

To Our Shareholders:

Whether you have been following Atlantic Coast since the very beginning, or just over the past year, you have undoubtedly recognized that this is a company made up of people who simply refuse to stand still. We are a team that is constantly in motion, always searching for new and better ways to grow.

During 2000, that growth was demonstrated in many ways. Most notably, shareholder value increased substantially—72% above our 1999 close. We also inaugurated revenue service with our new Delta Connection carrier, and added a new regional jet type to our fleet, more than doubling the total number of jets to 52, with twice that number still to be delivered.

But while all this growth created many headlines over the past year, we think 2000 should be remembered for something even more important. In our opinion, this past year marked the beginning of a new chapter of maturity and development for our company and our people that will carry us well into the future, because this was the first year in which the growth of our organizational and strategic skills was more significant in many respects than the growth of our fleet.

Previously, we were often viewed as a company awash in the unlimited possibilities of future success—only to have that potential regularly dampened by factors that were for the most part outside our control. But now, we believe we have produced a blueprint for financial stability and growth that capitalizes on our strengths, while mitigating many of the risks and pitfalls that impeded our progress in the past.

The codeshare agreements we have with both of our major airline partners—United and Delta—now work along the same lines; they choose the destinations, schedules and fares, we focus only on operating the flights. As long as we complete those flights, we receive a fee for our services, covering our costs plus a reasonable margin. We earn our profits by doing what we think we can do best—operating our daily schedule, serving our passengers and keeping our planes busy and productive all day, every day.

What this means is that for the first time in our 11-year history, the “predictably unpredictable” roller-coaster cycles of the airline industry—influenced by competitive changes, fare wars, fuel price hikes and seasonal travel patterns—will no longer have a direct impact on our bottom line.

The successes we expect to attain in the coming years are now ours to achieve, but only if we continue to work hard to satisfy the needs of our three primary constituencies. And so, we have enacted a new program, embraced at every level of the company, based on achieving new heights in these three areas:

- Customer satisfaction
- Employee satisfaction
- Shareholder satisfaction

And although we can probably all agree that these goals look good on paper, you will be pleased to note that even today, we are already well along the way to achieving them, based on three continued initiatives that will drive our progress during 2001:

Continued expansion of our regional jet program.

By further developing the partnerships with our two aircraft vendors, Bombardier and Fairchild, we have now completed firm orders that will take our fleet of regional jets to 158 by the end of 2003, which will increase our system capacity by nearly 150% over 2000 levels. Furthermore, these jet orders, combined with the previously-announced retirement of our J-32 turboprop aircraft, bring us another step closer to our ultimate goal of becoming an all-jet operation.

Our relationships with United and Delta are structured so that each new jet is put into revenue service as soon as possible. Both partners are as excited about the future of RJs as we are, and every month a new group of customers will get to experience the enhanced service of regional jet travel.

Caring for our own people the way we want them to care for our customers.

As of 2001, the energy, creativity and care we put into attracting new people, helping them become part of our corporate culture and developing their skills has never been greater. In fact, with the development of our new Employee Services division, we are working toward a goal of responding to the individual needs of each of our 3,200+ employees, one person at a time. When we do, we believe two things will happen; we will succeed in reaching our goal of growing to over 4,000 employees by year-end, and, our passengers will benefit from the higher service levels delivered by a competent, confident frontline team whose members each clearly understand their individual role in the overall success of the company.

Company-wide support for our daily operation and the team that makes it go.

Under the new agreement with United, as well as the existing contract with Delta, the productivity of our operation is the primary measure of our performance. Therefore, we have refocused our internal measurement and reward systems from an emphasis on load factors and average fares (these, again, are now controlled by our partners) to the issues of running an excellent airline operation—completing flights, keeping the schedule on time and creating the best possible experience for our customers.

One of our overriding goals is to ensure that every member of our team—in every facet of the company—is unified in the understanding that a successful operation translates directly to the financial success of Atlantic Coast and all parties associated with our company. And, by focusing a great degree of management time and resources to supporting and encouraging those on the front lines of our operation, we are already beginning to see dramatic results.

In the end, all this is being done so that you, our shareholders, will reap the ultimate benefit. We remain appreciative of the support you have shown throughout the history of the company, and believe the returns you have seen over the past year are another indication that we are on the right track for a very bright future ahead. When you consider the security of our partnerships, the continued growth of our regional jet fleet, the immediate benefits resulting from our new fee-per-departure model and our increasingly sharp focus on the need to support the individual members of our operational team, we think you will agree that there is every reason to believe this upcoming year will be our best ever.

Kerry Skeen
Chairman and
Chief Executive Officer

Tom Moore
President and
Chief Operating 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, the "Company"). ACJet began revenue service on August 1, 2000. In 2000, the Company recorded net income of \$15.2 million compared to \$28.3 million for 1999, and \$30.4 million for 1998. The 2000 results include a restructuring charge of \$17.4 million, net of income taxes, related to the planned early retirement of 28 leased 19-seat J-32 turboprop aircraft. 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 \$840,000, net of income taxes, related to the induced conversion of a portion of the 7% Convertible Subordinated Notes. Excluding these unusual items, net income for 2000, 1999, and 1998 would have been \$32.6 million, \$29.2 million, and \$31.3 million, respectively. For 2000, the Company's available seat miles ("ASM") increased 24% with the addition of 14 Canadair Regional Jet ("CRJ") aircraft and 14 Fairchild Dornier 328JET ("328JET") aircraft, net of the reduction of seven J-32 turboprop aircraft during the year. The number of total passengers increased 17%, and revenue passenger miles ("RPM") increased 23%.

Results of Operations

The Company earned income of \$15.2 million (including a \$29 million pre-tax operating charge related to the early retirement of 28 J-32 turboprop aircraft) or \$.36 per diluted share in 2000 compared to \$28.3 million or \$.66 per diluted share in 1999, and \$30.4 million or \$.71 per diluted share in 1998. During 2000, the Company generated operating income of \$24.1 million (including a \$29 million operating charge related to the early retirement of 28 J-32 turboprop aircraft), compared to \$49.3 million for 1999 and \$52.7 million for 1998. Excluding the 2000 aircraft early retirement charge, operating margins for 2000, 1999 and 1998 were 11.7%, 14.2% and 18.2% respectively.

The 51.1% decrease in operating income from 1999 to 2000 is a reflection of the J-32 retirement charge of \$29 million. Excluding this charge, operating income increased 7.7%, which reflects a 5.1% increase in unit revenue (total revenue per ASM) from \$0.195 to \$0.205, an increase of 7.7% in unit costs (cost per ASM) from \$0.168 to \$.181 and a 23.9% increase in ASM's.

The 6.5% decrease in operating income from 1998 to 1999 reflects a 5.4% decrease in unit revenue (total revenue per ASM) from \$.206 to \$.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.

Fiscal Year 1999 vs. 2000

Operating Revenues

The Company's operating revenues increased 30.3% to \$452.5 million in 2000 compared to \$347.4 million in 1999. The increase resulted from a 23.9% increase in ASMs, together with an increase in revenue per ASMs of 5.1%. The increase in ASMs reflects the addition of fourteen CRJ aircraft and fourteen 328JET aircraft in 2000, and the full year effect in 2000 of adding ten CRJ aircraft during 1999, offset by the removal of seven J-32 aircraft during 2000. Revenue passengers increased 16.8% in 2000 compared to 1999, which combined with the increase in the average passenger stage length resulted in a 23% increase in RPMs.

The 86% increase in other revenues year over year includes amounts paid by Delta Air Lines related to certain pilot training for the Delta Connection operation.

Operating Expenses

Excluding the \$29 million aircraft early retirement charge, the Company's operating expenses increased 34.0% to \$ 399.4 million in 2000 compared to \$298 million in 1999. This increase was due primarily to: an 89% increase in total fuel costs as a result of a 49% increase in the average price per gallon of jet fuel, coupled with a 20% increase in the average fuel burn rate to 222 gallons per hour; a 23.9% increase in ASMs; and expenses for the certification and start up of the ACJet operation. The increase in ASMs, passengers and burn rates reflects the addition of fourteen CRJs and fourteen 328JETs into scheduled service, net of the retirement of seven J-32s during 2000.

A summary of operating expenses as a percentage of operating revenue and operating cost per ASM for the years ended December 31, 1999 and 2000 is as follows:

	Year Ended December 31,			
	1999		2000	
	Percent of Operating Revenues	Cost Per ASM (cents)	Percent of Operating Revenues	Cost Per ASM (cents)
Salaries and related costs	24.3%	4.8	23.8%	4.9
Aircraft fuel	9.8%	1.9	14.2%	2.9
Aircraft maintenance and materials	7.0%	1.4	8.1%	1.7
Aircraft rentals	13.0%	2.5	13.2%	2.7
Traffic commissions and related fees	15.7%	3.1	12.5%	2.6
Facility rent and landing fees	5.2%	1.0	4.5%	.9
Depreciation and amortization	2.6%	.5	2.5%	.5
Other	8.2%	1.6	9.4%	1.9
Aircraft early retirement charge	-	-	6.4%	1.3
Total	85.8%	16.8	94.7%	19.4

Costs per ASM increased 15.5% to 19.4 cents in 2000 compared to 16.8 cents for 1999, primarily due to a 49% increase in the year over year price per gallon of jet fuel, the expenses associated with the certification and start-up of ACJet, flight crew training costs, and the aircraft early retirement charge. Excluding the aircraft early retirement charge, costs per ASM increased 7.7% to 18.1 cents during 2000 compared to 16.8 cents for 1999.

