements. In turn, we have made a commitment to developing better ways to reward our best performers, and enhancing the work environment to make our company an even more attractive career choice for new candidates.

To our more than 2,500 people, I thank you for the drive and desire you show every day. Each one of you is making a contribution to our future, and it is deeply appreciated. I would also like to take a moment to specifically recognize our new President, Tom Moore. In the years he has been with Atlantic Coast, Tom has proven himself to be an excellent leader, tackling some of the toughest assignments imaginable, and finding a way to bring greater efficiency and higher levels of performance to all areas of our operation.

We also want to pay tribute to a man whose contributions at the very core of our company could never be overstated—Ed Acker. His experience and guidance throughout our first decade has been invaluable—to me, personally, and to the entire company. While he has relinquished the title of Chairman, we are happy to report he will remain a member of our Board of Directors, hopefully for many more years to come.

Finally, we offer our thanks and appreciation to you, our shareholders. Obviously, we share your disappointment regarding shareholder return in 1999. The challenges of this past year changed the competitive landscape for a time, but we believe the decisions and actions implemented during this difficult year have positioned your company for attractive earnings growth potential for the years to come.

As we move forward, we remain focused on the clarity of our mission and the strength of the opportunities that lie ahead.

Thank you for being with us as our second decade of growth begins.

Kerry Skeen
Chairman and Chief Executive Officer

Management's Discussion and Analysis of Results of Operations and Financial Condition

General

Atlantic Coast Airlines Holdings, Inc. ("ACAH") operates through its wholly-owned subsidiaries, Atlantic Coast Airlines ("ACA"), and Atlantic Coast Jet, Inc. ("ACJet") (together with non-carrier subsidiaries, the "Company"). ACJet has targeted the commencement of revenue service for the second quarter of 2000, although there can be no assurance that all required approvals will be obtained by that time. In 1999, the Company recorded net income of \$28.3 million compared to \$30.4 million for 1998, and \$14.5 million for 1997. The 1999 net results include the cumulative effect of an accounting change, net of income taxes, of \$888,000 related to the adoption of Statement of Position 98-5, which resulted in the write-off of remaining unamortized regional jet implementation preoperating costs. The 1998 net results reflect a one time, non-cash, non-operating charge of \$1.4 million related to the induced conversion of a portion of the 7% Convertible Subordinated Notes. The decreased profitability from 1998 to 1999 is primarily the result of the decrease in the Company's operating margin as a result of higher fuel expense, US Airways competition, significantly more severe weather during 1999 including two September hurricanes, and complications from the implementation of the Orion yield management system in the first and second quarters of 1999. For 1999, the Company's available seat miles ("ASM") increased 26% with the addition of ten Canadair Regional Jet ("CRJ") aircraft during the year. Continued passenger acceptance of the CRJ and the related increase in connecting traffic to turboprop flights resulted in a 28% increase in total passengers and an 30% increase in revenue passenger miles ("RPM").

The Company's increased profitability from 1997 to 1998 was primarily the result of the Company's growth and operating margin improvement. For 1998 with the addition of nine CRJs during the year, the Company's total ASMs increased 64%, total passengers increased 52%, and total RPMs increased 89%.

Results of Operations

The Company earned income of \$29.2 million (excluding the cumulative effect of an accounting change, net of income taxes, of \$888,000) or \$1.36 per diluted share in 1999 compared to income of \$31.8 million (excluding a non-cash, non-operating charge of \$1.4 million) or \$1.49 per diluted share in 1998, and \$14.5 million or \$0.80 per diluted share in 1997. During 1999, the Company generated operating income of \$49.3 million compared to \$52.7 million for 1998, and \$28.9 million for 1997. Operating margins for 1999, 1998 and 1997 were 14.2%, 18.2% and 14.1%, respectively.

The 6.5% decrease in operating income from 1998 to 1999 reflects a 5.4% decrease in unit revenue (total revenue per ASM) from \$0.206 to \$0.195, while unit cost (cost per ASM) remained the same at \$0.168 for both years, partially offset by a 26.1% increase in ASM's.

The improvement in operating income from 1997 to 1998 reflects a 63.8% increase in ASMs partially offset by a 13.8% decrease in unit revenue (revenue per ASM) from \$0.239 to \$0.206 and a 18% decrease in unit cost (cost per ASM) from \$0.205 to \$0.168.

Fiscal Year 1998 vs. 1999

Operating Revenues

The Company's operating revenues increased 19.8% to \$347.4 million in 1999 compared to \$289.9 million in 1998. The increase resulted from a 26.1% increase in ASMs, and an increase in load factor of 1.9 points, partially offset by an 8.0% decrease in revenue per passenger mile (yield). The increase in ASMs reflects the addition of ten CRJ aircraft in 1999 and the full year effect of adding nine CRJ aircraft during 1998. The reduction in yield was caused principally by additional competition by US Airways at the Company's Dulles hub, complications from the implementation of the Orion yield management system in the first and second quarters of 1999, and a 2.1% increase in the average passenger stage length from 313 miles in 1998 to 320 miles for 1999. Revenue passengers increased 27.6% in 1999 compared to 1998, which combined with the increase in the average passenger stage length resulted in an 30.4% increase in RPMs. Operating revenues as a whole in 1999, were negatively impacted by more severe weather during 1999 as compared to 1998 including two hurricanes in September 1999 that impacted air transportation in the Eastern United States.

Operating Expenses

The Company's operating expenses increased 25.6% to \$298.1 million in 1999 compared to \$237.2 million in 1998 due primarily to the 26.1% increase in ASMs, the 27.6% increase in passengers, and a 10.6% increase in the average price per gallon of jet fuel.

A summary of operating expenses as a percentage of operating revenue and operating cost per ASM for the years ended December 31, 1998 and 1999 is as follows:

	Year Ended December 31,			
	1998		1999	
	Percent of Operating Revenues	Cost Per ASM (cents)	Percent of Operating Revenues	Cost per ASM (cents)
Salaries and related costs	23.5%	4.8	24.3%	4.8
Aircraft fuel	8.3%	1.7	9.8%	1.9
Aircraft maintenance and materials	7.8%	1.6	7.0%	1.4
Aircraft rentals	12.7%	2.6	13.0%	2.5
Traffic commissions and related fees	14.6%	3.0	15.7%	3.1
Facility rent and landing fees	4.6%	1.0	5.2%	1.0
Depreciation and amortization	2.2%	.5	2.6%	.5
Other	8.1%	1.6	8.2%	1.6
Total	81.8%	16.8	85.8%	16.8

Costs per ASM remained the same at 16.8 cents for 1999 when compared to 1998. Total operating expenses in absolute dollars increased 25.6% in 1999 to \$298.1 million versus \$237.2 million in 1998. ASM's for 1999 increased 26.1% to 1.8 billion as compared to 1.4 billion in 1998.

Salaries and related costs per ASM remained the same at 4.8 cents in 1999 when compared to 1998. In absolute dollars, salaries and related expenses increased 24.1% from \$68.1 million in 1998 to \$84.6 million in 1999. The increase primarily resulted from the net addition of 331 full and part time employees during 1999 to support the additional aircraft.

The cost per ASM of aircraft fuel increased to 1.9 cents in 1999 compared to 1.7 cents in 1998. The total price per gallon of fuel increased 10.6% to 74.6 cents in 1999 compared to 67.4 cents in 1998. In absolute dollars, aircraft fuel expense increased 42.1% from \$24 million in 1998 to \$34.1 million in 1999 reflecting the higher cost per gallon fuel price, a 9.5% increase in block hours and the higher fuel consumption per hour of a CRJ aircraft versus a turboprop aircraft which results in a 17.4% increase in the system average burn rate (gallons used per block hour flown).

The cost per ASM of aircraft maintenance and materials decreased to 1.4 cents in 1999 compared to 1.6 cents in 1998. The decreased maintenance expense per ASM resulted primarily from the addition of the CRJ aircraft. In addition to generating higher ASMs, the CRJ aircraft are covered by manufacturer's warranty for up to three years on certain components. During the third quarter, the Company reversed approximately \$1.5 million in life limited parts repair expense accruals related to CRJ engines that was no longer required based on the maintenance services and terms contained in a new engine maintenance agreement. The Company has not incurred any heavy maintenance repair costs related to the CRJ aircraft in 1998 or 1999. The CRJ cost savings are partially offset by the increasing costs of the turboprop aircraft as they age. In absolute dollars, aircraft maintenance and materials expense increased 7.2% from \$22.7 million in 1998 to \$24.4 million in 1999.

The cost per ASM of aircraft rentals decreased slightly to 2.5 cents in 1999 compared to 2.6 cents in 1998. During 1999, the Company took delivery of ten additional CRJ aircraft, eight of which were lease financed. In absolute dollars, aircraft rental expense increased 23.3% to \$45.2 million as compared to \$36.7 million in 1998 due to the additional aircraft added to the fleet.

The cost per ASM of traffic commissions and related fees increased to 3.1 cents in 1999 as compared to 3.0 cents in 1998. The increase does not reflect the reduced (from 8% to 5%) agency commission rate for domestic travel adopted in late 1999. Since substantially all passenger revenues are derived from interline sales, the Company will not begin to realize the savings from this reduction until February 2000. Related fees include program fees paid to United and CRS segment booking fees for reservations. In absolute dollars, traffic commissions and related fees increased 28.5% to \$54.5 million in 1999 from \$42.4 million in 1998.

The cost per ASM of facility rent and landing fees remained the same at 1.0 cent for 1999 when compared to 1998. In absolute dollars, facility rent and landing fees increased 32.7% to \$17.9 million for 1999 from \$13.5 million in 1998. The absolute increase is the result of the Company's new regional terminal at Washington's Dulles airport, continued expansion of the Company's business to new markets and increased landing fees due to the heavier CRJ aircraft.

The cost per ASM of depreciation and amortization remained the same at 0.5 cents for 1999 and 1998. In absolute dollars, depreciation and amortization expense for 1999 increased 39.4% to \$9.0 million from \$6.5 million in 1998. The absolute increase results from the purchase of two CRJ aircraft and rotatable spare parts in 1999 for approximately \$59 million and the full year effect of purchasing two CRJ aircraft and rotatable spare parts in 1998.

The cost per ASM of other operating expenses remained the same at 1.6 cents for 1999 and 1998. In absolute dollars, other operating expenses increased 21.9% to \$28.5 million for 1999 from \$23.3 million in 1998. This absolute increase is caused primarily by continuing increases in crew accommodations, training, and other costs related to the general expansion of the Company's business. During the fourth quarter 1998, the Company began to pay for new hire training. The Company expects pilot training costs to continue to increase as the remaining firm ordered CRJ and Fairchild Dornier 328JET/428JET Regional Jets ("FRJs") aircraft are received.

As a result of the foregoing expense items, total operating expenses were \$298.1 million for 1999, an increase of 25.6% compared to \$237.2 million in 1998. Total ASMs increased 26.1% year over year causing the cost per ASM to remain at 16.8 cents for 1999 when compared to 1998.

Interest expense increased from \$4.2 million in 1998 to \$5.6 million in 1999. The increase is the result of the issuance of new debt to acquire two new CRJ aircraft in 1999, and the full year effect of the debt outstanding for the purchase of two CRJs and one J-41 in 1998.

Interest income decreased from \$4.1 million in 1998 to \$3.9 million in 1999. This is primarily the result of the Company's lower cash balances during 1999 as compared to 1998.

From March 20 through April 8, 1998, the Company temporarily reduced the conversion price on its 7.0% Convertible Subordinated Notes due July 1, 2004 (the "Notes") from \$9 to \$8.86 for holders of the Notes. During this temporary period, \$31.7 million of the Notes converted into approximately 3.6 million shares of common stock. As a result of this temporary price reduction, the Company recorded a \$1.4 million charge to other expense during 1998 representing the fair value of the additional shares distributed upon conversion.

The Company recorded a provision for income taxes of \$18.3 million for 1999, compared to a provision for income taxes of \$21.1 million in 1998. The 1999 effective tax rate is approximately 38.6% as compared to the 1998 effective tax rate of approximately 41%. The reduction in the 1999 effective rate is the result of the application of one time state tax credits applied in 1999. The effective tax rates reflect non-deductible permanent differences between taxable and book income.

