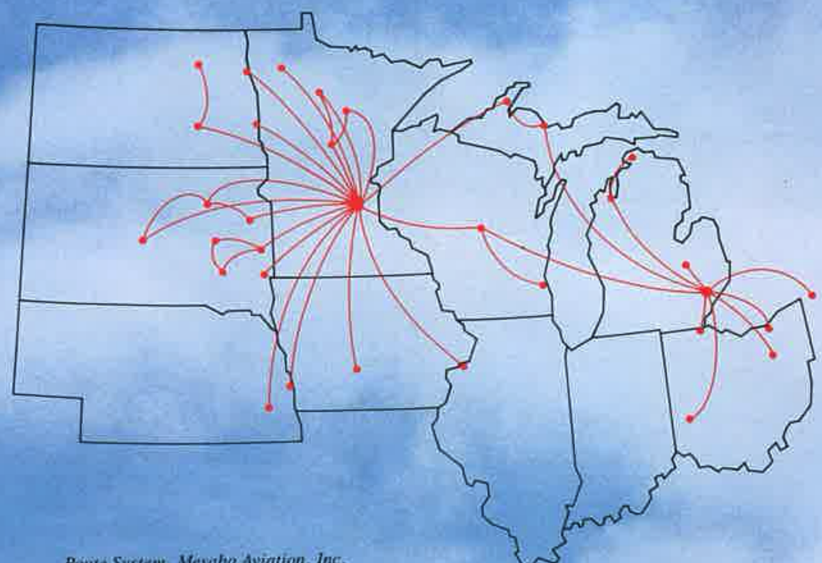
AirTran Corporation

1989 Annual Report

Corporate Profile

AirTran Corporation is the parent company of Mesaba Aviation, Inc., a U.S. Domestic Air Carrier serving the hub airports of Minneapolis/St. Paul, Minnesota and Detroit, Michigan. Mesaba provides scheduled passenger and air freight service to 33 cities in Michigan, Minnesota, Illinois, Iowa, Nebraska, North Dakota, Ohio, Pennsylvania, South Dakota and Wisconsin. ✢ Prior to the start-up of its new Detroit hub in December 1988, Mesaba operated a fleet of 13 aircraft: six 48-passenger Fokker F27 and seven 19-passenger Fairchild Metro III jet-props. To serve its Detroit operation, the Company is in the process of acquiring 18 additional aircraft: nine new Metro IIIs and nine F27s. ✢ The Company operates as Mesaba/Northwest Airlink at both Minneapolis/St. Paul and Detroit under a five-year marketing agreement with Northwest Airlines. Under this agreement, all Mesaba flights carry Northwest's designator code in the nation's computerized reservations systems. This Airlink relationship also enhances Mesaba's ability to provide convenient service and competitive fares between its regional markets and Northwest's more than 135 destinations on three continents. ✢ AirTran's common stock is traded on the National Market System under the NASDAQ symbol ATCC. **About the Cover** The cover of our fiscal 1989 annual report proudly displays the new corporate symbol of AirTran Corporation. We believe this symbol fully reflects the dynamic qualities of AirTran and its subsidiary, Mesaba Aviation, Inc.



Route System, Mesaba Aviation, Inc.

Aberdeen, SD
Akron/Canton, OH
Bemidji, MN
Brainerd, MN
Brookings, SD
Cleveland, OH
Dayton, OH
Des Moines, IA
Detroit, MI
Devils Lake, ND
Erie, PA
Fargo, ND/*Moorhead*, MN
Flint, MI
Grand Forks, ND
Grand Rapids, MN
Houghton/Hancock, MI
Huron, SD
Jamestown, ND
Lincoln, NE
Marquette, MI
Milwaukee, WI
Minneapolis/St. Paul, MN
Mitchell, SD
Moline, IL
Omaha, NE
Pellston, MI
Pierre, SD
Sioux Falls, SD
Thief River Falls, MN
Toledo, OH
Traverse City, MI
Watertown, SD
Wausau/Stevens Pt., WI

AirTran Corporation

Financial Highlights

Fiscal Years Ended March 31, (in thousands, except per share data)	*1989*	*1988*	*1987*
Operating Revenues	**$ 35,653**	$ 29,171	$ 21,806
Operating Expenses	**32,772**	26,266	22,148
Operating Income (Loss)	**2,881**	2,905	(342)
Net Income (Loss)	**1,645**	1,549	(213)
Earnings (Loss) Per Share			
Primary	**.48**	.51	(.07)
Fully Diluted	**.46**	.45	(.07)