Salaries and related costs per ASM increased 2.1% to 4.9 cents in 2000 compared to 4.8 cents in 1999. In absolute dollars, salaries and related expenses increased 27.5% from \$84.6 million in 1999 to \$107.8 million in 2000. The increase primarily resulted from the net addition of 780 full and part time employees during 2000 to support the 28 regional jet aircraft added during 2000.

The cost per ASM of aircraft fuel increased to 2.9 cents in 2000 compared to 1.9 cents in 1999. The total price per gallon of fuel increased 48.9% to \$1.11 in 2000 compared to 74.6 cents in 1999. In absolute dollars, aircraft fuel expense increased 89.1% from \$34.1 million in 1999 to \$64.4 million in 2000, reflecting the higher cost per gallon fuel price, a 5.8% increase in block hours and the higher fuel consumption per hour of regional jet aircraft versus a turboprop aircraft which resulted in a 20% increase in the system average burn rate (gallons used per block hour flown).

The cost per ASM of aircraft maintenance and materials increased to 1.7 cents in 2000 compared to 1.4 cents in 1999. In absolute dollars, aircraft maintenance and materials expense increased 50.9% from \$24.4 million in 1999 to \$36.8 million in 2000. The increased expense resulted from the increase in the size of the total fleet, the continual increase in the average age of the turboprop fleets, the gradual expiration of manufacturer's warranties on the CRJs, and the reversal in 1999 of approximately \$1.5 million in life limited parts repair expense accruals related to CRJ engines that were no longer required based on the introduction of a maintenance contract covering the GE engines operating on the CRJ fleet.

The cost per ASM of aircraft rentals increased slightly to 2.7 cents in 2000 compared to 2.5 cents in 1999. During 2000, the Company took delivery of 28 additional regional jet aircraft, all of which were lease financed. In absolute dollars, aircraft rental expense increased 32.2% to \$59.8 million as compared to \$45.2 million in 1999 due to the additional aircraft added to the fleet.

The cost per ASM of traffic commissions and related fees decreased to 2.6 cents in 2000 as compared to 3.1 cents in 1999. Delta is responsible for travel agent commissions and related fees and effective December 1, 2000, United is responsible for travel agent commissions and program fee expense as a result of the restated UA agreement. In absolute dollars, traffic commissions and related fees increased 3.9% to \$56.6 million in 2000 from \$54.5 million in 1999. The increase resulted from an increase in passenger revenues and passenger volumes, offset by a reduction in the commission rates payable to travel agents.

The cost per ASM of facility rent and landing fees decreased to .9 cents for 2000 from 1.0 cent for 1999. In absolute dollars, facility rent and landing fees increased 13.5% to \$20.3 million for 2000 from \$17.9 million in 1999. The increase in absolute dollars for facility rent and landing fees is a result of a 6.7% increase in the number of departures, and the heavier landing weight of the regional jets.

The cost per ASM of depreciation and amortization remained the same at 0.5 cents for 2000 and 1999. In absolute dollars, depreciation and amortization expense for 2000 increased 24.1% to \$11.2 million from \$9 million in 1999. The absolute increase results in part from the full year effect of purchasing two CRJ aircraft and rotatable spare parts in 1999 for approximately \$59 million.

The cost per ASM of other operating expenses increased to 1.9 cents for 2000 from 1.6 cents in 1999. In absolute dollars, other operating expenses increased 49.5% to \$42.5 million for 2000 from \$28.5 million in 1999. The increased costs result primarily from the 16.8% increase in revenue passengers which resulted in higher passenger handling costs, training expenses for new flight crews, and expenses for ACJet pre-operating activities including regulatory compliance, employee recruitment, training, establishment of operating infrastructure, establishment of third party contractual arrangements, and aircraft proving runs. The Company expects pilot training costs to continue to increase as the remaining firm ordered CRJ and 328JET aircraft are received.

In 2000, the Company recorded an operating charge of 1.3 cents per ASM for costs associated with the early retirement of 28 J-32 turboprop aircraft. In absolute dollars, the amount of the charge was \$29 million. The charge includes the estimated cost of contractual obligations to meet aircraft return conditions as well as a lease termination fee. The retirement of the J-32 fleet is expected to be completed by December 31, 2001.

Interest expense increased from \$5.6 million in 1999 to \$6 million in 2000. The increase is the result of the full year effect of the debt outstanding for the purchase of two CRJs in 1999 partially offset by the impact of the conversion of the Company's 7% notes into equity during the first half of 2000.

Interest income increased from \$3.9 million in 1999 to \$5 million in 2000. This is primarily the result of the Company's significantly higher cash balances during 2000 as compared to 1999.

The Company recorded a provision for income taxes of \$7.7 million for 2000, compared to a provision for income taxes of \$18.3 million in 1999. The 2000 effective tax rate is approximately 33.6% as compared to the 1999 effective tax rate of approximately 38.6%. This decrease is due to a favorable state income tax ruling resulting in the application of one time state tax credits, and the realization of certain tax benefits that were previously reserved, which together reduced income tax expense by approximately \$1.4 million for 2000. 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 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% 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 a 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 in 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 resulted 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 of 1999, 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 provided under 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 were partially offset by the increasing costs of the turboprop aircraft as they aged. 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 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 did not reflect the reduced (from 8% to 5%) agency commission rate for domestic travel adopted in late 1999. Since substantially all of the Company's passenger revenues were derived from interline sales, the Company did not 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 was 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 resulted 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 was caused primarily by continued 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.

Interest expense increased from \$4.2 million in 1998 to \$5.6 million in 1999. The increase was 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 was 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% Convertible Subordinated Notes due July 1, 2004 (the "Notes") from \$4.5 to \$4.43 for holders of the Notes. During this temporary period, \$31.7 million of the Notes converted into approximately 7.2 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 was approximately 38.6% as compared to the 1998 effective tax rate of approximately 41%. The reduction in the 1999 effective rate was the result of the application of 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.

Outlook

This Outlook section and the Liquidity and Capital Resources section below contain forward-looking statements. The Company's actual results may differ materially. Factors that could cause the Company's future results to differ materially from the expectations described here include the ability of the Company to obtain favorable financing terms for its aircraft, the ability of the aircraft manufacturers to deliver aircraft on schedule, unexpected costs or delays in the implementation of new service, the ability of the Company to successfully retire the Company's turboprop fleet, the ability to hire and retain employees, the weather, the impact of labor issues or strikes at United Airlines, Inc. or Delta Air Lines, Inc. on those companies' utilization and support of the Company's operations, airport and airspace congestion, changes in and satisfaction of regulatory requirements including requirements relating to fleet expansion, and general economic and industry conditions.

A number of risks and uncertainties exist with regard to the Company's agreement with UAL Corporation ("UAL"), parent of United Airlines, Inc. ("United") to acquire – through subsidiaries – the three regional airlines that are currently wholly-owned by US Airways Group, Inc. ("US Airways") which could cause actual results to differ materially from these projected results. Such factors relating to the transaction include, among others, UAL's termination rights, ability to reach agreement with UAL on the ultimate purchase price, ability to obtain regulatory approval with respect to the transaction, financing of the final purchase price, unanticipated unreimbursed costs, ability of the three companies to operate as fully independent corporations, ability to resolve any conflicting provisions in collective bargaining agreements obligating any company involved in the transaction, potential turboprop fleet transition issues, satisfactory resolution of amendable union contracts, operational issues involving any of the three airlines, and the impact of these new operations on existing operations. The Company undertakes no obligation to update any of the forward-looking information included in this release, whether as a result of new information, future events, changes in expectations or otherwise.

Effective December 1, 2000, the Company now operates all of its flights under guaranteed fee-per-departure or fee-per-block hour agreements with United and Delta, respectively. Under these types of arrangements, the Company is contractually obligated to operate the flight schedule, for which the Company is then compensated at an agreed amount per departure or block hour regardless of passenger ticket revenue. In addition, the Company may receive additional incentive payments based on operational performance. As a result, the Company assumes the risk associated with operating the flight schedule, and United and Delta assume the risk of scheduling, marketing, and selling seats to the traveling public.

The Company provides all regional jet service for its Delta Connection operations and is continuing its transformation to all regional jet service for its existing United Express operation. In addition to the 40 CRJs and 18 328JETs in service as of March 1, 2001, the Company has firm orders for an additional 56 CRJs and 44 328JETs and option orders for 80 CRJs and 83 328JETs and long-term marketing agreements with United Airlines, Inc. and Delta Air Lines, Inc. to fly the firm ordered jet aircraft in United Express and Delta Connection service. In January 2001, the Company reached an agreement with United and Delta to place 20 CRJ's originally ordered for the Delta Connection program in the United Express program.