The American Institute of Certified Public Accountants issued Statement of Position 98-5 on accounting for start-up costs, including preoperating costs related to the introduction of new fleet types by airlines. The new accounting guidelines were effective for 1999. The Company had previously deferred certain start-up costs related to the introduction of the CRJs and was amortizing such costs to expense ratably over four years. Effective January 1, 1999, the Company recorded a charge for the remaining unamortized balance of approximately \$888,000, net of \$598,000 of income taxes, associated with previously deferred preoperating costs.

Fiscal Year 1997 vs. 1998

Operating Revenues

The Company's operating revenues increased 41.1% to \$289.9 million in 1998 compared to \$205.4 million in 1997. The increase resulted from a 63.8% increase in ASMs, and an increase in load factor of 7.4 points, partially offset by a 25.3% decrease in revenue per revenue passenger mile (yield). The reduction in yield is caused principally by a 24.2% increase in the average passenger stage length from 252 miles in 1997 to 313 miles for 1998. Revenue passengers increased 52% in 1998 compared to 1997, which combined with the increase in the average passenger stage length resulted in an 88.8% increase in RPMs.

Operating Expenses

The Company's operating expenses increased 34.4% to \$237.2 million in 1998 compared to \$176.5 million in 1997 due primarily to the 63.8% increase in ASMs and the 52% increase in passengers. The increase in ASMs reflects the addition of nine CRJ aircraft in 1998 and the full year effect of adding five CRJs and five British Aerospace Jetstream-41 ("J-41") aircraft during 1997.

A summary of operating expenses as a percentage of operating revenue and operating cost per ASM for the years ended December 31, 1997 and 1998 is as follows:

	Year Ended December 31,			
	1997		1998	
	Percent of Operating Revenues	Cost Per ASM (cents)	Percent of Operating Revenues	Cost per ASM (cents)
Salaries and related costs	24.2%	5.8	23.5%	4.8
Aircraft fuel	8.6%	2.1	8.3%	1.7
Aircraft maintenance and materials	8.2%	2.0	7.8%	1.6
Aircraft rentals	14.4%	3.4	12.7%	2.6
Traffic commissions and related fees	15.9%	3.8	14.6%	3.0
Facility rent and landing fees	5.1%	1.1	4.6%	1.0
Depreciation and amortization	1.7%	.4	2.2%	.5
Other	7.8%	1.9	8.1%	1.6
Total	85.9%	20.5	81.8%	16.8

Costs per ASM decreased 18% to 16.8 cents in 1998 compared to 20.5 cents in 1997 primarily due to a 63.8% increase in ASMs in 1998 compared to 1997, offset by a 52% increase in passengers carried. The increase in ASMs reflects the addition of nine CRJ aircraft during 1998 and the full year effect of adding five CRJs and five J-41 aircraft during 1997.

Salaries and related costs per ASM decreased 17.2% to 4.8 cents in 1998 compared to 5.8 cents in 1997. In absolute dollars, salaries and related expenses increased 37.2% from \$49.7 million in 1997 to \$68.1 million in 1998. The increase primarily resulted from the net addition of 609 full and part time employees during 1998 to support the additional aircraft.

The cost per ASM of aircraft fuel decreased to 1.7 cents in 1998 compared to 2.1 cents in 1997. The total price per gallon of fuel decreased 15% to 67.4 cents in 1998 compared to 79.3 cents in 1997. In absolute dollars, aircraft fuel expense increased 35% from \$17.8 million in 1997 to \$24 million in 1998 reflecting a 23% increase in block hours and the higher fuel consumption per hour of a CRJ aircraft versus a turboprop aircraft.

The cost per ASM of aircraft maintenance and materials decreased to 1.6 cents in 1998 compared to 2.0 cents in 1997. The decreased maintenance expense per ASM resulted primarily from the addition of the CRJ aircraft. In addition to generating higher ASMs, the CRJ aircraft are covered by manufacturer's warranty for up to three years on certain components. The Company did not record any heavy maintenance repair costs related to the CRJ aircraft. The CRJ cost savings are partially offset by the increasing costs of the turboprop aircraft as they age. In absolute dollars, aircraft maintenance and materials expense increased 34.8% from \$16.9 million in 1997 to \$22.7 million in 1998.

The cost per ASM of aircraft rentals decreased to 2.6 cents in 1998 compared to 3.4 cents in 1997. The decreased unit costs reflect the full year effect of refinancing to lower rental rates, eleven used J-41 aircraft, and the purchase of three used J-41s all during the second half of 1997 and the refinancing of three J-41s, combined with the purchases of two CRJs and one J41 aircraft during 1998. In absolute dollars, aircraft rental expense increased 24.1% to \$36.7 million as compared to \$29.6 million in 1997 due to the additional aircraft added to the fleet.

The cost per ASM of traffic commissions and related fees decreased to 3.0 cents in 1998 as compared to 3.8 cents in 1997. The decrease reflects the reduced (from 10% to 8%) agency commission rate for domestic travel adopted in late 1997. Since substantially all passenger revenues are derived from interline sales, the Company did not begin to realize the savings from this reduction until February 1998. Related fees include program fees paid to United and CRS segment booking fees for reservations. In absolute dollars, traffic commissions and related fees increased

29.9% to \$42.4 million in 1998 from \$32.7 million in 1997.

The cost per ASM of facility rent and landing fees decreased to 1.0 cent in 1998 compared to 1.1 cents in 1997. In absolute dollars, facility rent and landing fees increased 29.9% to \$13.5 million for 1998 from \$10.4 million in 1997. The absolute increase is the result of expansion of the Company's business to new markets and increased landing fees due to the heavier CRJ aircraft.

The cost per ASM of depreciation and amortization increased to 0.5 cents in 1998 compared to 0.4 cents in 1997. In absolute dollars, depreciation and amortization expense for 1998 increased 81.5% to \$6.5 million from \$3.6 million in 1997. The absolute increase results from the purchase of two CRJ aircraft, a J-41 aircraft and CRJ rotatable spare parts in 1998 for approximately \$51 million and the full year effect of purchasing four J-41 aircraft and rotatable spare parts in late 1997.

The cost per ASM of other operating expenses decreased to 1.6 cents in 1998 compared to 1.9 cents in 1997. In absolute dollars, other operating expenses increased 45.6% to \$23.3 million for 1998 from \$16.0 million in 1997. This absolute increase is caused primarily by increases in crew accommodations and training costs related to the general expansion of the Company's business and increased distressed passenger expenses. During the fourth quarter 1998, the Company began to pay for new hire training. Due to the scheduled addition of six additional CRJs in the first five months of 1999, the Company incurred new hire pilot training costs of approximately \$678,000 in the fourth quarter 1998.

As a result of the foregoing expense items, total operating expenses were \$237.2 million for 1998, an increase of 34.4% compared to \$176.5 million in 1997. Total ASMs increased 63.8% year over year causing the cost per ASM to decrease from 20.5 cents in 1997 to 16.8 cents in 1998.

Interest expense increased from \$3.4 million in 1997 to \$4.2 million in 1998. During the first part of 1998, the Company accepted for conversion into common stock approximately \$38 million of the Notes. The reduced interest costs resulting from the debt conversion partially offset the full year effect of the debt outstanding for the purchase of four J-41s in 1997, and the issuance of new debt to acquire two CRJs and one J-41 in 1998.

Interest income increased from \$1.3 million in 1997 to \$4.1 million in 1998. This is primarily the result of the Company's significantly higher cash balances during 1998 as compared to 1997 and the capitalization of interest on the Company's outstanding aircraft deposits with the manufacturers.

From March 20 through April 8, 1998, the Company temporarily reduced the conversion price from \$9 to \$8.86 for holders of the Notes. During this temporary period, \$31.7 million of the Notes converted into approximately 3.6 million shares of common stock. As a result of this temporary price reduction, the Company recorded a \$1.4 million charge to other expense during 1998 representing the fair value of the additional shares distributed upon conversion.

The Company recorded a provision for income taxes of \$21.1 million for 1998, compared to a provision for income taxes of \$12.3 million in 1997. The 1998 effective tax rate of approximately 41% and the 1997 effective tax rate of approximately 46% are higher than the statutory federal and state rates. The higher effective tax rates reflect non-deductible permanent differences between taxable and book income. Net operating loss carryforwards were fully utilized in 1996.

Outlook

This Outlook section and the Liquidity and Capital Resources section below contain forward-looking statements. The Company's actual results may differ significantly from the results discussed in forward-looking statements. Factors that could cause the Company's future results to differ materially from the expectations described here include the response of the Company's competitors to the Company's business strategy, market acceptance of new regional jet service, the costs of implementing jet service, the cost of fuel, the amount and timing of ACJet's start-up costs, obtaining FAA regulatory approval for ACJet to conduct air transportation on a timely basis, the ability of the Company to obtain favorable financing terms for its aircraft, the ability of the aircraft manufacturers to deliver aircraft on schedule, the ability to identify, implement and profitably operate new business opportunities, the ability to hire and retain employees, the weather, changes in and satisfaction of regulatory requirements including requirements relating to fleet expansion, and general economic and industry conditions.

The Company believes that a key element of the Company's success is its experienced management team. On January 1, 2000, President and Chief Executive Officer Kerry Skeen became Chairman of the Board of Directors while retaining his role as CEO. C. Edward Acker retired as Chairman but remains a member of the Board. Thomas Moore became President on January 1, 2000 in addition to his duties as Chief Operating Officer.

The Company believes that the future of the regional airline industry lies in utilizing regional jets to complement and feed the major carriers. To this end, in addition to the 24 CRJs in service as of March 1, 2000, the Company has firm, conditional and option orders for 69 CRJs and 165 FRJs and long-term marketing agreements with United Airlines, Inc. and Delta Air Lines, Inc. to fly the jet aircraft as United Express and Delta Connection, respectively. The addition of these jets will allow the Company to grow capacity as measured in ASM's, based on planned aircraft delivery dates, by approximately 34% in 2000 and 41% in 2001. The Company also believes that multiple marketing agreements will enable the Company to reduce reliance on any one major airline, and will enhance and stabilize operating results through a combination of pro-rate and fee-per-departure revenue opportunities.

ACJet has targeted the commencement of revenue service with FRJs during the second quarter of 2000 and with CRJs during the fourth quarter of 2000. ACJet is presently engaged in pre-operating activities including regulatory compliance, employee recruitment, training, establishment of operating infrastructure, establishment of third party contractual arrangements, and aircraft proving runs. In the first quarter of 2000 ACJet was issued a certificate of public convenience and necessity by the DOT. The effectiveness of the DOT certificate is conditioned upon the issuance by the FAA of an operating certificate to ACJet, an application for which is pending. In order to obtain FAA approval, ACJet must demonstrate that it has the necessary organization and technical ability to safely provide air transportation, and must satisfy certain environmental requirements. ACJet will also need to satisfy regulatory requirements with respect to CRJs prior to adding this aircraft type to its fleet later in the year. There can be no assurance that all required approvals will be granted to ACJet on a timely basis. ACJet has accepted delivery of an interim 328JET aircraft, which is being utilized for proving runs and training. The first two permanent 328JET aircraft are scheduled for delivery in late April 2000. ACJet anticipates incurring approximately \$3.6 million in start-up expenses from inception through commencement of revenue service, which will be expensed as incurred.

A number of business and regulatory developments are affecting the markets in which the Company competes. During the first half of 1999 US Airways began to expand its operations at Washington-Dulles. New service included the operations of mainline US Airways, MetroJet, Shuttle and US Airways Express. US Airways operated in five of the Company's Washington-Dulles markets as of December 31, 1998 and by September 30, 1999 increased their presence to 21

of the Company's markets. Although the US Airways service generally has utilized fare levels similar to that implemented by the Company, two of the implemented markets were served by MetroJet, which offered fares lower than that typically offered by the Company.