Statistical Highlights

Fiscal Years Ended March 31,	*1989*	*1988*	*1987*
Revenue Passengers	**428,895**	376,101	292,457
Revenue Passengers Miles (000)	**97,665**	82,712	61,172
Available Seat Miles (000)	**183,111**	153,685	133,414
Passenger Load Factor	**53.3%**	53.8%	45.9%
Yield Per Revenue Passenger Mile	**34.1¢**	32.3¢	32.6¢
Operating Cost Per Available Seat Mile	**17.7¢**	16.8¢	16.3¢

To Our Shareholders: Fiscal 1989 will be remembered as a pivotal year in the history of AirTran Corporation, AirTran parent company of Mesaba Aviation, Inc. By opening our second hub operation at Detroit Metropolitan Airport, AirTran has entered what we expect to be a new phase of strong growth and profitability. We believe our dual-hub system, extending from Minneapolis/St. Paul on the West to Detroit on the East, will make fiscal 1990 a highly successful year for your company. **Financial Review** For the year ended March 31, 1989, AirTran's operating revenues rose 22 percent to $35,653,000. Net income totaled $1,645,000 or 46 cents per share in fiscal 1989, slightly above the record earnings posted a year ago.

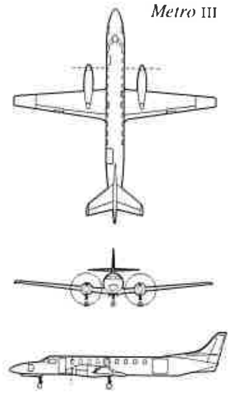
The ability to exceed our strong fiscal 1988 income amid a major hub start-up clearly reflects AirTran's underlying earnings power and potential. AirTran's sound financial condition has not been compromised by our Detroit expansion.

Although long-term debt rose to $8,645,000, approximately half of this amount represents the capital lease obligation for our new Minneapolis/St. Paul hangar. Shareholders' equity increased to $10,650,000, due partially to the decision of Northwest Aircraft Inc., a subsidiary of NWA Inc., to convert the entire outstanding balance of a convertible debenture into AirTran common stock. AirTran's cash flow from operations also remained strong throughout the year. **Northwest Airlink Service at Detroit** Detroit is the largest domestic hub of Northwest Airlines, Inc., our Airlink marketing partner at Minneapolis/St. Paul since 1984. When Northwest's previous Detroit Airlink carrier, Simmons Airlines, was acquired in the spring of 1988 by another major carrier, Northwest elected to seek a replacement partner. Detroit was opened to competitive bidding and Mesaba was selected in August among the several regional airlines that were considered. Following our selection, we negotiated with Northwest to extend our Minneapolis/St. Paul Airlink agreement to Detroit.

AIRLINK™ Our new Airlink agreement runs for a five-year period and continues indefinitely thereafter. However, both parties may terminate the Airlink agreement by giving a 12-month notice after December 1992. Both parties are obligated to honor this agreement during the life of the contract, regardless of any change in ownership at Northwest. In addition, this agreement provides Mesaba with the exclusive Airlink franchise at Detroit with first rights to any future expansion. **Phasing In the New Detroit System** To effectively manage this start-up, we have phased-in our Detroit operation as smoothly as possible, considering that Simmons was rapidly withdrawing all of its Detroit service. Service to Erie, Pennsylvania and Cleveland, Akron/Canton and Dayton, Ohio was introduced in December 1988.

Wausau/Stevens Point, Wisconsin and Flint, Pellston and Traverse City, Michigan were added in January 1989, and service to Marquette and Houghton/Hancock, Michigan began in February. Our Detroit system was rounded out in April with the addition of Toledo, Ohio. Although competition exists with carriers through other hub airports, Mesaba is the dominant regional airline in its Detroit markets. ✢ To accommodate this growth, we have leased two hangar facilities at Detroit,