During 2000, the Company early retired seven J-32 turboprop aircraft, has finalized plans to early retire the remaining 21 J-32s by the end of 2001, and is evaluating plans to early retire its fleet of 32 J-41 turboprop aircraft beginning in 2002. The addition of the firm ordered regional jets, net of the removal from service of all of the turboprop aircraft, will allow the Company to grow capacity as measured in ASM's, based on planned aircraft delivery dates, by approximately 40% in 2001 and 35% in 2002. With the restructuring charge taken on the J-32 turboprop aircraft in 2000, their exit from the fleet is anticipated not to have any impact on future earnings.

The Company is evaluating plans to early retire the 32 J-41 turboprop aircraft from its fleet beginning in 2002. Adoption of a plan to retire the J-41 turboprop fleet would likely result in a substantial charge to future earnings. The Company is unable at this time to quantify the amount of any such retirement charge, as a formal plan has not yet been adopted.

ACJet commenced revenue service with 328JETs during the third quarter of 2000 and added CRJs during the fourth quarter of 2000. ACJet incurred approximately \$7.8 million in start-up

expenses from inception through commencement of revenue service, which were expensed as incurred. The Company will recover \$5.2 million of these costs, which will be recorded as revenue over the next three years. The Company plans to combine the operations of ACJet into the operations of ACA during the first half of 2001. This combination is contingent on the Company receiving the required approvals from the Federal Aviation Administration and the Department of Transportation.

During 2000, United Airlines and US Airways announced plans for a merger, with United Airlines being the successor company. The two companies have recently stated that they continue to await governmental approvals for the merger to proceed and anticipate the closing to be delayed beyond the previously announced date of April 2, 2001. On March 2, 2001, the Company announced it entered into an agreement with UAL to acquire—through subsidiaries—the three regional airlines that are currently wholly-owned by US Airways. The three carriers are Allegheny Airlines, Piedmont Airlines and PSA Airlines. Closing of the acquisition from US Airways, which would be contingent upon and occur at the same time as closing of the proposed United/US Airways merger, is subject to regulatory approvals and to termination rights by UAL. The aggregate purchase price for the three carriers, initially set at \$200 million, will be paid at closing in the form of a promissory note due in 18 months. Under the terms of the agreement, the Company will not remit principal or interest payments or accrue interest on the note until and if an agreement is finalized. The ultimate purchase price for each of the three regional carriers will be negotiated during the 18-month term of the promissory note. If agreement cannot be reached on an ultimate purchase price as to any or all of the three carriers, the Company's acquisition of that carrier will be unwound. The ultimate purchase price paid by the Company may vary substantially from the amount of the promissory note, and there can be no assurances that the Company will retain any or all of the three carriers. If closing occurs on the initial purchase of the three carriers but the Company is not the ultimate purchaser of at least one of the carriers, the Company will receive a fee of up to \$10.5 million. The results of operations, and any capital requirements of the three regional carriers, are not expected to contribute to the Company's results of operations or impact its financial position until and if an ultimate purchase price is agreed to and the acquisition can no longer be unwound.

Slots are reservations for takeoffs and landings at specified times and are required by governmental authorities to operate at certain airports. The Company has rights to and utilizes takeoff and landing slots at Chicago-O'Hare and LaGuardia, Kennedy and White Plains, New York airports. The Company also uses slot exemptions at Chicago-O'Hare, which differ from slots in that they allow service only to designated cities and are not transferable to other airlines without the approval of the U.S. Department of Transportation ("DOT"). Airlines may acquire slots by governmental grant, by lease or purchase from other airlines, or by loan when another airline does not use a slot but desires to avoid governmental reallocation of a slot for lack of use. All leased and loaned slots are subject to renewal and termination provisions. Under rules presently in effect, all slot regulation is scheduled to end at Chicago-O'Hare after July 1, 2002 and at LaGuardia and Kennedy after January 1, 2007. The rules also provide that, in addition to those slots currently held by carriers, operators of regional jet aircraft may apply for, and the Secretary of Transportation must grant, additional slots at Chicago, LaGuardia, and Kennedy in order to permit the carriers to offer new service, increase existing service or upgrade to regional jet service in qualifying smaller communities. There is no limit on the number of slots a carrier may request. The Company still expects to apply for additional slots as permitted by the new rules.

The ability of regional carriers to obtain slots at LaGuardia in large numbers led to an increase in flight activity at the airport that exceeded the capacity of LaGuardia. As a result, and to

reduce airport congestion and delays, the FAA implemented a slot lottery system resulting in a decrease in the operation of new regional jet service to and from LaGuardia including ACJet services operated for Delta. In addition, ACA is unable to increase service at LaGuardia given limits on the number of slots and the impact of the slot lottery. The slot lottery is a temporary measure, and the FAA is considering implementing a long-term solution that could involve increasing landing and other fees to discourage operations during peak hours. To the extent other airports experience significant flight delays, the FAA or local airport operators could seek to impose similar peak period pricing systems or other demand-reducing strategies which could impede the Company's ability to serve any such impacted airport.

The Company has not experienced difficulties with fuel availability and expects to be able to obtain fuel at prevailing prices in quantities sufficient to meet its future requirements. During 2000, the Company hedged a portion of its exposure to jet fuel price fluctuations by entering into commodity swap contracts for approximately 8.4% of its fuel requirements for the United Express program. Delta Air Lines, Inc. bears the economic risk of fuel price fluctuations for the fuel requirements of the Company's Delta Connection program, and United Airlines bears such risk for the Company's United Express program beginning on December 1, 2000. As such, the Company expects that its results of operations will no longer be directly affected by fuel price volatility.

The Company's regional jet fleet is comprised of new aircraft with an average age of less than 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 regional jet aircraft will increase in future periods.

In 2000, the Company has 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 the 43 CRJs already delivered or on order for the United Express operation. This agreement was amended in July 2000 to cover 23 additional CRJ aircraft, bringing the total number of CRJ aircraft covered under the agreement to 66. 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 paid to GE 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 signed a similar agreement covering engines for up to 80 328JETs with Pratt & Whitney, and also anticipates signing a similar agreement for the remaining regional jets on order.

In 1999, the Company commenced a replacement project of its computer software systems. The Company 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 2001. The Company anticipates spending approximately \$8.8 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. In 2000, an additional \$5.2 million was capitalized, bringing the total capitalized costs to date to \$7.5 million.

Liquidity and Capital Resources

As of December 31, 2000, the Company had cash, cash equivalents, and short-term investments of \$121.2 million and working capital of \$72 million compared to \$57.4 million and \$60.4 million, respectively, as of December 31, 1999. During the year ended December 31, 2000, cash and cash equivalents increased \$46.2 million, reflecting net cash provided by operating activities of \$93.9 million, net cash used in investing activities of \$43.8 million (related to aircraft purchase deposits, purchases of aircraft and equipment and increases in short term investments) and net cash used in financing activities of \$3.9 million. The increase in cash provided by operating activities is primarily due to the restated UA Agreements, effective December 1, 2000, in which the Company is now paid weekly in advance for monthly revenue as compared to receiving monthly revenue 30 to 60 days after the end of a month. Net cash used in financing activities was mainly related to payments of long-term debt and capital lease obligations and purchases of treasury stock.

In order to minimize total aircraft rental expense over the entire life of the related aircraft leveraged lease transactions, the Company has uneven semiannual lease payment dates of January 1 and July 1 for its CRJ aircraft. Currently, approximately 46.1% of the Company's annual lease payments are due in January and 27.8% are due in July.

As of December 31, 1999, the Company had cash, cash equivalents, and short-term investments 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 \$24.5 million, reflecting net cash provided by operating activities of \$49.9 million, net cash used in investing activities of \$89.8 million (related to aircraft purchase deposits, purchases of aircraft and equipment and increases 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.

Other Financing

In February 1999, the Company entered in to an asset-based lending agreement with two financial institutions that provides the Company with 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 line of credit will expire on September 30, 2001, 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 line during 1999 or 2000. The Company pledged \$3.0 million of this line of credit as collateral for letters of credit issued on behalf of the Company by a financial institution. With the change in the United Express agreement going from a prorate arrangement to a fee-per-departure payment in advance arrangement effective December 1, 2000, the Company's ticket receivable available for assignment has been reduced to zero. As such, the available borrowing under the line of credit is limited to the value of certain rotatable spare parts. The Company anticipates replacing this existing line of credit with a smaller more economical line of credit when the current line expires on September 30, 2001. As of March 1, 2001, the available amount of credit under the line was \$5 million.

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 \$4.5 per share, subject to certain adjustments. In January 1998, approximately \$5.9 million of the Notes were converted, pursuant to their original terms, into 1,321,652 shares of Common Stock. From March 20, 1998 to April 8, 1998, the Company temporarily reduced the conversion price from \$4.5 to \$4.43 for holders of the Notes. During this period, \$31.7 million of the Notes converted into approximately 7.2 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. On May 15, 2000, the Company called the remaining \$19.8 million principal amount of Notes outstanding, for redemption at 104% of face value, effective July 3, 2000. The Noteholders elected to convert all of the Notes into common stock and approximately 4.4 million shares were issued in exchange for the Notes during the period May 25, 2000 to June 6, 2000, resulting in an addition to paid in capital of approximately \$19.8 million offset by a reduction of approximately \$471,000 for the unamortized debt issuance costs relating to the Notes in connection with their conversion.