During April and May, 1999, United significantly increased the number of flights it operated at Washington-Dulles. In July, 1999, United and the Company revised their Dulles flight schedules to increase connections and to thereby take greater advantage of United's increased capacity. As of March 1, 2000, United operated 113 daily departures from Washington Dulles, a 64% increase from December 31, 1998. During 1999, the Company and United either increased frequencies or upgraded equipment, or both, in markets affected by the US Airways expansion.

In the first quarter of 2000, US Airways began reducing some of its MetroJet, Shuttle and US Airways Express operations at Washington-Dulles. Reductions were made in the operations of MetroJet, Shuttle and US Airways Express. By March 2000 US Airways ceased MetroJet service in the Birmingham, AL, Columbus, OH, Milwaukee, WI and St. Louis, MO to Washington-Dulles markets, and has announced its intention to withdraw MetroJet service between Raleigh-Durham and Washington-Dulles. MetroJet competed directly with the Company in the Columbus, OH and Raleigh-Durham to Washington-Dulles markets. Further, US Airways has announced its intention to withdraw hourly Shuttle service in the Boston and LaGuardia to Washington-Dulles markets and to replace both with less frequent service using a combination of mainline and US Airways Express regional jet service. The Company competes directly with US Airways in the LaGuardia-Washington-Dulles market. By March 2000 US Airways Express had ceased service in the Indianapolis to Washington-Dulles market—a market the Company serves with regional jets.

While increased competition in the Company's markets has had a negative effect on yields, the Company continues to take measures to reduce the overall effect on the Company's results of operations. The Company continually monitors and responds to the effects competition has on its routes, fares and frequencies, and believes it can continue to compete effectively.

Congress recently passed and the President has signed into law legislation that will allow airlines to provide additional service with regional jet aircraft at certain slot restricted airports including Chicago-O'Hare and New York-LaGuardia. Whereas previously slot restrictions limited the amount of service that could be provided from these airports, the new legislation, if and when enacted, will allow substantial additional service to certain qualifying cities. The Company is one of several regional carriers that will be in a position to provide additional service at these cities with regional jet aircraft. This legislation adds significantly to the number of potential regional jet opportunities available to both the United Express and Delta Connection operations and to the Company's competitors. It will also provide increased competitive situations at these airports, the effect of which cannot be determined at this time. During 2000 the Company will continue to assess and respond to competitive opportunities as they may develop as a result of this legislation.

Fuel price increases in the second half of 1999 and to date in 2000 have had a material impact on cost of operations throughout the airline industry. The Company's results will continue to be affected by fuel price volatility. During 1999, the effect of fuel price increases on the Company's results was mitigated by the Company's having hedged approximately 57% of its fuel requirements for the year. These hedges generally settled at favorable prices relative to the market price at the time of settlement, which resulted in a reduced fuel expense relative to market rates. For 2000, the Company entered into hedges in late 1999, settling in the second and third quarter of 2000, for an estimated 8% of its estimated total 2000 fuel requirements. The Company is also not exposed to fuel price volatility for an additional 8% of its estimated 2000 fuel requirements because the cost of this fuel, to be utilized in the ACJet operations, will be passed through to Delta under the fee-per-departure structure.

The Company's CRJ fleet is comprised of new aircraft, with an average age of one and one-half years. Since maintenance expense on new aircraft is lower in the early years of operation due to

manufacturers' warranties and the generally lower failure rates of major components, the Company's maintenance expense for CRJ aircraft will increase in future periods.

During the third quarter of 1999, the Company executed a seven year engine services agreement with GE Engine Services, Inc. ("GE") covering the scheduled and unscheduled repair of ACA's CF34-3B1 jet engines operated on 43 CRJs already delivered or on order for the United Express operation. Under the terms of the agreement, the Company pays a set dollar amount per engine hour flown on a monthly basis to GE and GE assumes the responsibility to repair the engines when required at no additional expense to the Company, subject to certain exclusions. The Company expenses the amount due based on the monthly rates stipulated in the agreement, as engine hours are flown. The Company's future maintenance expense on CRJ engines covered under the new agreement will escalate based on contractual rate increases, intended to match the timing of actual maintenance events that are due pursuant to the terms. Based on the contractual rates, unit maintenance costs recognized on these CRJ engines during 2000 will be greater than those recorded historically. The Company has signed a similar agreement covering up to 55 FRJs with the FRJ engine manufacturer, and also anticipates signing a similar agreement for the remaining CRJ on firm order and FRJ aircraft on conditional order.

In 1999, the Company commenced a replacement project of its computer software systems. The Company has engaged IBM to define functional requirements, evaluate vendor packages, and select and implement software solutions. New systems will include general ledger, payroll, accounts payable, accounts receivable, human resources administration, and maintenance. Implementation is scheduled to be completed during 2000. The Company anticipates spending approximately \$7.0 million on this project, the majority of which will be capitalized and amortized over five years. In 1999, the Company expensed approximately \$400,000 related to replacement software selection and capitalized \$2.3 million in acquisition and implementation costs.

Liquidity and Capital Resources

As of December 31, 1999, the Company had cash and cash equivalents of \$57.4 million and working capital of \$60.4 million compared to \$64.4 million and \$68.1 million, respectively, as of December 31, 1998. During the year ended December 31, 1999, cash and cash equivalents decreased \$7 million, reflecting net cash provided by operating activities of \$49.9 million, net cash used in investing activities of \$72.3 million (related to aircraft purchase deposits, purchases of aircraft and equipment and decreases in short term investments) and net cash provided by financing activities of \$15.4 million. Net cash provided by financing activities increased due to the issuance of \$37.2 million of long term debt principally to acquire two CRJ aircraft, partially offset by the Company's common stock repurchase program.

As of December 31, 1998, the Company had cash and cash equivalents of \$64.4 million and working capital of \$68.1 million compared to \$39.2 million and \$45.0 million, respectively, as of December 31, 1997. During the year ended December 31, 1998, cash and cash equivalents increased \$25.2 million, reflecting net cash provided by operating activities of \$39.7 million, net cash used in investing activities of \$39.7 million (related to purchases of aircraft and equipment and decreases in short term investments) and net cash provided by financing activities of \$25.3

million. Net cash provided by financing activities increased principally due to the issuance of long term debt to acquire two CRJ and one J41 aircraft.

Other Financing

In February 1999, the Company entered into an asset-based lending agreement with two financial institutions that provided the Company with a \$15 million bridge loan for the construction of the regional terminal at Washington-Dulles and a line of credit for up to \$35 million depending on the amount of assigned ticket receivables and the value of certain rotatable spare parts. The \$35 million line of credit replaces a previous \$20 million line of credit and will expire on September 30, 2000, or upon termination of the United Express marketing agreement, whichever is sooner. The interest rate on this line is LIBOR plus .75% to 1.75% depending on the Company's fixed charges coverage ratio. There were no borrowings on the \$35 million line during 1999, or any under the previous line during 1998. The Company pledged \$2.9 million of this line of credit as collateral to secure letters of credit issued on behalf of the Company by a financial institution. The Company anticipates that it will be able to renew this line of credit prior to its expiration on terms at least as favorable as the current facility.

During 1999, the Company borrowed \$7.8 million on the bridge loan and provided funding to the Metropolitan Washington Airports Authority ("MWAA") for the construction of the regional terminal of \$12.5 million. In May 1999, MWAA paid the Company \$7.8 million, and the Company repaid its borrowings on the bridge loan. As of December 31, 1999 there are no outstanding borrowings on the bridge loan. A note receivable from MWAA of \$4.7 million is recorded at December 31, 1999. No additional amounts were drawn on the bridge loan for this additional \$4.7 million funding. However, the Company may do so in the future as desired.

In July 1997, the Company issued \$57.5 million aggregate principal amount of 7% Convertible Subordinated Notes due July 1, 2004 ("the Notes"). The Notes are convertible into shares of Common Stock unless previously redeemed or repurchased, at a conversion price of \$9 per share, (after giving effect to the stock split on May 15, 1998) subject to certain adjustments. In January 1998, approximately \$5.9 million of the Notes were converted, pursuant to their original terms, into 660,826 shares of Common Stock. From March 20, 1998 to April 8, 1998, the Company temporarily reduced the conversion price from \$9 to \$8.86 for holders of the Notes. During this period, \$31.7 million of the Notes converted into approximately 3.6 million shares of Common Stock. As a result of this temporary price reduction, the Company recorded a non-cash, non-operating charge to earnings during the second quarter of 1998 of \$1.4 million representing the fair value of the additional shares distributed upon conversion. Interest on the Notes is payable on April 1 and October 1 of each year. The Company may redeem the remaining notes beginning on July 1, 2000 by calling the notes at 104% of face value declining one percent per year until maturity on July 1, 2004, in which case the holders will have an opportunity to convert the Notes at their face amount prior to redemption.

In September 1997, approximately \$112 million of pass through certificates were issued in a private placement by separate pass through trusts, which purchased with the proceeds, equipment notes (the "Equipment Notes") issued in connection with (i) leveraged lease transactions relating to four J-41s and six CRJs, all of which were leased to the Company (the "Leased Aircraft"), and (ii) the financing of four J-41s owned by the Company (the "Owned Aircraft"). The Equipment Notes issued with respect to the Owned Aircraft are direct obligations of ACA, guaranteed by ACAI and are included as debt obligations in the accompanying consolidated financial statements. The Equipment Notes issued with respect to the Leased Aircraft are not obligations of ACA or guaranteed by ACAI.

Other Commitments

On April 21, 1999, the Company's Board of Directors approved a plan to purchase up to \$20 million or five percent of the then current outstanding shares in open market or private transactions over a twelve month period. As of March 10, 2000, the Company has purchased 1,064,000 shares of

its common stock at an average price of \$17.28 per share. The Company has approximately \$1.6 million dollars remaining on the original \$20 million authorization.

In August 1999, the Company entered into a series of put and call contracts having an aggregate notional amount of \$23 million. The contracts mature between March and May 2000. The contracts were entered into as an interest rate hedge designed to limit the Company's exposure to interest rate changes on the anticipated issuance of permanent financing relating to the delivery of three aircraft in 2000. As such, effective gains or losses realized when permanent financing is obtained will be amortized over the life of the related aircraft lease or will be depreciated as part of the aircraft acquisition cost for owned aircraft. The Company would have received from the counterparty approximately \$247,000 had these contracts settled on December 31, 1999.

In October 1999, the Company entered into commodity swap transactions to hedge price changes on approximately 13,300 barrels of crude oil per month for the period April to June 2000, and on approximately 23,300 barrels of crude oil per month for the period July through September 2000. The contracts provide for an average fixed price equal to approximately 52.6 cents per gallon for the second quarter of 2000 and 51 cents per gallon for the third quarter of 2000. With these transactions and taking into account that Delta Air Lines, Inc. bears the economic risk of fuel price fluctuations for future fuel requirements associated with the Delta Connection program, the Company has hedged approximately 14% of its anticipated jet fuel requirements for the second quarter 2000; 27% for the third quarter 2000; and 18%, for the fourth quarter of 2000. Had the commodity swap transactions settled on December 31, 1999, the Company would have recognized a reduction of approximately \$597,000 in fuel expense.

Aircraft

The Company has significant lease obligations for aircraft that are classified as operating leases and therefore are not reflected as liabilities on the Company's balance sheet. The remaining terms of such leases range from one to sixteen and a half years. The Company's total rent expense in 1999 under all non-cancelable aircraft operating leases with remaining terms of more than one year was approximately \$45.2 million. As of December 31, 1999, the Company's minimum annual rental payments for 2000 under all non-cancelable aircraft operating leases with remaining terms of more than one year were approximately \$54.1 million.

As of March 1, 2000, the Company had a total of 42 CRJs on order from Bombardier, Inc., and held options for 27 additional CRJs. During 1999, the Company converted 17 option aircraft to firm orders and placed new orders for six additional CRJs and received 17 new aircraft options. The Company also placed a firm order with Fairchild Aerospace Corporation for 25 Fairchild Dornier 32 seat 328JET regional jet ("328JET") aircraft, a conditional order for a 15 328JETs and 40 Fairchild Dornier 44 seat 428JET regional jet ("428JET") aircraft (328JET aircraft and 428JET aircraft are collectively referred to as "FRJs"), and received options for 85 additional FRJs. Of the 67 firm aircraft deliveries, 28 are scheduled for 2000, 29 are scheduled for 2001, and ten are scheduled for 2002. The Company is obligated to purchase and finance (including leveraged leases) the 67 firm ordered aircraft at an approximate capital cost of \$1.1 billion. The Company anticipates leasing all 28 of its year 2000 aircraft deliveries on terms similar to previously delivered CRJ aircraft. On March 15, 2000 and March 22, 2000, the Company acquired through leveraged lease transactions, its 25th and 26th CRJ aircraft. The lease terms are for approximately 16.8 years.