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

The Company's Board of Directors has approved the purchase of up to \$40 million of the Company's outstanding common stock in open market or private transactions. As of March 10, 2001, the Company has purchased 2,128,000 shares of its common stock at an average price of \$8.64 per share. The Company has approximately \$21.6 million remaining of the \$40 million authorization.

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 three quarters years. The Company's total rent expense in 2000 under all non-cancelable aircraft operating leases was approximately \$59.8 million. As of December 31, 2000, the Company's minimum annual rental payments for 2001 under all non-cancelable aircraft operating leases with remaining terms of more than one year were approximately \$83.6 million.

As of March 1, 2001, the Company had a total of 56 Canadair Regional Jets ("CRJs") on order from Bombardier, Inc., and held options for 80 additional CRJs. The Company also has a firm order with Fairchild Aerospace Corporation for 44 Fairchild Dornier 32 seat regional jet ("328JET") aircraft, and options for 83 additional 328JETs. Of the 100 firm ordered aircraft deliveries, 28 are scheduled for 2001, 30 are scheduled for 2002, and 42 are scheduled for 2003. The Company is obligated to purchase and finance (including leveraged leases) the 100 firm ordered aircraft at an approximate capital cost of \$1.7 billion. The Company anticipates leasing all of its year 2001 aircraft deliveries on terms similar to previously delivered regional jet aircraft. Aircraft orders

are subject to price escalation formulas based on certain indices designed to reflect increased costs in the production of the aircraft. During 2000 and during the first quarter of 2001, the rate of escalation has increased, and such increases will be reflected in future aircraft cost or lease rates. On March 13, 2001 and March 15, 2001 the Company acquired through leveraged lease transactions its 19th and 20th 328JET aircraft. On March 14, 2001 the Company acquired through leveraged lease transactions its 41st CRJ aircraft. The lease terms are for approximately 16.8 years.

During 1999, the Company announced orders for a total of 85 aircraft from Fairchild Aerospace Corporation, including 40 328JETs (32 seat capacity) and 45 428Jets (44 seat capacity). The 428Jets were an aircraft under development, with initial deliveries scheduled for 2003. In August 2000 Fairchild Aerospace announced that it would not proceed with development of the 428Jets. In January 2001, the Company reached a series of agreements with Fairchild resolving all issues relating to the initial order. Under the new agreements, the Company revised its order for 328JETs to a total of 62 aircraft. The Company also placed an order for 30 additional CRJs with Bombardier Aerospace in August 2000, which are included in the 100 firm ordered aircraft described above.

During 2000, the Company began early retiring the leased 19-seat J-32 aircraft from the fleet. As of March 1, 2001, ten J-32s had been removed from service. The remaining 18 J-32s will be removed from service during the remainder of 2001. The early retirement of the 28 leased J-32 aircraft resulted in the Company recording a \$29.0 million (pre-tax) restructuring charge during 2000. During March 2001, the Company reached agreement with the lessor for the early return and lease termination of all of the J-32's and as a result paid a lease termination fee which consisted of \$19.1 million in cash, and the application of \$5.2 million in credits due from the lessor. The Company believes the remainder of the accrual will be adequate to provide for costs necessary to meet aircraft return conditions. The early termination of these leases and the return of these aircraft prior to lease expiration will enable the Company to satisfy its lease obligations and does not require the Company to assume the risks and efforts required to maintain and remarket the aircraft. The Company does not expect to incur any additional charges against earnings for the early retirement of the J-32 fleet.

The Company is evaluating plans to early retire the 32 J-41 turboprop aircraft from its fleet beginning in 2002. Adoption of a plan to retire the J-41 turboprop fleet would likely result in a substantial charge to future earnings. The Company is unable at this time to quantify the amount of any such retirement charge, as a formal plan has not yet been adopted.

In order to ensure the highest level of safety in air transportation, the FAA has authority to issue maintenance directives and other mandatory orders. These relate to, among other things, the inspection of aircraft and the mandatory removal and replacement of parts or structures. In addition, the FAA from time to time amends its regulations and such amended regulations may impose additional regulatory burdens on the Company, such as the required installation of new safety-related items.

Depending upon the scope of the FAA's orders and amended regulations, these requirements may cause the Company to incur substantial, unanticipated expenses which may not be reimbursable under the Company's marketing agreements. The FAA enforces its maintenance regulations by the imposition of civil penalties, which can be substantial.

Capital Equipment and Debt Service

In 2001 the Company anticipates capital spending of approximately \$27.8 million consisting of \$13.8 million in rotatable spare parts, \$7.4 million for spare engines and equipment, and \$6.6 million for other capital assets, and expects to finance these capital expenditures out of working capital.

Principal payments on long term debt for 2001 are estimated to be approximately \$4.3 million reflecting borrowings related to the purchase of four CRJ aircraft acquired in 1998 and 1999 and five J-41s acquired in 1997 and 1998. The foregoing amount does not include additional debt that may be required for the financing of new CRJs, 328JETs, spare parts and spare engines.

The Company believes that, in the absence of unusual circumstances, its cash flow from operations 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, and 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, effective January 1, 2001. The impact of adopting this statement is not expected to have a material impact on the Company's financial results.

Quantitative and Qualitative Disclosures About Market Risk

The Company's principal market risk results in changes in interest rates, and the availability of jet fuel.

The Company has not experienced difficulties with fuel availability and expects to be able to obtain fuel at prevailing prices in quantities sufficient to meet its future requirements. During 2000, the Company hedged a portion of its exposure to jet fuel price fluctuations by entering into commodity swap contracts for approximately 8.4% of its fuel requirements for the United Express program. Delta Air Lines, Inc. bears the economic risk of fuel price fluctuations for the fuel requirements of the Company's Delta Connection program, and United Airlines bears such risk for

the Company's United Express program beginning on December 1, 2000. As such, the Company reasonably expects that its results of operations will no longer be directly affected by fuel price volatility.

The Company's exposure to market risk associated with changes in interest rates relates to the Company's commitment to acquire regional jets. From time to time 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. During 1998, 1999 and 2000, the Company settled eight, seven and eight hedge transactions, respectively, paying the counterparty \$3.0 million in 1998, receiving \$119,000 in 1999 and paying the counterparty \$379,000 in 2000. 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, 2000 the Company had one interest rate hedge transaction open with a notional value of \$8.5 million. The Company settled this contract on January 3, 2001 by paying the counterparty \$722,000.

As of March 1, 2001, the Company had firm commitments to purchase 100 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. Aircraft orders are also subject to price escalation formulas based on certain indices designed to reflect increased costs in the production of the aircraft. During 2000 and during the first quarter of 2001 the rate of escalation has increased, and such increases will be reflected in future aircraft cost or lease rates.

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, 1999 and 2000, 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, 2000. 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 auditing standards generally accepted in the United States of America. 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, 1999 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

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, VA
January 25, 2001,
except as to Note 12,
which is as of March 2, 2001

Atlantic Coast Airlines Holdings, Inc.

Consolidated Balance Sheet

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

December 31,

1999

2000

	1999	2000
Assets		
Current:		
Cash and cash equivalents	\$ 39,897	\$ 86,117
Short term investments	17,550	35,100
Accounts receivable, net	31,023	29,052
Expendable parts and fuel inventory, net	4,114	6,188
Prepaid expenses and other current assets	6,347	8,055
Notes receivable	6,239	-
Deferred tax asset	2,850	13,973
Total current assets	108,020	178,485
Property and equipment at cost, net of accumulated depreciation and amortization	133,160	142,840
Intangible assets, net of accumulated amortization	2,232	2,045
Debt issuance costs, net of accumulated amortization	3,309	2,912
Aircraft deposits	38,690	46,420
Other assets	8,342	9,998
Total assets	\$ 293,753	\$ 382,700
Liabilities and Stockholders' Equity		
Current:		
Current portion of long-term debt	\$ 4,758	\$ 4,344
Current portion of capital lease obligations	1,627	1,512
Accounts payable	5,343	19,724
Accrued liabilities	35,852	53,044
Accrued aircraft early retirement charge	-	27,843
Total current liabilities	47,580	106,467
Long-term debt, less current portion	87,244	63,080
Capital lease obligations, less current portion	5,543	4,009
Deferred tax liability	12,459	18,934
Deferred credits, net	15,403	22,037
Total liabilities	168,229	214,527
Stockholders' equity:		
Preferred Stock: \$.02 par value per share; shares authorized 5,000,000; no shares issued or outstanding in 1999 or 2000	-	-
Common stock: \$.02 par value per share; shares authorized 65,000,000 in 1999 and in 2000; shares issued 42,167,854 in 1999 and 47,704,720 in 2000; shares outstanding 37,256,522 in 1999 and 42,658,388 in 2000	843	954
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	88,704	117,284
Less: Common stock in treasury, at cost, 4,911,332 shares in 1999 and 5,046,332 shares in 2000	(34,106)	(35,303)
Retained earnings	70,083	85,238
Total stockholders' equity	125,524	168,173
Total liabilities and stockholders' equity	\$ 293,753	\$382,700
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,