As previously announced, the Company is exploring alternatives to accelerate the retirement of its fleet of 28 leased 19 seat J-32 aircraft. The Company tentatively plans to remove as many as six J-32s from ACA's fleet during 2000 and the remainder in 2001. As of December 31, 1999, the Company had J-32 operating lease commitments with remaining lease terms ranging from one to six years and related minimum lease payments of approximately \$43 million. The Company has not yet finalized its analysis of a phase-out plan, including quantification of any one-time fleet rationalization charge.

In order to ensure the highest level of safety in air transportation, the FAA has authority to issue maintenance directives and other mandatory orders relating to, among other things, inspection of aircraft and the mandatory removal and replacement of parts that have failed or may fail in the future. In addition, the FAA from time to time amends its regulations. Such amended regulations may impose additional regulatory burdens on the Company such as the installation of new safety-related items. Depending upon the scope of the FAA's order and amended regulations, these requirements may cause the Company to incur substantial, unanticipated expenses. The FAA has issued a directive which requires that CRJ flight data recorders be upgraded to record an increased number of flight parameters. The Company anticipates that new CRJs will comply with the directives beginning with deliveries occurring during the second quarter 2000, and is preparing to retrofit previously delivered CRJs. The Company estimates that the cost of this retrofit will be approximately \$3.5 million and has included this amount in its capital spending plan for 2000.

Capital Equipment and Debt Service

In 2000 the Company anticipates capital spending of approximately \$21.5 million consisting of \$15.1 million in rotatable spare parts, spare engines and equipment, and \$6.4 million for other capital assets, and expects to finance these capital expenditures out of working capital.

Debt service for 2000 is estimated to be approximately \$6.1 million reflecting borrowings related to the purchase of four CRJ aircraft acquired in 1998 and 1999, five J-41s acquired in 1997 and 1998 and interest due on the remaining 7% Convertible Subordinated Notes. The foregoing amount does not include additional debt that may be required for the financing of the CRJs, FRJs, spare parts and spare engines.

The Company believes that, in the absence of unusual circumstances, its cash flow from operations, the \$35 million credit facility as presently existing or as anticipated to be renewed, and other available equipment financing will be sufficient to meet its working capital needs, expected operating lease commitments, capital expenditures, and debt service requirements for the next twelve months.

Inflation

Inflation has not had a material effect on the Company's operations.

Recent Accounting Pronouncements

In June 1998, the FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement establishes accounting and reporting standards for derivative instruments and all hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities at their fair values. Accounting for changes in the fair value of a derivative depends on its designation and effectiveness. For derivatives that qualify as effective hedges, the change in fair value will have no impact on earnings until the hedged item affects earnings. For derivatives that are not designated as hedging instruments, or for the ineffective portion of a hedging instrument, the change in fair value will affect current period earnings.

In July 1999, the FASB issued Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133, an Amendment of FASB Statement No. 133" which defers the effective date of Statement No. 133 by one year. Therefore, the Company will adopt Statement No. 133 during its first quarter of fiscal 2001 and is currently assessing the impact this statement will have on interest rate swaps and any future hedging contracts that may be entered into by the Company.

Quantitative and Qualitative Disclosures About Market Risk

The Company's principal market risk results from changes in jet fuel pricing and in interest rates.

For 2000, the Company has hedged a portion of its exposure to jet fuel price fluctuations by entering into commodity swap contracts for approximately 8% of its estimated 2000 fuel requirements for the United Express program. The swap contracts are designed to provide protection against sharp increases in the price of jet fuel. In addition, Delta Air Lines, Inc. bears the economic risk of fuel price fluctuations for the fuel requirements of the Company's Delta connection program. Taking this into account, based on the Company's projected fuel consumption for the year 2000, a one-cent increase in the average annual price per gallon of jet fuel would increase the Company's annual aircraft fuel expense by approximately \$530,000.

The Company's exposure to market risk associated with changes in interest rates relates to the Company's commitment to acquire regional jets. The Company has entered into put and call contracts designed to limit the Company's exposure to interest rate changes until permanent financing is secured upon delivery of the Bombardier regional jet aircraft. At December 31, 1999 the Company had three swap contracts outstanding related to the delivery of the next three CRJs. A one percentage point decrease in interest rates from the Company's call contracts would increase the Company's annual aircraft lease or ownership costs associated with these contracts by \$199,600.

As of March 1, 2000, the Company has firm commitments to purchase 67 additional jet aircraft. The Company expects to finance these commitments using a combination of debt and leveraged leases. Changes in interest rates will impact the actual cost to the Company for these transactions in the future.

The Company does not have significant exposure to changing interest rates on its long-term debt as the interest rates on such debt are fixed. Likewise, the Company does not hold long-term interest sensitive assets and therefore is not exposed to interest rate fluctuations for its assets. The Company does not purchase or hold any derivative financial instruments for trading purposes.

Independent Auditors' Report

The Board of Directors and Stockholders
Atlantic Coast Airlines Holdings, Inc.:

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Atlantic Coast Airlines Holdings, Inc. and subsidiaries as of December 31, 1998 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999 in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 1999, the Company changed its method of accounting for preoperating costs.

KPMG LLP

McLean, Virginia
January 26, 2000

Atlantic Coast Airlines Holdings, Inc.

Consolidated Balance Sheet

(in thousands, except for share data and par values)

December 31,	1998	1999
Assets		
Current:		
Cash and cash equivalents	\$ 64,412	\$ 57,447
Short term investments	63	--
Accounts receivable, net	30,210	31,023
Expendable parts and fuel inventory, net	3,377	4,114
Prepaid expenses and other current assets	3,910	6,347
Notes receivable	--	6,239
Deferred tax asset	2,534	2,850
Total current assets	104,506	108,020
Property and equipment at cost, net of accumulated depreciation and amortization	89,966	133,160
Preoperating costs, net of accumulated amortization	1,486	--
Intangible assets, net of accumulated amortization	2,382	2,232
Debt issuance costs, net of accumulated amortization	3,420	3,309
Aircraft deposits	19,420	38,690
Other assets	6,446	8,342
Total assets	\$ 227,626	\$ 293,753
Liabilities and Stockholders' Equity		
Current:		
Current portion of long-term debt	\$ 3,450	\$ 4,758
Current portion of capital lease obligations	1,334	1,627
Accounts payable	5,262	5,343
Accrued liabilities	26,330	35,852
Total current liabilities	36,376	47,580
Long-term debt, less current portion	63,289	87,244
Capital lease obligations, less current portion	1,446	5,543
Deferred tax liability, net	6,238	12,459
Deferred credits, net	9,900	15,403
Total liabilities	117,249	168,229
Stockholders' equity:		
Preferred Stock: \$.02 par value per share; shares authorized 5,000,000; no shares issued or outstanding in 1998 or 1999	-	-
Common stock: \$.02 par value per share; shares authorized 65,000,000 in 1998 and in 1999; shares issued 20,821,001 in 1998 and 21,083,927 in 1999; shares outstanding 19,348,501 in 1998 and 18,628,261 in 1999	416	421
Class A common stock: nonvoting; par value; \$.02 stated value per share; shares authorized 6,000,000; no shares issued or outstanding	-	-
Additional paid-in capital	85,215	89,126
Less: Common stock in treasury, at cost, 1,472,500 shares in 1998 and 2,455,666 shares in 1999	(17,069)	(34,106)
Retained earnings	41,815	70,083
Total Stockholders' Equity	110,377	125,524
Total Liabilities and Stockholders' Equity	\$ 227,626	\$ 293,753
Commitments and Contingencies		

See accompanying notes to consolidated financial statements.

Atlantic Coast Airlines Holdings, Inc. Consolidated Statements of Operations

(in thousands, except for per share data)

Years ended December 31,

	1997	1998	1999
Operating revenues:			
Passenger	\$ 202,540	\$ 285,243	\$ 342,079
Other	2,904	4,697	5,286
Total operating revenues	205,444	289,940	347,365
Operating expenses:			
Salaries and related costs	49,661	68,135	84,554
Aircraft fuel	17,766	23,978	34,072
Aircraft maintenance and materials	16,860	22,730	24,357
Aircraft rentals	29,570	36,683	45,215
Traffic commissions and related fees	32,667	42,429	54,521
Facility rents and landing fees	10,376	13,475	17,875
Depreciation and amortization	3,566	6,472	9,021
Other	16,035	23,347	28,458
Total operating expenses	176,501	237,249	298,073
Operating income	28,943	52,691	49,292
Other income (expense):			
Interest expense	(3,450)	(4,207)	(5,614)
Interest income	1,284	4,145	3,882
Debt conversion expense	-	(1,410)	--
Other income (expense), net	62	326	(85)
Total other expense, net	(2,104)	(1,146)	(1,817)
Income before income tax provision and cumulative effect of accounting change	26,839	51,545	47,475
Income tax provision	12,339	21,133	18,319
Income before cumulative effect of accounting change	14,500	30,412	29,156
Cumulative effect of accounting change, net of income tax benefit of \$598	--	--	(888)
Net income	\$ 14,500	\$ 30,412	\$ 28,268
Income per share:			
Basic:			
Income before cumulative effect of accounting change	\$0.93	\$1.68	\$1.54
Cumulative effect of accounting change	--	--	(.05)
Income per share	\$0.93	\$1.68	\$1.49
Diluted:			
Income before cumulative effect of accounting change	\$0.80	\$1.42	\$1.36
Cumulative effect of accounting change	--	--	(.04)
Income per share	\$0.80	\$1.42	\$1.32
Weighted average shares used in computation:			
Basic	15,647	18,128	18,964
Diluted	19,512	22,186	22,015

See accompanying notes to consolidated financial statements.

Atlantic Coast Airlines Holdings, Inc.
Consolidated Statements of Stockholders' Equity

(in thousands, except for share data)

	Common Stock		Additional Paid-In Capital	Treasury Stock		Retained Earnings (Deficit)
	Shares	Amount		Shares	Amount	
Balance December 31, 1996	8,498,910	\$ 170	\$ 37,689	12,500	\$ (125)	\$ (3,097)
Exercise of common stock options	240,597	5	1,250	-	-	-
Tax benefit of stock option exercise	-	-	1,357	-	-	-
Purchase of treasury stock	-	-	-	1,460,000	(16,944)	-
Net income	-	-	-	-	-	14,500
Balance December 31, 1997	8,739,507	\$ 175	\$ 40,296	1,472,500	\$ (17,069)	\$ 11,403
Exercise of common stock options	286,011	6	2,473	-	-	-
Tax benefit of stock option exercise	-	-	4,239	-	-	-
Amortization of						
Deferred compensation	-	-	574	-	-	-
Stock split	9,673,901	193	(193)	-	-	-
Conversion of debt	2,121,582	42	37,826	-	-	-
Net income	-	-	-	-	-	30,412
Balance December 31, 1998	20,821,001	\$ 416	\$ 85,215	1,472,500	\$ (17,069)	\$ 41,815
Exercise of common stock options	262,926	5	1,579	-	-	-
Tax benefit of stock option exercise	-	-	1,835	-	-	-
Purchase of treasury stock	-	-	-	996,500	(17,192)	-
ESOP share contributions	-	-	60	(13,334)	155	-
Amortization of						
Deferred compensation	-	-	437	-	-	-
Net income	-	-	-	-	-	28,268
Balance December 31, 1999	21,083,927	\$ 421	\$ 89,126	2,455,666	\$ (34,106)	\$ 70,083

See accompanying notes to consolidated financial statements.