	1998	1999	2000
Operating revenues:			
Passenger	\$ 285,243	\$ 342,079	\$ 442,695
Other	4,697	5,286	9,831
Total operating revenues	289,940	347,365	452,526
Operating expenses:			
Salaries and related costs	68,135	84,554	107,831
Aircraft fuel	23,978	34,072	64,433
Aircraft maintenance and materials	22,730	24,357	36,750
Aircraft rentals	36,683	45,215	59,792
Traffic commissions and related fees	42,429	54,521	56,623
Facility rents and landing fees	13,475	17,875	20,284
Depreciation and amortization	6,472	9,021	11,193
Other	23,347	28,458	42,537
Aircraft early retirement charge	-	-	28,996
Total operating expenses	237,249	298,073	428,439
Operating income	52,691	49,292	24,087
Other income (expense):			
Interest expense	(4,207)	(5,614)	(6,030)
Interest income	4,145	3,882	5,033
Debt conversion expense	(1,410)	-	-
Other income (expense), net	326	(85)	(278)
Total other expense, net	(1,146)	(1,817)	(1,275)
Income before income tax provision and cumulative effect of accounting change	51,545	47,475	22,812
Income tax provision	21,133	18,319	7,657
Income before cumulative effect of accounting change	30,412	29,156	15,155
Cumulative effect of accounting change, net of income tax benefit of \$598	-	(888)	-
Net income	\$ 30,412	\$ 28,268	\$ 15,155
Income per share:			
Basic:			
Income before cumulative effect of accounting change	\$.84	\$.77	\$.38
Cumulative effect of accounting change	-	(.02)	-
Net income	<u>\$.84</u>	<u>\$.75</u>	<u>\$.38</u>
Diluted:			
Income before cumulative effect of accounting change	\$.71	\$.68	\$.36
Cumulative effect of accounting change	-	(.02)	-
Net income	<u>\$.71</u>	<u>\$.66</u>	<u>\$.36</u>
Weighted average shares used in computation:			
Basic	36,256	37,928	40,150
Diluted	44,372	44,030	43,638

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
	Shares	Amount		Shares	Amount	
Balance December 31, 1997	32,013,028	\$ 640	\$ 39,831	2,945,000	\$ (17,069)	\$ 11,403
Exercise of common stock options	1,144,044	23	2,456	-	-	-
Tax benefit of stock option exercise	-	-	4,239	-	-	-
Amortization of deferred compensation	-	-	574	-	-	-
Conversion of debt	8,484,930	170	37,698	-	-	-
Net income	-	-	-	-	-	30,412
Balance December 31, 1998	41,642,002	\$ 833	\$ 84,798	2,945,000	\$ (17,069)	\$ 41,815
Exercise of common stock options	525,852	10	1,574	-	-	-
Tax benefit of stock option exercise	-	-	1,835	-	-	-
Purchase of treasury stock	-	-	-	1,993,000	(17,192)	-
ESOP share contributions	-	-	60	(26,668)	155	-
Amortization of deferred compensation	-	-	437	-	-	-
Net income	-	-	-	-	-	28,268
Balance December 31, 1999	42,167,854	\$ 843	\$ 88,704	4,911,332	\$ (34,106)	\$ 70,083
Exercise of common stock options	1,132,432	23	3,919	-	-	-
Tax benefit of stock option exercise	-	-	4,952	-	-	-
Purchase of treasury stock	-	-	-	135,000	(1,197)	-
Conversion of debt	4,404,434	88	19,261	-	-	-
Amortization of deferred compensation	-	-	448	-	-	-
Net income	-	-	-	-	-	15,155
Balance December 31, 2000	47,704,720	\$ 954	\$ 117,284	5,046,332	\$ (35,303)	\$ 85,238

See accompanying notes to consolidated financial statements.

Atlantic Coast Airlines Holdings, Inc.

Consolidated Statements of Cash Flows

(In thousands)

Years ended December 31,

	1998	1999	2000
Cash flows from operating activities:			
Net income	\$ 30,412	\$ 28,268	\$ 15,155
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,829	9,109	11,544
Write-off of preoperating costs	-	1,486	-
Amortization of intangibles and preoperating costs	690	176	183
Provision for uncollectible accounts receivable	124	564	503
Provision for inventory obsolescence	86	110	237
Amortization of deferred credits	(801)	(1,114)	(1,599)
Amortization of debt issuance costs	465	354	297
Capitalized interest, net	(1,640)	(1,683)	(2,554)
Deferred tax provision (benefit)	4,392	5,905	(4,648)
Net loss on disposal of fixed assets	247	380	-
Amortization of debt discount and finance costs	70	73	56
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)	(3)
Amortization of deferred compensation	574	437	469
Changes in operating assets and liabilities:			
Accounts receivable	(6,077)	(3,572)	6,564
Expendable parts and fuel inventory	(990)	(847)	(2,310)
Prepaid expenses and other current assets	(2,512)	(2,660)	(1,866)
Accounts payable	423	2,139	22,300
Accrued liabilities	7,028	11,013	49,601
Net cash provided by operating activities	39,730	49,850	93,929
Cash flows from investing activities:			
Purchase of property and equipment	(51,020)	(59,669)	(19,146)
Proceeds from sales of fixed assets	1,318	6,608	585
Purchases of short term investments	-	(17,550)	(74,705)
Maturities of short term investments	10,677	66	57,155
Refund of deposits	120	3	4,600
Payments for aircraft and other deposits	(832)	(19,270)	(12,330)
Net cash used in investing activities	(39,737)	(89,812)	(43,841)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	29,650	37,203	-
Payments of long-term debt	(2,248)	(4,189)	(4,758)
Payments of capital lease obligations	(2,656)	(1,839)	(1,647)
Proceeds from receipt of deferred credits and other	96	37	173
Deferred financing costs	(2,069)	(157)	(381)
Proceeds from exercise of stock options	2,479	1,584	3,942
Purchase of treasury stock	-	(17,192)	(1,197)
Net cash provided by (used in) financing activities	25,252	15,447	(3,868)
Net increase (decrease) in cash and cash equivalents	25,245	(24,515)	46,220
Cash and cash equivalents, beginning of year	39,167	64,412	39,897
Cash and cash equivalents, end of year	\$ 64,412	\$ 39,897	\$ 86,117

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. ACA's flights are 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, 2000, ACA provided scheduled air transportation service as United Express for passengers to destinations in states in the Eastern and Midwestern United States. ACJet's flights are operated under a code sharing agreement with Delta Air Lines, Inc. ("Delta") and are identified as Delta Connection flights in computer reservation systems. ACJet commenced scheduled operations on August 1, 2000, to various destinations in the Eastern United States.

(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. In addition, the Company holds investments in tax-free Industrial Revenue Bonds ("IRB") having initial maturities up to 30 years. The IRB's are secured by letters of credit and come up for auction on a weekly basis. As such, the Company considers securities of this type to be 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 and cargo revenues are recorded as operating revenues at the time transportation is provided. Under the Company's fee-per-departure agreements, transportation is considered provided when the flight has been completed. Under the proration of fare agreement in effect with United for periods prior to and through November 2000, transportation was considered provided when the passenger flew. Substantially all of the passenger tickets used by the Company's passengers are sold by other air carriers.

ACA participates in United's Mileage Plus frequent flyer program, and ACJet participates in the Delta SkyMiles frequent flyer program. The Company does not accrue for incremental costs for mileage accumulation or redemption relating to these programs because the Company operates under agreements, which utilize fixed rate structures.

(d) ***Accounts and Notes Receivable***

Accounts receivable are stated net of allowances for uncollectible accounts of approximately \$773,000 and \$755,000 at December 31, 1999 and 2000, respectively. Amounts charged to expenses for uncollectible accounts in 1998, 1999 and 2000 were \$124,000, \$564,000 and \$503,000, respectively. Write-off of accounts receivable were \$29,000, \$156,000 and \$521,000 in 1998, 1999 and 2000, respectively. Accounts receivable as of December 31, 1999 and 2000 included approximately \$2.9 million and \$3.3 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. Prior to the change from a proration of fare agreement to a fee-per-departure agreement, the Company had a significant concentration of its accounts receivable with other air carriers with no collateral. At December 31, 1999 and 2000, accounts receivable from air carriers totaled approximately \$27.6 million and \$18.6 million, respectively. Of the total amount, approximately \$23.2 million and \$13.3 million at December 31, 1999 and 2000, respectively, were due from United. Under the fee-per-departure agreements, the Company receives payment in advance from both United and Delta. Historically, accounts receivable losses have not been significant.

(f) **Risks and Uncertainties**

United Express:

The Company's United Express Agreements ("UA Agreements") define the Company's relationship with United. The UA Agreements authorize the Company to use United's "UA" flight designator code to identify the Company's flights and fares in the major airline Computer Reservation Systems ("CRS"), including United's "Apollo" reservation system, to use the United Express logo and exterior aircraft paint schemes and uniforms similar to those of United, and to otherwise advertise and market the Company's association with United.

In November 2000, the Company and United restated the UA Agreements, effectively changing from a prorated fare arrangement to a fee-per-departure arrangement. Under the fee-per-departure structure, the Company is contractually obligated to operate the flight schedule, for which United pays the Company an agreed amount per departure regardless of the number of passengers carried, with incentive payments based on operational performance. The Company thereby assumes the risks associated with the flight schedule and United assumes the risk of scheduling, marketing, and selling seats to the traveling public. The restated UA Agreements are for a term of ten years. The restated UA Agreements give ACA the authority to operate 128 regional jets in the United Express operation.

Pursuant to the restated UA Agreements, United provides a number of additional services to ACA at no cost. These include customer reservations, customer service, pricing, scheduling, revenue accounting, revenue management, frequent flyer administration, advertising, provision of ground support services at most of the airports served by both United and ACA, provision of ticket handling services at United's ticketing locations, and provision of airport signage at airports where both ACA and United operate.

The UA Agreements do not prohibit United from serving, or from entering into agreements with other airlines who would serve, 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 other than Delta without United's approval.

The UA Agreements limit the ability of 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 ACAI or ACA merge with or are controlled or acquired by another carrier. The UA agreements provide United with the right to assume ACA's ownership or leasehold interest in certain aircraft in the event ACA breaches specified provisions of the UA agreements, or fails to meet specified performance standards.

Delta Connection:

In September 1999, the Company reached a ten year agreement with Delta Air Lines, Inc. ("Delta") to operate regional jet aircraft as part of the Delta Connection program on a fee-per-block hour basis. The Company's Delta Connection Agreement ("DL Agreement") defines the Company's relationship with Delta. The Company is compensated by Delta on a fee-per-block hour basis regardless of the amount of passenger ticket revenue. Under the fee-per-block hour structure, the Company is contractually obligated to operate the flight schedule, for which Delta pays the Company an agreed amount per block hour flown regardless of passenger revenue with additional incentive payments based on operational performance. The Company thereby assumes the risks of operating the flight schedule and Delta assumes the risks of scheduling, marketing, and selling seats to the traveling public.

By operating as part of the Delta Connection program, the Company is able to use Delta's "DL" flight designator to identify the Company's flights and fares in the major Computer Reservation Systems, including Delta's "Deltamatic" reservation system, and to use the Delta Connection logo and exterior aircraft paint schemes and uniforms similar to those of Delta.

Pursuant to the DL Agreement, Delta, at its expense, provides a number of support services to ACJet. These include customer reservations, customer service, ground handling, station operations, pricing, scheduling, revenue accounting, revenue management, frequent flyer administration, advertising and other passenger, aircraft and traffic servicing functions in connection with the ACJet operation.

Delta may terminate the DL Agreement at any time if ACJet 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 DL Agreement requires the Company to obtain Delta's approval if it chooses to enter into a code-sharing arrangement with another carrier, to list its flights under any other code, or to 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 DL Agreement does not prohibit Delta from serving, or from entering into agreements with other airlines who would serve, routes served by the Company. The DL 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.

Collective Bargaining Agreements:

The Company's pilots are represented by the Airline Pilots Association ("ALPA"), flight attendants are represented by the Association of Flight Attendants ("AFA"), and 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 early 2001, the Company's pilots ratified a new four-and-a-half year agreement. This agreement provides for improvements in pay rates, benefits, training and other areas. The collective bargaining agreement covers pilots flying for both the Atlantic Coast Airlines/United Express operation, as well as the Atlantic Coast Jet/Delta Connection operation. The new agreement provides for substantial increases in pilot compensation

which the Company believes are consistent with industry trends.

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 an agreement with AFA for a five-year duration covering ACJet flight attendants on terms substantially similar to the terms of the contract between ACA and AFA. The ACJet agreement becomes amendable in March 2005.

The collective bargaining agreement with AMFA was ratified in June, 1998. The agreement is for a four-year duration and becomes amendable in June 2002. This agreement covers all mechanics working for the Company.

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.

(g) Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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 \$428,000 and \$665,000 as of December 31, 1999 and 2000, respectively. Expendable parts and supplies are charged to expense as they are used. Amounts charged to costs and expenses for obsolescence in 1998, 1999 and 2000 were \$86,000, \$110,000 and \$237,000, 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 shorter of the estimated life or the remaining term 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.

(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. 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.

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, approximately \$2.2 million of preoperating costs incurred during 1999 and approximately \$5.6 million of preoperating costs incurred during 2000 for the start up of ACJet were expensed as incurred.

(k) Intangible Assets

Goodwill of approximately \$3.2 million, representing the excess of cost over the fair value of net assets acquired in the acquisition of ACA, is being amortized by the straight-line method over twenty years. Costs incurred to acquire slots are being amortized by the straight-line method over twenty years. The primary financial indicator used by the Company to assess the recoverability of its intangible assets 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. Accumulated amortization of intangible assets at December 31, 1999 and 2000 was \$1.4 million and \$1.6 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 J-32 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.

The Company has 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. This agreement was amended in July 2000 to cover 23 additional CRJ aircraft, bringing the total number of CRJ aircraft covered under the agreement to 66. 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 paid to GE 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 signed a similar agreement covering engines for up to 80 328JETs with Pratt & Whitney.

During the third quarter of 1999, 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. As such, 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. On January 25, 2001, the Company announced a 2-for-1 common stock split payable as a stock dividend on February 23, 2001 to shareholders of record on February 9, 2001. All share and income per share information has been adjusted for all years presented to reflect the stock split.

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

	1998		1999		2000	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Share calculation:						
Average number of common shares outstanding	36,256	36,256	37,928	37,928	40,150	40,150
Incremental shares due to assumed exercise of options	-	1,752	-	1,698	-	1,616
Incremental shares due to assumed conversion of convertible debt	-	6,364	-	4,404	-	1,872
Weighted average common shares outstanding	36,256	44,372	37,928	44,030	40,150	43,638
Adjustments to net income:						
Income before cumulative effect of accounting change	\$ 30,412	\$ 30,412	\$ 29,156	\$ 29,156	\$ 15,155	\$ 15,155
Interest expense on convertible debt, net of tax	-	1,202	-	831	-	416
Income before cumulative effect of accounting change available to common shareholders	\$ 30,412	\$ 31,614	\$ 29,156	\$ 29,987	\$ 15,155	\$ 15,571
Income before cumulative effect of accounting change per share	\$.84	\$.71	\$.77	\$.68	\$.38	\$.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 has adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." The statement requires disclosures related to components of a company for which separate financial information is available that is evaluated regularly by a company's chief operating decision maker in deciding the allocation of resources and assessing performance. The Company is engaged in one line of business, the scheduled and chartered transportation of passengers, which constitutes nearly all of its operating revenues.

2. Property and Equipment

Property and equipment consist of the following:

<i>(in thousands)</i> <i>December 31,</i>	1999	2000
Owned aircraft and improvements	\$ 92,868	\$ 92,931
Improvements to leased aircraft	5,005	5,771
Flight equipment, primarily rotatable spare parts	41,285	51,199
Maintenance and ground equipment	7,426	9,310
Computer hardware and software	4,804	11,345
Furniture and fixtures	957	1,329
Leasehold improvements	3,191	4,282
	155,536	176,167
Less: Accumulated depreciation and amortization	22,376	33,327
	\$ 133,160	\$ 142,840

In 1999, the Company commenced a replacement project of its computer software systems. The Company anticipates spending approximately \$8.8 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. In 2000, the Company capitalized an additional \$5.2 million of costs incurred during the year, bringing the total capitalized costs to date to \$7.5 million.

3. Accrued Liabilities

Accrued liabilities consist of the following:

<i>(in thousands)</i> <i>December 31,</i>	1999	2000
Payroll and employee benefits	\$ 10,482	\$ 13,038
Air traffic liability	723	3,075
Interest	1,442	1,021
Aircraft rents	1,526	8,109
Passenger related expenses	7,980	9,692
Maintenance costs	3,016	2,880
Fuel	3,964	7,049
Other	6,719	8,180
	\$ 35,852	\$ 53,044

4. Debt

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 line of credit replaced a previous \$20 million line of credit and will expire on September 30, 2001, 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 were no outstanding borrowings on the bridge loan. A note receivable from MWAA of \$4.7 million was recorded at December 31, 1999. No additional amounts were drawn on the bridge loan for this additional \$4.7 million funding. The bridge loan was effectively cancelled upon completion of the regional terminal in May 2000.

The Company has pledged approximately \$3.0 million of the line of credit as collateral for letters of credit issued on behalf of the Company. At December 31, 2000 and December 31, 1999, the Company's remaining available borrowing limit was approximately \$5 million and \$19.8 million, respectively. There was no balance outstanding under the line of credit at December 31, 1999 or December 31, 2000.

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 \$4.50 per share, subject to certain adjustments. In January 1998, approximately \$5.9 million of the Notes were converted, pursuant to their original terms, into 1,321,652 shares of Common Stock. From March 20, 1998 to April 8, 1998, the Company temporarily reduced the conversion price from \$4.50 to \$4.43 for holders of the Notes. During this period, \$31.7 million of the Notes converted into approximately 7.2 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. On May 15, 2000, the Company called the remaining \$19.8 million principal amount of Notes outstanding, for redemption at 104% of face value effective July 3, 2000. The Noteholders elected to convert all of the Notes into common stock and approximately 4.4 million shares were issued in exchange for the Notes during the period May 25, 2000 to June 6, 2000, resulting in an addition to paid in capital of approximately \$19.8 million offset by a reduction of approximately \$471,000 for the unamortized debt issuance costs relating to the Notes in connection with their conversion.