Atlantic Coast Airlines Holdings, Inc. Consolidated Statements of Cash Flows

(in thousands)

Years ended December 31,	1997	1998	1999
Cash flows from operating activities:			
Net income	\$ 14,500	\$ 30,412	\$ 28,268
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,111	5,829	9,109
Write-off of preoperating costs	-	-	1,486
Amortization of intangibles and preoperating costs	455	690	176
Provision for uncollectible accounts receivable	168	124	564
Provision for inventory obsolescence	63	86	110
Amortization of deferred credits	(243)	(801)	(1,114)
Amortization of debt issuance costs	181	465	354
Capitalized interest, net	-	(1,640)	(1,683)
Deferred tax provision	2,452	4,392	5,905
Net loss on disposal of fixed assets	450	247	380
Amortization of debt discount and finance costs	76	70	73
Debt conversion expense	-	1,410	-
Contribution of stock to the ESOP	-	-	214
Gain on ineffective hedge position	-	-	(211)
Gain on early termination of capital lease	-	-	(291)
Amortization of deferred compensation	-	574	437
Changes in operating assets and liabilities:			
Accounts receivable	(5,829)	(6,077)	(3,572)
Expendable parts and fuel inventory	(781)	(990)	(847)
Prepaid expenses and other current assets	403	(2,512)	(2,660)
Preoperating costs	(2,057)	-	-
Accounts payable	998	423	2,139
Accrued liabilities	7,313	7,028	11,013
Net cash provided by operating activities	21,260	39,730	49,850
Cash flows from investing activities:			
Purchase of property and equipment	(26,005)	(51,020)	(59,669)
Proceeds from sales of fixed assets	-	1,318	6,608
Maturities of short term investments	(10,737)	10,677	66
Refund of deposits	-	120	3
Payments for aircraft and other deposits	(18,447)	(832)	(19,270)
Net cash used in investing activities	(55,189)	(39,737)	(72,262)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	75,220	29,650	37,203
Payments of long-term debt	(3,241)	(2,248)	(4,189)
Payments of capital lease obligations	(2,258)	(2,656)	(1,839)
Proceeds from receipt of deferred credits and other	809	96	37
Deferred financing costs	(3,215)	(2,069)	(157)
Proceeds from exercise of stock options	1,255	2,479	1,584
Purchase of treasury stock	(16,944)	-	(17,192)
Net cash provided by financing activities	51,626	25,252	15,447
Net increase (decrease) in cash and cash equivalents	17,697	25,245	(6,965)
Cash and cash equivalents, beginning of year	21,470	39,167	64,412
Cash and cash equivalents, end of year	\$ 39,167	\$ 64,412	\$ 57,447

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Summary of Accounting Policies

(a) Basis of Presentation

The accompanying consolidated financial statements include the accounts of Atlantic Coast Airlines Holdings, Inc. ("ACAH") and its wholly-owned subsidiaries, Atlantic Coast Airlines ("ACA") and Atlantic Coast Jet, Inc. ("ACJet"), (together, the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation. The Company's flights are currently operated under a code sharing agreement with United Airlines, Inc. ("United") and are identified as United Express flights in computer reservation systems. As of December 31, 1999, the Company's ACA subsidiary provided scheduled air transportation service as United Express for passengers to destinations in states in the Eastern and Midwestern United States.

During 1999, the Company's ACJet subsidiary entered into a code sharing agreement with Delta Air Lines to become part of the Delta Connection network. ACJet is currently in the pre-operating stage with scheduled service anticipated to begin during the second quarter of 2000.

(b) Cash, Cash Equivalents and Short-Term Investments

The Company considers investments with an original maturity of three months or less when purchased to be cash equivalents. Investments with an original maturity greater than three months and less than one year are considered short-term investments. All short-term investments are considered to be available for sale. Due to the short maturities associated with the Company's investments, the amortized cost approximates fair market value. Accordingly, no adjustment has been made to record unrealized holding gains and losses.

(c) Airline Revenues

Passenger fares and cargo revenues are recorded as operating revenues at the time transportation is provided. Substantially all of the Company's passenger tickets are sold by other air carriers. The value of unused passenger tickets sold by the Company, which is minimal, is included in current liabilities. ACA participates in United's Mileage Plus frequent flyer program, and ACJet will participate in the Delta SkyMiles frequent flyer program. The Company does not accrue for incremental costs for mileage accumulation relating to these programs because the Company believes such costs are not significant. Incremental costs for awards redeemed on the Company's flights are expensed as incurred.

(d) Accounts and Notes Receivable

Accounts receivable are stated net of allowances for uncollectible accounts of approximately \$364,000 and \$772,500 at December 31, 1998 and 1999, respectively. Amounts charged to costs and expenses for uncollectible accounts in 1997, 1998 and 1999 were \$168,000, \$124,000 and \$564,500, respectively. Write-off of accounts receivable were \$186,000, \$29,000 and \$156,000 in 1997, 1998 and 1999, respectively. Accounts receivable for the years ended December 31, 1998 and 1999 included approximately \$3.6 million and \$2.9 million, respectively, related to manufacturers credits to be applied towards future spare parts purchases and training expenses.

The note receivable balance at December 31, 1999 includes a promissory note from an executive officer of the Company dated as of May 24, 1999 with a balance, including accrued interest, of \$1.5 million. The note was paid in full during the first quarter of 2000.

(e) Concentrations of Credit Risk

The Company provides commercial air transportation in the Eastern and Midwestern United States. Substantially all of the Company's passenger tickets are sold by other air carriers. The Company has a significant concentration of its accounts receivable with other air carriers with no collateral. At December 31, 1998 and 1999, accounts receivable from air carriers totaled approximately \$24.4 million and \$27.6 million, respectively. Such accounts receivable serve as collateral to a financial institution in connection with the Company's line of credit arrangement. (See note 4). Of the total amount, approximately \$20.8 million and \$23.2 million at December 31, 1998 and 1999, respectively, were due from United. Historically, accounts receivable losses have not been significant.

(f) Risks and Uncertainties

The airline industry is highly competitive and volatile. The Company competes primarily with other air carriers and, particularly with respect to its shorter flights, with ground transportation. Airlines primarily compete on the basis of pricing, scheduling, frequency, and type of equipment. The Company's operations are primarily dependent upon business-related travel and are not subject to wide seasonal fluctuation. However, some seasonal decline does occur during portions of the winter months due to lesser demand. The ability of the Company to compete with ground transportation and other air carriers depends upon public acceptance of its aircraft and the provision of convenient, frequent and reliable service to its markets at reasonable rates.

The Company's ACA subsidiary operates under code-sharing and other marketing agreements with United, which expire on March 31, 2009, unless earlier terminated by United (the "UA Agreements"). Prior to March 31, 2004, United may terminate the UA Agreements at any time if ACA fails to maintain certain performance standards, and may terminate without cause after March 31, 2004 by providing one year's notice to the Company. If by January 2, 2001 United has not given the Company the ability to operate regional jets of 44 seats or less seating capacity as United Express, in addition to its allocation of 50 seat regional jets, the Company may terminate the UA Agreements as of March 31, 2004. The Company would be required to provide notice of termination prior to January 2, 2002, which notice would be void if United ultimately grants such authority prior to January 2, 2002. Under the terms of the UA Agreements, ACA pays United monthly fees based on the total number of revenue passengers boarded by the Company on its flights for the month. The fee per passenger is subject to periodic increases during the duration of the ten year extension period. The agreement allows ACA to operate under United's colors, utilize the "United Express" name and identify its flights using United's designator code. The Company believes that its relationship with United substantially enhances its ability to compete for passengers. The loss of the Company's affiliation with United could have a material adverse effect on the Company's business.

The UA Agreements require ACA to obtain United's consent to operate service between city pairs as "United Express". If ACA experiences net operating expenses that exceed revenues for three consecutive months on any required route, ACA may withdraw from that route if United and the Company are unable to negotiate an alternative mutually acceptable level of service for that route. The UA Agreements do not prohibit United from competing, or from entering into agreements with other airlines who would compete, on routes served by the Company, but state that United may terminate the UA Agreements if ACAI and ACA enter into a similar arrangement with any other carrier without United's approval. The Company believes that its agreement to operate ACJet as part of the Delta Connection program does not provide United the right to terminate the UA Agreements.

The UA Agreements limit the ability of the ACAI and ACA to merge with another company or dispose of certain assets or aircraft without offering United a right of first refusal to acquire the Company or such assets or aircraft, and provide United a right to terminate the UA Agreements if they merge with or are controlled or acquired by another carrier. United also has a right of first refusal with respect to issuance by ACAI and ACA of shares of their common stock if, as a result of the issuance, certain of their stockholders and their permitted transferees do not own at least 50% of their common stock after such issuance. Because the holdings of these stockholders and their permitted transferees are currently substantially less than 50%, management believes that such a right is unlikely to be exercised.

The Company has reached a ten year agreement with Delta Air Lines, Inc. to operate regional jet aircraft as part of the Delta Connection program on a fee-per-departure basis. Under the fee-per-departure structure, the Company is contractually obligated to operate the flight schedule, and Delta pays the Company an agreed amount per hour flown. Delta may terminate the agreement at any time if the Company fails to maintain certain performance standards, and, subject to certain rights by the Company, may terminate without cause, effective no earlier than two years after commencement of operations, by providing 180 days notice to the Company. The Company has ordered 20 50-seat Canadair regional jets from Bombardier Aerospace of Montreal and 25 328JET jets from Fairchild for this new venture. The Company has established a new subsidiary, Atlantic Coast Jet, Inc. ("ACJet"), d.b.a. Delta Connection, which is now in the application and approval process with the applicable federal agencies to obtain authority to conduct scheduled passenger air transportation of jet aircraft. Initial Delta Connection service to various destinations in the Northeast United States is expected to begin during the second quarter of 2000, subject to satisfactory resolution of regulatory requirements and other start-up considerations. The Company can make no assurances that its ACJet subsidiary will receive all necessary regulatory approvals by this date.

The Delta Connection Agreement requires the Company to obtain Delta's approval if it chooses to enter into a code-sharing arrangement with another carrier, lists its flights under any other code, or operate flights for any other carrier, except with respect to such arrangements with United or non-U.S. code-shares partners of United or in certain other circumstances. The Delta Connection Agreement does not prohibit Delta from competing, or from entering into agreements with other airlines who would compete, on routes served by the Company. The Delta Connection Agreement also restricts the ability of the Company to dispose of aircraft subject to the agreement without offering Delta a right of first refusal to acquire such aircraft, and provides that Delta may terminate the agreement if, among other things, the Company merges with or sells its assets to another entity, is acquired by another entity or if any person acquires more than a specified percentage of its stock.

The Company's pilots are represented by the Airline Pilots Association ("ALPA"), ACA's flight attendants are represented by the Association of Flight Attendants ("AFA"), and ACA's mechanics are represented by the Aircraft Mechanics Fraternal Association ("AMFA").

The ALPA collective bargaining agreement became amendable in February 2000 and the Company and ALPA began meetings on a new contract in February 2000. The ALPA agreement covers all pilots of the Company, including ACJet pilots. As of December 31, 1999, approximately 31% of the Company's workforce were pilots.

ACA's collective bargaining agreement with AFA was ratified in October, 1998. The agreement is for a four year duration and becomes amendable in October 2002. ACJet has reached an agreement with AFA that its flight attendants will be represented by AFA, and has also agreed with AFA on the terms of a five year agreement covering ACJet flight attendants on terms substantially similar to the terms of the contract between ACA and AFA.

ACA's collective bargaining agreement with AMFA was ratified in June, 1998. The agreement is for a four year duration and becomes amendable in June 2002.

The Company believes that certain of the Company's unrepresented labor groups are from time to time approached by unions seeking to represent them. However, the Company has not received any official notice of organizing activity and there have been no representation applications filed with the National Mediation Board by any of these groups. The Company believes that the wage rates and benefits for non-union employee groups are comparable to similar groups at other regional airlines. The Company also believes that the incremental costs of union agreements presently under negotiation will not have a material effect on the Company's financial position or results of its operations for the year 2000.