Long-term debt consists of the following:

(in thousands)

<i>December 31,</i>	1999	2000
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	-
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.	14,346	13,304
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.	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.	53,629	50,952
Note payable to institutional lender, due October 2, 2006, principal payable semiannually with interest at 6.56%, collateralized by one J41 aircraft.	3,586	3,168
Total	92,002	67,424
Less: Current portion	4,758	4,344
	\$87,244	\$63,080

As of December 31, 2000, maturities of long-term debt are as follows:

(in thousands)

2001	\$ 4,344
2002	4,639
2003	4,900
2004	5,153
2005	6,019
Thereafter	42,369
	\$67,424

The Company has various financial covenant requirements associated with its debt and United marketing agreements. These covenants require the Company to meet 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, 1999 and 2000, is \$7.2 million and \$5.5 million, respectively. The leases were capitalized at the present value of the lease payments. The weighted average interest rate for these leases is approximately 7.6 %.

At December 31, 2000, 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,

2001	\$ 2,008
2002	1,919
2003	1,723
2004	772
2005	-
Future minimum lease payments	6,422
Amount representing interest	901
Present value of minimum lease payments	5,521
Less: Current maturities	1,512
	\$ 4,009

6. Operating Leases

Future minimum lease payments under noncancellable operating leases at December 31, 2000 are as follows:

(in thousands)
Year ending December 31,

	<i>Aircraft</i>	<i>Other</i>	<i>Total</i>
2001	\$ 83,601	\$ 5,365	\$ 88,966
2002	83,603	5,301	88,904
2003	81,930	5,392	87,322
2004	81,602	5,449	87,051
2005	80,508	5,529	86,037
Thereafter	629,180	44,672	673,852
Total minimum Lease payments	\$1,040,424	\$ 71,708	\$ 1,112,132

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 pays taxes, maintenance, insurance and other operating expenses applicable to leased assets. Operating lease expense related to aircraft was \$36.7 million, \$45.2 million, and \$59.8 million for the years ended December 31, 1998, 1999, and 2000, respectively.

7. Stockholders' Equity

Stock Splits

On April 14, 1998, the Company declared a 2-for-1 common 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.

On January 25, 2001, the Company announced a 2-for-1 common stock split payable as a stock dividend on February 23, 2001 to shareholders of record on February 9, 2001. The effect of these stock splits is reflected in the accompanying financial statements, calculation of income per share, and stock option table presented below as of and for the years ended December 31, 1998, 1999 and 2000.

Stock Option Plans

The Company's 1992 Stock Option Plan has 3.0 million shares of which a majority had been granted by 1995. The Company's 1995 Stock Incentive Plan has 5.0 million shares of which the majority had been granted by year end 1999. In 2000, the Company's shareholders approved a new 2000 Stock Incentive Plan for 4.0 million shares. These three shareholder approved plans provide for the issuance of incentive stock and non qualified stock options to purchase common stock of the Company and restricted stock awards to certain employees and directors of the Company. In addition, during 2000 the Company's Board of Directors approved stock option programs for 2.4 million shares. The Board approved programs provide for the issuance of non qualified stock options to purchase common stock of the Company to certain employees. Executive officers and directors of the Company are not eligible to participate in the Board authorized stock option programs. Under the plans and programs, options are granted by the Chief Executive Officer of the Company with approval from the Compensation Committee of the Board of Directors and vest over a period ranging from three to five years.

A summary of the status of the Company's stock option plan awards, including restricted stock awards as of December 31, 1998, 1999 and 2000 and changes during the periods ending on those dates is presented below:

	<u>1998</u>		<u>1999</u>		<u>2000</u>	
	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price
Options outstanding at beginning of year	4,113,844	\$ 2.57	3,719,798	\$ 3.76	4,445,642	\$ 6.14
Granted	1,278,000	\$ 8.19	1,470,000	\$11.44	1,338,000	\$ 12.51
Exercised	1,144,046	\$ 2.17	525,852	\$ 3.07	1,132,432	\$ 3.46
Canceled	528,000	\$ 8.63	218,304	\$8.85	77,216	\$ 10.84
Options outstanding at end of year	3,719,798	\$ 3.76	4,445,642	\$ 6.14	4,573,994	\$ 8.58
Options exercisable at year-end	1,745,756	\$ 1.94	2,320,412	\$ 3.03	2,132,823	\$ 5.02
Options available for granting at year end	1,306,364		54,668		5,193,884	
Weighted-average fair value of options granted during the year	\$5.52		\$6.57		\$7.45	

The Company awarded a total of 67,000 shares of restricted stock to certain employees during 2000. These shares vest over three years and have a provision for accelerated vesting if the Company's stock price appreciates by 25% during the first year of vesting. The Company recognized \$78,000 in compensation expense in 2000 due to these restricted stock awards. In February 2001, the Company's stock price met the threshold for accelerated vesting and as a result, these restricted shares now vest 100% in April 2001. The Company will recognize approximately \$1.1 million in compensation expense during the first and second quarters of 2001 as a result of the accelerated vesting schedule. In 1998, the Company awarded a total of 200,000 shares of restricted stock to certain employees. These shares vest over three to five years. The Company recognized \$281,000, \$343,000 and \$301,000 in compensation expense for 1998, 1999 and 2000 respectively, associated with the 1998 restricted stock awards and \$293,000, \$94,000 and \$90,000 for 1998, 1999 and 2000 respectively, associated with stock option awards.

The following table summarizes information about stock options outstanding at December 31, 2000:

Range of exercise price	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	Number outstanding at 12/31/00	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Number exercisable 12/31/00	Weighted-average exercise price
\$0.00 - \$2.30	882,372	3.0	\$.48	724,601	\$.58
\$2.31 - \$4.61	487,662	5.7	\$ 3.21	487,662	\$ 3.21
\$4.62 - \$6.91	225,214	6.8	\$ 5.56	225,214	\$ 5.56
\$6.92 - \$9.21	269,666	7.8	\$7.97	210,200	\$7.75
\$9.22 - \$11.52	673,700	8.6	\$10.08	157,200	\$10.08
\$11.53 - \$13.82	1,626,380	8.7	\$12.68	241,446	\$12.23
\$13.83 - \$16.12	220,000	7.9	\$15.01	86,500	\$14.93
\$16.13 - \$18.42	186,000	9.8	\$16.61	-	-
\$18.43 - \$20.73	-	0.0	\$0.00	-	-
\$20.74 - \$23.03	3,000	9.9	\$20.97	-	-
	4,573,994	7.1	\$8.58	2,132,823	\$ 5.02

The Company uses the Black-Scholes option model to estimate the fair value of options. A risk-free interest rate of 4.73%, 6.61% and 6% for 1998, 1999 and 2000, respectively, a volatility rate of 55%, 65% and 65% for 1998, 1999 and 2000, respectively, with an expected life of 6.5 years for 1998, 6.7 years for 1999 and 4.0 years for 2000 were 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):

	1998		1999		2000	
	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma
Net Income	\$ 30,412	\$ 27,201	\$ 28,268	\$ 23,931	\$ 15,155	\$ 12,009
Basic earnings Per share	\$.84	\$.75	\$.75	\$.63	\$.38	\$.30
Diluted earnings per share	\$.71	\$.64	\$.66	\$.56	\$.36	\$.28

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 preparing 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 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 began distribution of the ESOP assets per participant's direction. In 2000, additional ESOP shares were distributed as participants were located. 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, 2000 was 29,074.

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 \$552,000, \$640,000, and \$650,000 for 1998, 1999 and 2000, respectively.

The Plan allows the Company to make discretionary matching contributions for non-union employees, pilots and mechanics, respectively, equal to 25% of salary contributions up to 4% of total compensation. Effective with the ratification of the pilot's new union agreement, the Company's match for pilots is variable depending upon the pilot's length of service and the Company's operational performance. The Company's matching percentage for a pilot can range from one to seven percent of eligible contributions. The Company's matching contribution, if any, vests ratably over five years. Contribution expense was approximately \$235,000, \$303,000 and \$374,000 for 1998, 1999 and 2000, 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 \$3.9 million, \$4.5 million, and \$4.5 million in 1998, 1999 and 2000, respectively.

9. Income Taxes

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

(in thousands)

<i>Year Ended December 31,</i>	1998	1999	2000
Federal:			
Current	\$ 13,580	\$ 10,420	\$ 11,295
Deferred	3,591	5,602	(4,267)
Total federal provision	17,171	16,022	7,028
State:			
Current	3,161	1,993	1,010
Deferred	801	304	(381)
Total state provision	3,962	2,297	629
Total provision on income before accounting change	21,133	18,319	7,657
Income tax benefit due to change in accounting method	-	(598)	-
Total provision	\$ 21,133	\$ 17,721	\$ 7,657

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,	1998	1999	2000
Income tax expense at statutory rate	\$18,041	\$16,616	\$7,984
Increase (decrease) in tax expense due to:			
Permanent differences and other	517	89	(487)
State income taxes, net of federal benefit	2,575	1,614	160
Income tax expense	\$21,133	\$18,319	\$7,657

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 Company's 2000 effective tax rate was positively affected by the receipt of a favorable ruling request which allowed the Company to obtain additional tax credits to offset income tax and the realization of certain tax benefits that were previously reserved which together reduced income tax expense by approximately \$1.4 million.