(g) *Use of Estimates*

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and assumptions regarding valuation of assets, recognition of liabilities for costs such as aircraft maintenance, differences in timing of air traffic billings from United and other airlines, operating revenues and expenses during the period and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from those estimated.

(h) *Expendable Parts*

Expendable parts and supplies are stated at the lower of cost or market, less an allowance for obsolescence of \$318,000 and \$428,000 as of December 31, 1998 and 1999, respectively. Expendable parts and supplies are charged to expense as they are used. Amounts charged to costs and expenses for obsolescence in 1997, 1998 and 1999 were \$63,000, \$86,000 and \$110,000, respectively.

(i) *Property and Equipment*

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets which range from five to sixteen and one half years. Capital leases and leasehold improvements are amortized over the remaining life of the lease.

Amortization of capital leases and leasehold improvements is included in depreciation expense.

The Company periodically evaluates whether events and circumstances have occurred which may impair the estimated useful life or the recoverability of the remaining balance of its long-lived assets. If such events or circumstances were to indicate that the carrying amount of these assets would not be recoverable, the Company would estimate the future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss would be recognized by the Company.

The Company capitalizes interest related to the aircraft purchase deposits it has placed with the aircraft manufacturers. Amounts capitalized in 1998 and 1999 were \$1.6 million and \$1.8 million, respectively.

(j) **Preoperating Costs**

Preoperating costs represent the cost of integrating new types of aircraft. Prior to 1999, such costs, which consist primarily of flight crew training and aircraft ownership related costs, were deferred and amortized over a period of four years on a straight-line basis.

During 1997 the Company capitalized approximately \$2.1 million of these costs related to the introduction of the regional jet ("CRJ") into the Company's fleet. Accumulated amortization of preoperating costs at December 31, 1998 was \$571,000. On January 1, 1999, the Company wrote-off the remaining unamortized preoperating costs balance of approximately \$1.5 million, before income tax benefit of \$598,000, in accordance with the implementation of Statement of Position 98-5 ("SOP 98-5"). Also, in accordance with SOP 98-5, \$2.2 million of preoperating costs incurred during 1999 for the start up of ACJet were expensed as incurred.

(k) **Intangible Assets**

Goodwill of approximately \$3.2 million, representing the excess of cost above the fair value of net assets acquired in the acquisition of ACA, is being amortized by the straight-line method over twenty years. The primary financial indicator used by the Company to assess the recoverability of its goodwill is undiscounted future cash flows from operations. The amount of impairment, if any, is measured based on projected future cash flows using a discount rate reflecting the Company's average cost of funds. Costs incurred to acquire slots are being amortized by the straight-line method over twenty years. Accumulated amortization of intangible assets at December 31, 1998 and 1999 was \$1.3 million and \$1.4 million, respectively.

(l) **Maintenance**

The Company's maintenance accounting policy is a combination of expensing certain events as incurred and accruing for certain maintenance events at rates it estimates will be sufficient to cover maintenance cost for the aircraft. For the J32 and J41 aircraft, the Company accrues for airframe component and engine repair costs on a per flight hour basis. For the CRJ aircraft, the Company accrued for the replacement of major engine life limited parts on a per cycle basis until July 1999. The Company accrues for auxiliary power units ("APU") costs on a per APU hour basis. All other maintenance costs are expensed as incurred.

During the third quarter of 1999, the Company executed a seven year engine services agreement with GE Engine Services, Inc. ("GE") covering the scheduled and unscheduled repair of ACA's CF34-3B1 jet engines operated on 43 CRJs already delivered or on order for the United Express operation. Under the terms of the agreement, the Company pays a set dollar amount per engine hour flown on a monthly basis to GE and GE assumes the responsibility to repair the engines when required at no additional expense to the Company, subject to certain exclusions. The Company expenses the amount due based on the monthly rates stipulated in the agreement, as engine hours are flown. The Company's future maintenance expense on CRJ engines covered under the new agreement will escalate based on contractual rate increases, intended to match the timing of actual maintenance events that are due pursuant to the terms. The Company has reached a similar agreement covering up to 55 Fairchild Dornier aircraft with the engine manufacturer.

During the third quarter, the Company reversed approximately \$1.5 million in life limited parts repair expense accruals related to CRJ engines that are no longer required based on the maintenance services and terms contained in the GE engine maintenance agreement.

(m) **Deferred Credits**

The Company accounts for incentives provided by the aircraft manufacturers as deferred credits for leased aircraft. These credits are amortized on a straight-line basis as a reduction to lease expense over the respective lease term. The incentives are credits that may be used to purchase spare parts, pay for training expenses, satisfy aircraft return conditions or be applied against future rental payments.

(n) **Income Taxes**

The Company accounts for income taxes using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts for existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in future years in which those temporary differences are expected to be recovered or settled.

(o) **Stock-Based Compensation**

The Company accounts for its stock-based compensation plans using the intrinsic value method prescribed under Accounting Principles Board (APB) No. 25. Under these principles, the Company records compensation expense for stock options and awards only if the exercise price is less than the fair market value of the stock on the measurement date.

(p) **Income Per Share**

Basic income per share is computed by dividing net income by the weighted average number of common shares outstanding. Diluted income per share is computed by dividing net income by the weighted average number of common shares outstanding and common stock equivalents, which consist of shares subject to stock options computed using the treasury stock method. In addition, dilutive convertible securities are included in the denominator while interest on convertible debt, net of tax, is added back to the numerator.

A reconciliation of the numerator and denominator used in computing income per share is as follows (in thousands, except per share amounts):

	1997		1998		1999	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Share calculation:						
Average number of common shares outstanding	15,647	15,647	18,128	18,128	18,964	18,964
Incremental shares due to assumed exercise of options	-	701	-	876	-	849
Incremental shares due to assumed conversion of convertible debt	-	3,164	-	3,182	-	2,202
Weighted average common shares outstanding	15,647	19,512	18,128	22,186	18,964	22,015
Adjustments to net income:						
Income before cumulative effect of accounting change	\$ 14,500	\$ 14,500	\$ 30,412	\$ 30,412	\$ 29,156	\$ 29,156
Interest expense on convertible debt, net of tax	-	1,187	-	1,202	-	831
Income before cumulative effect of accounting change available to common shareholders	\$ 14,500	\$ 15,687	\$ 30,412	\$ 31,614	\$ 29,156	\$ 29,987
Income per share before cumulative effect of accounting change	\$ 0.93	\$ 0.80	\$ 1.68	\$ 1.42	\$ 1.54	\$ 1.36

(q) **Reclassifications**

Certain prior year amounts as previously reported have been reclassified to conform to the current year presentation.

(r) **Interest Rate Hedges**

The Company has periodically used swaps to hedge the effects of fluctuations in interest rates associated with aircraft financings. These transactions meet the requirements for current hedge accounting. The effective portions of hedging gains and losses resulting from the interest rate swap contracts are deferred until the contracts are settled and then amortized over the aircraft lease term or capitalized as part of acquisition cost, if purchased, and depreciated over the life of the aircraft. The ineffective portions of hedging gains and losses are recorded as incurred.

(s) **Segment Information**

In 1998, the Company adopted the provisions of Financial Accounting Standards Board Statement No. 131, "Disclosure about Segments of an Enterprise and Related Information (SFAS 131). SFAS 131 establishes standards for reporting information about operating segments and related disclosures about products and services. Operating segments are defined as components of an enterprise about which separate financial information is available that is regularly evaluated by chief operating decision makers in deciding how to allocate resources or in assessing performance.

The Company's chief decision makers assess operating and financial performance based on the consolidated results of the Company and accordingly, no further disclosure of segment information is considered necessary. Substantially all of the Company's revenues and operating activity relate to passenger airline transportation service. The Company does not have any international service.

2. Property and Equipment

Property and equipment consist of the following:

(in thousands)

December 31,	1998	1999
Owned aircraft and improvements	\$ 58,912	\$ 92,868
Improvements to leased aircraft	4,949	5,005
Flight equipment, primarily rotatable spare parts	29,060	41,285
Maintenance and ground equipment	5,850	7,426
Computer hardware and software	2,408	4,804
Furniture and fixtures	753	957
Leasehold improvements	2,144	3,191
	104,076	155,536
Less: Accumulated depreciation and amortization	14,110	22,376
	\$ 89,966	\$ 133,160

In 1999, the Company commenced a replacement project of its computer software systems. The Company anticipates spending approximately \$7 million on this project, the majority of which will be capitalized and amortized over five years. In 1999, the Company expensed approximately \$400,000 related to replacement software selection and capitalized \$2.3 million in acquisition and implementation costs.

3. Accrued Liabilities

Accrued liabilities consist of the following:

<i>(in thousands)</i>		
<i>December 31,</i>	1998	1999
Payroll and employee benefits	\$ 9,597	\$ 10,482
Air traffic liability	516	723
Interest	1,061	1,442
Aircraft rents	2,118	1,526
Passenger related expenses	3,233	7,980
Maintenance costs	3,866	3,016
Fuel	2,260	3,964
Other	3,679	6,719
	\$ 26,330	\$ 35,852

4. Debt

In February 1999, the Company entered into an asset-based lending agreement with two financial institutions that provides the Company with a \$15 million bridge loan for the construction of the regional terminal at Washington-Dulles and a line of credit for up to \$35 million depending on the amount of assigned ticket receivables and the value of certain rotatable spare parts. The \$35 million line of credit replaces a previous \$20 million line of credit and will expire on September 30, 2000, or upon termination of the United Express marketing agreement, whichever is sooner. The interest rate on this line is LIBOR plus .75% to 1.75% depending on the Company's fixed charges coverage ratio.

During 1999, the Company borrowed \$7.8 million on the bridge loan and provided funding to the Metropolitan Washington Airports Authority ("MWAA") for the construction of the regional terminal of \$12.5 million. In May 1999, MWAA paid the Company \$7.8 million, and the Company repaid its borrowings on the bridge loan. As of December 31, 1999 there are no outstanding borrowings on the bridge loan. A note receivable from MWAA of \$4.7 million is recorded at December 31, 1999. No additional amounts were drawn on the bridge loan for this additional \$4.7 million funding. However, the Company may do so in the future as desired.

The Company has pledged approximately \$2.9 million of the \$35 million line as collateral for letters of credit issued on behalf of the Company. At December 31, 1999, the Company's remaining available borrowing limit was approximately \$19.8 million. There was no balance outstanding under the line of credit at December 31, 1998 or December 31, 1999.

In July 1997, the Company issued \$57.5 million aggregate principal amount of 7% Convertible Subordinated Notes due July 1, 2004 ("the Notes"). The Notes are convertible into 6.4 million shares of Common Stock, \$9 per share, (after giving effect to the stock split on May 15, 1998) subject to certain adjustments. Interest on the Notes is payable on April 1 and October 1 of each year. The Notes are redeemable by the Company, in whole or in part, at any time on or after July 1, 2000, on at least 15 days notice, at the redemption prices set forth in the Indenture dated July 2, 1997, in each case, together with accrued interest. The Notes are unsecured and subordinated in right of payment in full to all existing and future Senior Indebtedness as defined in the Indenture. The holders of the Notes have certain registration rights with respect to the Notes and the underlying Common Stock.

In January 1998, approximately \$5.9 million of the Notes were converted, pursuant to their original terms, into 660,826 shares of Common Stock. From March 20, 1998 to April 8, 1998, the Company temporarily reduced the conversion price from \$9 to \$8.86 for holders of the Notes. During this period, \$31.7 million of the Notes converted into approximately 3.6 million shares of Common Stock. As a result of this temporary price reduction, the Company recorded a non-cash, non-operating charge to earnings during the second quarter of 1998 of \$1.4 million representing the fair value of the additional shares distributed upon conversion.