The following is a summary of the Company's deferred income taxes as of December 31, 1999, and 2000:

(in thousands)

December 31,	1999	2000
Deferred tax assets:		
Engine maintenance accrual	\$ 751	\$ 679
Intangible assets	900	735
Air traffic liability	564	672
Allowance for bad debts	369	302
Deferred aircraft rent	323	1,737
Deferred credits	3,166	2,830
Accrued compensation	716	944
Accrued aircraft early retirement charge	-	11,599
Start up and organizational costs	-	2,204
Other	1,278	867
Total deferred tax assets	8,067	22,569
Deferred tax liabilities:		
Depreciation and amortization	(17,595)	(26,534)
Accrued expenses and other	(81)	(996)
Total deferred tax liabilities	(17,676)	(27,530)
Net deferred income tax assets (liabilities)	\$ (9,609)	\$ (4,961)

No valuation allowance was established in either 1999 or 2000 as the Company believes it is more likely than not that the deferred tax assets will be realized.

10. Commitments and Contingencies

Aircraft

As of December 31, 2000, the Company had a total of 58 Canadair Regional Jets (“CRJs”) on order from Bombardier, Inc., and held options for 80 additional CRJs. The Company also had a firm order with Fairchild Aerospace Corporation for 48 Fairchild Dornier 32 seat regional jets (“328JET”) aircraft, and options for 83 additional 328JETs. Of the 106 firm aircraft deliveries, 34 are scheduled for 2001, 30 are scheduled for 2002, and 42 are scheduled for 2003. The Company is obligated to purchase and finance (including leveraged leases) the 106 firm ordered aircraft at an approximate capital cost of \$1.8 billion. The Company anticipates leasing all of its year 2001 aircraft deliveries on terms similar to previously delivered regional jet aircraft.

During 1999 the Company announced orders for a total of 85 aircraft from Fairchild Aerospace Corporation, including 40 328Jets (32 seat capacity) and 45 428Jets (44 seat capacity). The 428Jets were an aircraft under development, with initial deliveries scheduled for 2003. In August 2000 Fairchild Aerospace announced that it would not proceed with development of the 428Jets. The Company reached a series of agreements with Fairchild in January 2001 resolving all issues relating to the initial order. Under the new agreements, the Company revised its order for 328Jets to a total of 62 aircraft. The Company also placed an order for 30 additional CRJs with Bombardier Aerospace in August 2000.

Training

The Company has entered into agreements with Pan Am International Flight Academy (“PAIFA”) which allow the Company to train CRJ, J-41 and J-32 pilots at PAIFA’s facility near Washington-Dulles. In 1999, PAIFA acquired from a third party 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 originally extending ten and three years, respectively. The Company’s payment obligations over the remaining nine years total approximately \$16 million. FRJ training is presently being conducted in Dallas, Texas at a facility arranged in conjunction with the acquisition of the aircraft. The Company is negotiating with PAIFA to have PAIFA install a 328JET simulator as well as a second CRJ simulator at its Washington-Dulles facility.

At December 31, 2000, the Company’s minimum payment obligations under the PAIFA agreements are as follows:

(in thousands)

Year ended December 31,

2001	\$3,611
2002	3,631
2003	1,371
2004	1,391
2005	1,178
Thereafter	4,888

\$ 16,070

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, 1999 and 2000, the Company settled eight, seven and eight hedge transactions, respectively, paying the counterparty \$3.0 million in 1998, receiving \$119,000 in 1999 and paying the counterparty \$379,000 in 2000. 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, 2000 the Company had one interest rate hedge transaction open with a notional value of \$8.5 million. It settled on January 3, 2001 resulting in a payment to the counterparty of \$722,000. The Company would have paid the counterparty \$610,000 had the contract settled on December 31, 2000.

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 provided 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. Had the commodity swap transactions settled on December 31, 1999, the Company would have recognized a reduction of approximately \$597,000 in fuel expense. Effective December 1, 2000, under the United Airlines and Delta Air Lines agreements, the Company no longer bears the risk associated with fuel price volatility for its operations. Accordingly, no fuel hedging transactions were entered for 2001, and there were no fuel hedging transactions open as of December 31, 2000.

11. Aircraft Early Retirement Charge

During 2000, the Company recorded an aircraft early retirement operating charge of \$29 million (\$17.4 million net of income tax) for the early lease termination of its 28 19-seat Jetstream 32 turboprop aircraft, which will be removed from service prior to December 31, 2001. The charge includes the estimated cost of contractual obligations to meet aircraft return conditions, as well as a lease termination fee, which fee was calculated including such factors as the discounted present value cost of future lease obligations from the planned out of service date to the lease termination date, and miscellaneous costs and benefits of early return to the lessor.

12. Subsequent Events

On March 2, 2001, the Company announced it has entered into an agreement with UAL Corporation (“UAL”), parent of United to acquire—through subsidiaries—the three regional airlines that are currently wholly-owned by US Airways Group, Inc. (“US Airways”). The three carriers are Allegheny Airlines, Piedmont Airlines and PSA Airlines. Closing of the acquisition from US Airways, which would be contingent upon and occur at the same time as closing of the proposed United/US Airways merger, is subject to regulatory approvals and to termination rights by UAL.

The aggregate purchase price for the three carriers, initially set at \$200 million, will be paid at closing in the form of a promissory note due in 18 months. Under the terms of the agreement, the Company will not remit principal or interest payments or accrue interest on the note until and if an agreement is finalized. The ultimate purchase price for each of the three regional carriers will be negotiated during the 18-month term of the promissory note. If agreement cannot be reached on an ultimate purchase price as to any or all of the three carriers, the Company’s acquisition of that carrier will be unwound. The ultimate purchase price paid by the Company may vary substantially from the amount of the promissory note, and there can be no assurances that the Company will retain any or all of the three carriers. If closing occurs

on the initial purchase of the three carriers but ACAI is not the ultimate purchaser of at least one of the carriers, the Company will receive a fee of up to \$10.5 million. The results of operations, and any capital requirements of the three regional carriers, are not expected to contribute to the Company's results of operations or impact its financial position until and if an ultimate purchase price is agreed to and the acquisition can no longer be unwound.

13. 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.

14. 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, 1999</i>		<i>December 31, 2000</i>	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	\$39,897	\$ 39,897	\$86,117	\$ 86,117
Short-term investments	17,550	17,550	35,100	35,100
Accounts receivable	31,023	31,023	29,052	29,052
Accounts payable	(5,343)	(5,343)	(19,724)	(19,724)
Long-term debt	(92,002)	(124,484)	(67,424)	(68,061)

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

15. Supplemental Cash Flow Information

Supplemental disclosures of cash flow information:

	Year ended December 31, (in thousands)		
	<u>1998</u>	<u>1999</u>	<u>2000</u>
Cash paid during the period for:			
- Interest	\$3,665	\$ 4,532	\$ 6,410
- Income taxes	15,426	8,193	8,944

The following non-cash investing and financial activities took place in 1998, 1999 and 2000:

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.

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

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.

In 2000, the Company capitalized \$2.7 million in interest related to \$46.4 million on deposit with aircraft manufacturers.

In 2000, the remaining \$19.8 million principal amount of Notes outstanding were converted into common stock of the Company resulting in a \$19.3 million increase to paid in capital.

16. 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, effective January 1, 2001. The impact of adopting this statement is not expected to have a material impact on the Company's financial results.

17. Selected Quarterly Financial Data (Unaudited)

	Quarter Ended			
	March 31, <u>2000</u>	June 30, <u>2000</u>	September 30, <u>2000</u>	December 31, <u>2000</u>
Operating revenues	\$92,499	\$116,332	\$115,356	\$128,339
Operating income	4,540	20,629	2,226 ³	(3,308) ³
Net income (loss)	2,280	12,029	2,666 ³	(1,821) ³
Net income (loss) per share				
Basic	\$.06	\$ 0.31	\$ 0.06	\$ (.04)
Diluted	\$.06	\$ 0.28	\$ 0.06	\$ (.04)
Weighted average shares outstanding				
Basic	37,256	38,746	42,144	42,404
Diluted	43,048	43,542	43,864	42,404

	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 ²				
Basic	\$ 0.07	\$ 0.29	\$ 0.22	\$ 0.16
Diluted	\$ 0.07	\$ 0.25	\$ 0.20	\$ 0.14
Weighted average shares outstanding ²				
Basic	38,890	38,354	37,310	37,186
Diluted	45,226	44,448	43,264	43,154

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 \$0.10 and \$0.09, respectively.

² Share and per share calculations have been restated to reflect the two for one stock split distributed on February 23, 2001.

³ In the third and fourth quarters of 2000, the Company recorded aircraft early retirement charges. The amount of the charges was \$8.7 million (pre-tax) in the third quarter, and \$20.3 million (pre-tax) in the fourth quarter.

Note: The sum of the four quarters may not equal the totals for the year due to rounding of quarterly results