Long-term debt consists of the following:

(in thousands)

<i>December 31,</i>	1998	1999
Convertible subordinated notes, principal due July 1, 2004, interest payable in semi-annual installments on the outstanding principal with interest at 7%, unsecured.	\$19,820	\$19,820
Equipment Notes associated with Pass Through Trust Certificates, due January 1, 2008 and January 1, 2010, principal payable annually through January 1, 2006 and semi-annually thereafter through maturity, interest payable semi-annually at 7.49% throughout term of notes, collateralized by four J-41 aircraft.	15,388	14,346
Notes payable to supplier, due December 1999, principal and interest payable in monthly installments of \$14,027, with interest at 8%, collateralized by flight equipment, spare engines and parts, and ground equipment.	161	-
Notes payable to supplier, due between May 15, 2000 and January 15, 2001, principal payable monthly with interest of 6.74% and 7.86%, unsecured.	1,839	621
Notes payable to institutional lenders, due between October 23, 2010 and May 15, 2015, principal payable semiannually with interest ranging from 5.65% to 7.63% through maturity, collateralized by four CRJ aircraft.	25,556	53,629
Note payable to institutional lender, due October 2, 2006, principal payable semiannually with interest at 6.56%, collateralized by one J41 aircraft.	3,975	3,586
Total	66,739	92,002
Less: Current Portion	3,450	4,758
	\$63,289	\$87,244

At December 31, 1999, maturities of long-term debt are as follows:

(in thousands)

2000	\$ 4,758
2001	4,344
2002	4,639
2003	4,900
2004	24,973
Thereafter	48,388
	\$92,002

The Company has various financial covenant requirements associated with its debt and United marketing agreements. These covenants require meeting certain financial ratio tests, including tangible net worth, net earnings, current ratio and debt service levels.

5. Obligations Under Capital Leases

The Company leases certain equipment for noncancellable terms of more than one year. The net book value of the equipment under capital leases at December 31, 1998 and 1999, is \$3.0 million and \$7.2 million, respectively. The leases were capitalized at the present value of the lease payments. The weighted average interest rate for these leases is approximately 8 %.

At December 31, 1999, the future minimum payments, by year and in the aggregate, together with the present value of the net minimum lease payments, are as follows:

(in thousands)

Year Ending December 31,

2000	\$2,240
2001	2,014
2002	1,919
2003	1,723
2004	772
Future minimum lease payments	8,668
Amount representing interest	1,498
Present value of minimum lease payments	7,170
Less: Current maturities	1,627
	\$ 5,543

6. Operating Leases

Future minimum lease payments under noncancellable operating leases at December 31, 1999 are as follows:

(in thousands)

<i>Year ending December 31,</i>	<i>Aircraft</i>	<i>Other</i>	<i>Total</i>
2000	\$ 54,109	\$ 3,856	\$ 57,965
2001	52,160	3,430	55,590
2002	51,249	3,233	54,482
2003	49,576	2,935	52,511
2004	49,248	2,872	52,120
Thereafter	335,311	34,091	369,402
Total minimum lease payments	\$591,653	\$ 50,417	\$642,070

Certain of the Company's leases require aircraft to be in a specified maintenance condition at lease termination or upon return of the aircraft.

The Company's lease agreements generally provide that the Company pay taxes, maintenance, insurance and other operating expenses applicable to leased assets. Operating lease expense related to aircraft was \$29.6 million; \$36.7 million; and \$45.2 million for the years ended December 31, 1997, 1998 and 1999, respectively.

7. Stockholders' Equity

Stock Split

On April 14, 1998, the Company declared a 2-for-1 stock split payable as a stock dividend on May 15, 1998. The stock dividend was contingent on shareholder approval to increase the number of authorized Common Shares from 15,000,000 to 65,000,000 shares. Shareholder approval was obtained on May 5, 1998. The effect of this stock split is reflected in the calculation of income per share and in the stock option table presented below as of and for the years ended December 31, 1997, 1998 and 1999, respectively.

Stock Option Plans

The Company has two nonqualified stock option plans which provide for the issuance of options to purchase common stock of the Company to certain employees and directors of the Company. Under the plans, options are granted by the compensation committee of the board of directors and vest over a period ranging from less than one year to five years.

In 1998, the Company's shareholders approved the addition of one million shares to the Company's stock based compensation plans.

A summary of the status of the Company's stock options awarded as of December 31, 1997, 1998 and 1999 and changes during the periods ending on those dates is presented below:

	1997		1998		1999	
	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price
Options outstanding at beginning of year	1,916,784	\$3.16	2,056,922	\$ 5.14	1,759,899	\$ 7.95
Granted	684,000	\$8.91	539,000	\$19.42	735,000	\$22.88
Exercised	481,194	\$2.60	572,023	\$ 4.33	241,389	\$ 6.69
Canceled	62,668	\$5.45	264,000	\$17.25	93,767	\$20.60
Options outstanding at end of year	2,056,922	\$5.14	1,759,899	\$ 7.95	2,159,743	\$12.63
Options exercisable at year-end	916,568	\$2.27	872,878	\$ 3.88	1,160,206	\$ 6.05
Options available for granting at year end	1,028,182		653,182		27,334	
Weighted-average fair value of options granted during the year	\$6.49		\$11.88		\$14.57	

The Company awarded a total of 100,000 shares of restricted stock to certain employees during 1998. These shares vest over three years. The Company recognized \$281,000 and \$343,000 in compensation expense for 1998 and 1999 respectively, associated with these restricted stock awards and \$293,000 and \$94,000 for 1998 and 1999 respectively, associated with stock option awards. No such expense was recognized in the year ended 1997.

The following table summarizes information about stock options outstanding at December 31, 1999:

Range of exercise price	Options Outstanding			Options Exercisable	
	Number outstanding at 12/31/99	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Number exercisable 12/31/99	Weighted-average exercise price
\$0.00 - \$3.23	484,300	2.9	\$ 1.14	484,300	\$ 1.14
\$3.23 - \$6.45	229,764	6.4	\$ 5.22	229,764	\$ 5.22
\$6.45 - \$9.68	311,905	7.2	\$ 7.57	187,571	\$ 7.62
\$9.68 - \$12.90	197,607	7.8	\$11.10	116,938	\$11.12
\$12.90 - \$16.13	85,000	8.7	\$14.43	83,333	\$14.41
\$16.13 - \$19.35	54,667	8.1	\$17.25	25,200	\$17.25
\$19.35 - \$22.58	265,000	9.6	\$20.07	-	-
\$22.58 - \$25.80	448,500	9.1	\$24.45	17,500	\$24.35
\$25.80 - \$32.25	83,000	8.4	\$30.19	15,600	\$30.21
	2,159,743	7.0	\$12.63	1,160,206	\$ 6.05

The Company uses the Black-Scholes option model to estimate the fair value of options. A risk-free interest rate of 5.8%, 4.73% and 6.61% for 1997, 1998 and 1999, respectively, a volatility rate of 50%, 55% and 65% for 1997, 1998 and 1999, respectively, with an expected life of 7.5 years for 1997, 6.5 years for 1998, and 6.7 years for 1999 was assumed in estimating the fair value. No dividend rate was assumed for any of the years.

The following summarizes the pro forma effects assuming compensation for such awards had been recorded based upon the estimated fair value. The proforma information disclosed below does not include the impact of awards made prior to January 1, 1995 (in thousands, except per share data):

	1997		1998		1999	
	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma
Net Income	\$ 14,500	\$ 13,436	\$ 30,412	\$ 27,201	\$ 28,268	\$ 23,931
Basic earnings per share	\$ 0.93	\$ 0.86	\$ 1.68	\$ 1.50	\$ 1.49	\$ 1.26
Diluted earnings per share	\$ 0.80	\$ 0.75	\$ 1.42	\$ 1.28	\$ 1.32	\$ 1.12

Preferred Stock

The Board of Directors of the Company is authorized to provide for the issuance by the Company of preferred stock in one or more series and to fix the rights, preferences, privileges, qualifications, limitations and restrictions thereof, including, without limitation, dividend rights, dividend rates, conversion rights, voting rights, terms of redemption or repurchase, redemption or repurchase prices, limitations or restrictions thereon, liquidation preferences and the number of shares constituting any series or the designation of such series, without any further vote or action by the stockholders.

8. Employee Benefit Plans

Employee Stock Ownership Plan

The Company established an Employee Stock Ownership Plan (the "ESOP") covering substantially all employees. For each of the years 1992 through 1995, the Company made contributions to the ESOP which were used in part to make loan and interest payments. Shares of common stock acquired by the ESOP were allocated to each employee based on the employee's annual compensation.

Effective June 1, 1998, the Board of Directors of the Company voted to terminate the Plan. On March 15, 1999, the Internal Revenue Service issued a determination letter notifying the Company that the termination of the Plan does not adversely affect the Plan's qualification for federal tax purposes. Upon termination of the Plan, a participant becomes 100% vested in his or her account. In preparation for the final distribution of ESOP shares to participants, it was determined that a misallocation of shares had occurred in years 1993 through 1997 resulting in certain eligible participants not receiving some of their entitled shares. The Company contributed the required number of additional shares to the ESOP during the second and third quarters of 1999 when the final calculation was determined and recognized approximately \$250,000 in expense. The Company has filed a request for a compliance statement under the IRS's Voluntary Compliance Resolution Program to obtain Service approval of the Company's response to the share misallocation issue. In September 1999, the ESOP trustee distributed the ESOP assets per participant's direction. The ESOP will continue until all participants are located and any remaining assets are properly distributed. The number of shares remaining in the Plan as of December 31, 1999 is 32,650.

401K Plan

Effective January 1, 1992, the Company adopted a 401(k) Plan (the "Plan"). The Plan covers substantially all full-time employees who meet the Plan's eligibility requirements. Employees may elect a salary reduction contribution of up to 15% of their annual compensation not to exceed the maximum amount allowed by the Internal Revenue Service.

Effective October 1, 1994, the Plan was amended to require the Company to make contributions to the Plan for eligible pilots in exchange for certain concessions. These contributions are in excess of any discretionary contributions made for the pilots under the original terms of the plan. These contributions are 100% vested and equal to 3% of the first \$15,000 of each eligible pilot's compensation plus 2% of compensation in excess of \$15,000. The plan limits the Company's contributions for the pilots to 15% of the Company's adjusted net income before extraordinary items for such plan year. The Company's obligations to make contributions with respect to all plan years in the aggregate is limited to \$2.5 million. Contribution expense was approximately \$445,000, \$552,000, and \$640,000 for 1997, 1998 and 1999, respectively.

Effective June 1, 1995, April 1, 1997, and October 1, 1998, the Plan was amended to allow the Company to make a discretionary matching contribution for non-union employees, pilots and mechanics, respectively, equal to 25% of salary contributions up to 4% of total compensation. The Company's matching contribution, if any, vests ratably over five years. Contribution expense was approximately \$133,000, \$235,000 and \$303,000 for 1997, 1998 and 1999, respectively.

Profit Sharing Programs

The Company has profit sharing programs which result in periodic payments to all eligible employees. Profit sharing compensation, which is based on attainment of certain performance and financial goals, was approximately \$3.6 million, \$3.9 million, and \$4.5 million in 1997, 1998 and 1999, respectively.

9. Income Taxes

The provision (benefit) for income taxes includes the following components:

(in thousands)

<i>Year Ended December 31,</i>	1997	1998	1999
Federal:			
Current	\$ 7,342	\$ 13,580	\$ 10,420
Deferred	1,907	3,591	5,602
Total federal provision	9,249	17,171	16,022
State:			
Current	2,545	3,161	1,993
Deferred	545	801	304
Total state provision	3,090	3,962	2,297
Total provision on income before accounting change	\$ 12,339	\$ 21,133	\$ 18,319
Income tax benefit due to change in accounting method	\$ -	\$ -	\$ (598)
Total provision	\$ 12,339	\$ 21,133	\$ 17,721

A reconciliation of income tax expense at the applicable federal statutory income tax rate of 35% to the tax provision recorded is as follows:

(in thousands)

Year ended December 31,	1997	1998	1999
Income tax expense			
at statutory rate	\$ 9,394	\$18,041	\$16,616
Increase (decrease) in tax expense due to:			
Permanent differences and other	937	517	89
State income taxes, net of federal benefit	2,008	2,575	1,614
Income tax expense	\$12,339	\$21,133	\$18,319

Deferred income taxes result from temporary differences which are the result of provisions of the tax laws that either require or permit certain items of income or expense to be reported for tax purposes in different periods than for financial reporting purposes.

The following is a summary of the Company's deferred income taxes as of December 31, 1998, and 1999:

(in thousands)

December 31,	1998	1999
Deferred tax assets:		
Engine maintenance accrual	\$ 1,268	\$ 751
Intangible assets	934	900
Air traffic liability	503	564
Allowance for bad debts	146	369
Deferred aircraft rent	530	323
Deferred credits	2,335	3,166
Accrued vacation	534	716
Other	582	1,278
Total deferred tax assets	6,832	8,067
Deferred tax liabilities:		
Depreciation and amortization	(9,756)	(17,595)
Preoperating costs	(596)	-
Other	(184)	(81)
Total deferred tax liabilities	(10,536)	(17,676)
Net deferred income tax assets (liabilities)	\$ (3,704)	\$ (9,609)

No valuation allowance was established in either 1998 or 1999 as the Company believes it is more likely than not that the deferred tax assets can be realized.

The Tax Reform Act of 1986 enacted an alternative minimum tax ("AMT") system, generally effective for taxable years beginning after December 31, 1986. The Company is not subject to alternative minimum tax for the years ended December 31, 1998 and 1999. An AMT tax credit carryover of approximately \$564,000 was fully utilized in 1997.

10. Commitments and Contingencies

Aircraft

The Company has firm orders for 42 CRJs in addition to the 24 previously delivered as of December 31, 1999, and options for an additional 27 CRJs. The delivery schedule for the 42 firm orders is as follows: 14 in 2000, 18 in 2001, and ten in 2002. Twenty-two of the 42 firm ordered CRJs are for the United Express operation, and 20 are for the Delta Connection operation. The Company is obligated to purchase and finance (including leveraged leases) the 42 firm ordered aircraft at an approximate capital cost of \$775 million.

The Company also has a firm order for 25 328JET jet aircraft and a conditional order for 15 328JET and 40 428JET jet aircraft, and options for an additional 85 jet aircraft, from Fairchild Aerospace Corporation. The delivery schedule for the 25 firm orders for the Delta Connection operation is as follows: fourteen in 2000 and eleven in 2001. The value of the aircraft on firm order is approximately \$275 million and the value of the aircraft in the conditional order (excluding the option aircraft) is approximately \$700 million. The Company requires United's approval to operate more than 46 jet aircraft as United Express. The conditional portion of the Fairchild order is contingent on the Company receiving United's approval to operate these jets as United Express. The Company at its option may waive the condition and enter into commitments for firm delivery positions under the Fairchild agreement.

As previously announced, the Company is exploring alternatives to accelerate the retirement of its fleet of 28 leased 19 seat J-32 aircraft. The Company tentatively plans to remove as many as six J-32s from ACA's fleet during 2000 and the remainder in 2001. As of December 31, 1999, the Company had J-32 operating lease commitments with remaining lease terms ranging from one to six years and related minimum lease payments of approximately \$43 million. The Company has not yet finalized its analysis of a phase-out plan, including quantification of any one-time fleet rationalization charge.

Training

The Company has entered into agreements with Pan Am International Flight Academy ("PAIFA") for the Company to train CRJ, J-41 and J-32 pilots at PAIFA's facility near Washington-Dulles. In 1999 PAIFA acquired the existing training facility where the Company has been conducting J-41 and J-32 training, and added a CRJ simulator at the facility in December 1999. The Company has committed to purchase an annual minimum number of CRJ and J-41 simulator training hours at agreed rates, with commitments extending ten and three years, respectively.

At December 31, 1999, the Company's minimum payment obligations under the PAIFA agreements are as follows:

(in thousands)

Year ended December 31,	
2000	\$ 4,028
2001	3,611
2002	3,631
2003	1,371
2004	1,391
Thereafter	6,066
	<hr/>
	\$20,098

Derivative Financial Instruments

The Company has periodically entered into a series of put and call contracts as an interest rate hedge designed to limit its exposure to interest rate changes on the anticipated issuance of permanent financing relating to the delivery of the CRJ aircraft. During 1998 and 1999, the Company settled eight and seven hedge transactions, respectively, paying the counterparty \$3.0 million in 1998 and receiving \$119,000 in 1999. In 1999, the Company recognized a gain of \$211,000 on the settlement of one contract, representing the ineffective portion of a hedge. At December 31, 1999 the Company had three interest rate swap contracts open with an aggregate

notional amount of \$23 million to hedge its exposure by approximately 44%, to interest rate changes until permanent financing for three CRJ aircraft scheduled for delivery in March, April and May 2000, is secured. The Company would have received from the counterparty approximately \$247,000 had the three swap contracts settled on December 31, 1999.

In October 1999, the Company entered into commodity swap transactions to hedge price changes on approximately 13,300 barrels of crude oil per month for the period April to June 2000, and on approximately 23,300 barrels of crude oil per month for the period July through September 2000. The contracts provide for an average fixed price equal to approximately 52.6 cents per gallon for the second quarter of 2000 and 51 cents per gallon for the third quarter of 2000. With these transactions and taking into account that Delta Air Lines, Inc. bears the economic risk of fuel price fluctuations for future fuel requirements associated with the Delta Connection program, the Company has hedged approximately 14% of its anticipated jet fuel requirements for the second quarter 2000; 27% for the third quarter 2000; and 18%, for the fourth quarter of 2000. Had the commodity swap transactions settled on December 31, 1999, the Company would have recognized a reduction of approximately \$597,000 in fuel expense.

11. Litigation

The Company is a party to routine litigation and to FAA civil action proceedings, all of which are incidental to its business, and none of which the Company believes are likely to have a material effect on the Company's financial position or the results of its operations.

12. Financial Instruments

Statement of Financial Accounting Standards No. 107, "Disclosure of Fair Value of Financial Instruments" requires the disclosure of the fair value of financial instruments. Some of the information used to determine fair value is subjective and judgmental in nature; therefore, fair value estimates, especially for less marketable securities, may vary. The amounts actually realized or paid upon settlement or maturity could be significantly different.

Unless quoted market price indicates otherwise, the fair values of cash and cash equivalents, short term investments, accounts receivable and accounts payable generally approximate market because of the short maturity of these instruments. The Company has estimated the fair value of long term debt based on quoted market prices, when available, or by discounted expected future cash flows using current rates offered to the Company for debt with similar maturities.

The estimated fair values of the Company's financial instruments, none of which are held for trading purposes, are summarized as follows (brackets denote liability):

<i>(in thousands)</i>	<i>December 31, 1998</i>		<i>December 31, 1999</i>	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	\$64,412	\$ 64,412	\$57,447	\$ 57,447
Short-term investments	63	63	-	-
Accounts receivable	30,210	30,210	32,518	32,518
Accounts payable	(5,262)	(5,262)	(5,343)	(5,343)
Long-term debt	(66,739)	(101,975)	(92,002)	(124,484)

See note 10 for information regarding the fair value of derivative financial instruments.

13. Supplemental Cash Flow Information

Supplemental disclosures of cash flow information:

(in thousands)

Year ended December 31,	1997	1998	1999
Cash paid during the period for:			
- Interest	\$1,778	\$ 3,665	\$ 4,532
- Income taxes	5,767	15,426	8,193

The following non cash investing and financial activities took place in 1997, 1998 and 1999:

In 1997, the Company acquired \$2.9 million in rotatable parts, spare engines, market planning software and other fixed assets and expendable parts under capital lease obligations and through the use of manufacturers credits.

In November 1997, the Company received \$4.3 million in additional manufacturers credits pursuant to the terms of aircraft agreements of which \$261,000 was received in cash by the end of 1997.

In September and December 1998, the Company received \$352,000 of manufacturers credits which were applied against the purchase price of two CRJs purchased in 1998 from the manufacturer. The credits will be utilized primarily through the purchase of rotatable parts and other fixed assets, expendable parts, and pilot training.

In 1998, the Company acquired \$3.0 million consisting primarily of rotatable parts and other fixed assets and expendable parts under capital lease obligations and through the use of manufacturer credits. As of December 31, 1998, there was a remaining balance of approximately \$607,000 in earned, but unused manufacturer credits which is reflected in accounts receivable.

In 1998, the note holders elected to convert \$37.8 million of the Company's Notes to common stock resulting in a recognition of \$1.4 million of debt conversion expense.

In April 1998, the Company declared a 2-for-1 stock split payable as a stock dividend. Pursuant to this dividend, \$193,000 was transferred from additional paid-in capital to common stock to properly maintain the par value per share.

On September 29, and November 19, 1998 the Company issued long-term promissory notes for \$12.7 million and \$12.9 million respectively, for the acquisition of two new CRJ aircraft. The promissory notes mature on March 29, 2015 and May 19, 2015 respectively, and are collateralized by the CRJ aircraft delivered with principal and interest, at rates of 5.65% and 5.88%, payable on a semiannual basis through maturity.

In 1998, the Company capitalized \$1.6 million in interest related to a \$15 million deposit with a manufacturer.

During 1999, the Company received \$755,000 of manufacturers credits which were applied against the purchase price of the two CRJs purchased in 1999 from the manufacturer. The credits will be utilized primarily through the purchase of rotatable parts and other fixed assets, expendable parts, and pilot training.

On April 23, and October 5, 1999 the Company issued long-term promissory notes for \$14.7 million and \$14.8 million respectively, for the acquisition of two new CRJ aircraft. The promissory notes mature on October 23, 2010 and October 5, 2011 respectively, and are collateralized by the CRJ aircraft delivered with principal and interest, at rates of 6.62% and 7.63%, payable on a semiannual basis through maturity.

In 1999, the Company capitalized \$1.8 million in interest related to \$38.7 million on deposit with aircraft manufacturers.

14. Recent Accounting Pronouncements

In June 1998, the FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement establishes accounting and reporting standards for derivative instruments and all hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities at their fair values. Accounting for changes in the fair value of a derivative depends on its designation and effectiveness. For derivatives that qualify as effective hedges, the change in fair value will have no impact on earnings until the hedged item affects earnings. For derivatives that are not designated as hedging instruments, or for the ineffective portion of a hedging instrument, the change in fair value will affect current period earnings.

In July 1999, the FASB issued Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133, an Amendment of FASB Statement No. 133" which defers the effective date of Statement No. 133 by one year. Therefore, the Company will adopt Statement No. 133 during its first quarter of fiscal 2001 and is currently assessing the impact this statement will have on interest rate swaps and any future hedging contracts that may be entered into by the Company.

15. Selected Quarterly Financial Data (Unaudited)

(in thousands except per share amounts)

	Quarter Ended			
	March 31, <u>1999</u>	June 30, <u>1999</u>	September 30, <u>1999</u>	December 31, <u>1999</u>
Operating revenues	\$73,004	\$92,397	\$91,022	\$90,943
Operating income	5,677	18,501	14,531	10,583
Net income	2,875 ¹	11,068	8,351	5,974
Net income per share				
Basic	\$ 0.15	\$ 0.58	\$ 0.45	\$ 0.32
Diluted	\$ 0.14	\$ 0.51	\$ 0.40	\$ 0.29
Weighted average shares outstanding				
Basic	19,445	19,177	18,655	18,593
Diluted	22,613	22,224	21,632	21,577
	Quarter Ended			
	March 31, <u>1998</u>	June 30, <u>1998</u>	September 30, <u>1998</u>	December 31, <u>1998</u>
Operating revenues	\$58,055	\$75,759	\$78,100	\$78,026
Operating income	5,875	17,358	17,055	12,403
Net income	2,983	9,092	10,613	7,725
Net income per share				
Basic	\$ 0.20	\$ 0.48	\$ 0.55	\$ 0.40
Diluted	\$ 0.16	\$ 0.42 ²	\$ 0.49	\$ 0.36
Weighted average shares outstanding				
Basic	15,162	18,805	19,198	19,288
Diluted	22,034	22,246	22,244	22,289

¹ Includes the \$888,000, net of income taxes, charge for the cumulative effect of an accounting change. Without this charge, basic and diluted income per share would have been \$0.19 and \$0.18, respectively.

² Excluding a non-cash, non-operating charge to earnings during the second quarter of 1998 of \$1.4 million representing the fair value of the additional shares distributed upon conversion