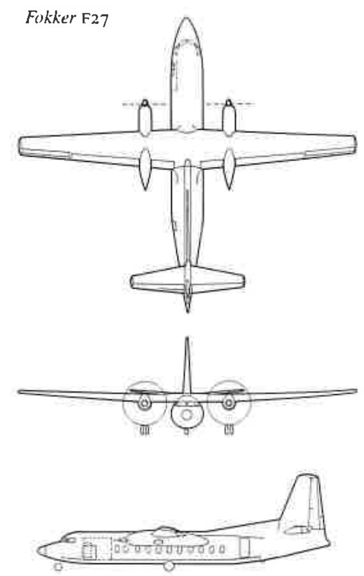
Metro III



one for Fokker F27s and the other for Fairchild Metro IIIs. Following the close of fiscal 1989, we acquired a modern maintenance facility at our Wausau/Stevens Point market, which is also being used as a tie-in between Detroit and Minneapolis/St. Paul. Used currently for aircraft cleaning and pilot training, this additional facility provides Mesaba with enhanced maintenance flexibility and eventually may be used for heavy aircraft overhauls. **Expanding Mesaba's Fleet to 31 Aircraft** To serve our Detroit system, we are more than doubling the fleet of 13 aircraft operated during the first half of fiscal 1989 by adding nine new Metro III and nine F27 jet props through the first half of fiscal 1990. Bringing our total fleet to 31 aircraft, these additional planes are leased under favorable five-year terms, which coincide with the length of our Airlink agreement.

Fourth Quarter Affected by Delayed Aircraft Deliveries Mesaba's fourth quarter results were adversely affected by delivery delays on some of the aircraft required for this start-up. Although all of the new Metro IIIs were delivered on schedule, the nine F27s have not entered service according to our original timetable due to delays beyond our control at the maintenance base where they are being overhauled. Acquired from overseas airlines, these F27s must be brought up to U.S. standards. ✢ By

Fokker F27



flying only two of the nine additional F27s at March 31, our Detroit service was operating at under 50 percent of planned capacity at the end of fiscal 1989. However, the people, facilities and other fixed costs were in place to accommodate all of the expected aircraft and traffic. This lack of planned capacity resulted in a fourth quarter revenue shortfall, which placed operating margins under some pressure. ✢ The third and fourth F27s were delivered following the end of fiscal 1989, four will enter service during the second quarter of the current fiscal year, and the fifth will be delivered later in the year.

Along with the nine new Metro IIIs we are presently operating, all of the additional Fokkers will bring our Detroit hub to 100 percent of initial planned capacity. **Strong Traffic on Detroit System** Traffic and load factors have been strong on all Detroit routes, and advance bookings are running at high levels. The strong traffic of this hub reflects the fact that Detroit is not a pioneering effort for Mesaba. We have entered proven, well-developed markets that were previously served by another Northwest Airlink carrier. For this reason, we have avoided the lengthy and costly process normally associated with new market development. **New 80,000 Square Foot Twin Cities Hangar** Prior to the Detroit start-up, Mesaba's fiscal 1989 growth had moderated in comparison to our high historic norms due partly to having reached maximum utilization of our Twin Cities hangar.

This limited our ability to expand Mesaba's Minneapolis/St. Paul system during the first half of the year. ✢ This situation was remedied in

November 1988 with the completion of an 80,000 square foot main base and hangar. Our new Twin Cities hangar can simultaneously handle three F27s and three Metros. This new hangar was built at a total cost of $4,800,000 and is lease financed for a period of 20 years at an 8.5 percent rate. **Minneapolis/St. Paul Hub Expansion** With this state-of-the-art maintenance facility in place, we expanded our Minneapolis/St. Paul system in December by assuming all service for Northwest at Wausau/Stevens Point, Wisconsin.

This opportunity arose when Northwest retired its aging fleet of Convair turboprops, which were serving regional markets out of the Twin Cities, Milwaukee and Detroit. Traffic and load factors for the large Wausau/Stevens Point market have been excellent, and Mesaba may have similar growth opportunities out of Minneapolis/St. Paul in the future. **Strong Operating Results Expected in Fiscal 1990** Once our initial planned capacity is in place at Detroit, we believe our two hubs should each board about 40,000 passengers a month during the peak summer season.

This sizeable Detroit volume, coupled with continuing growth at our Minneapolis/St. Paul system, makes us believe fiscal 1990 will be an excellent year for AirTran. Although first quarter results will continue to be affected by the delayed F27 deliveries, our earnings should strengthen significantly as we approach planned capacity at Detroit later this summer.

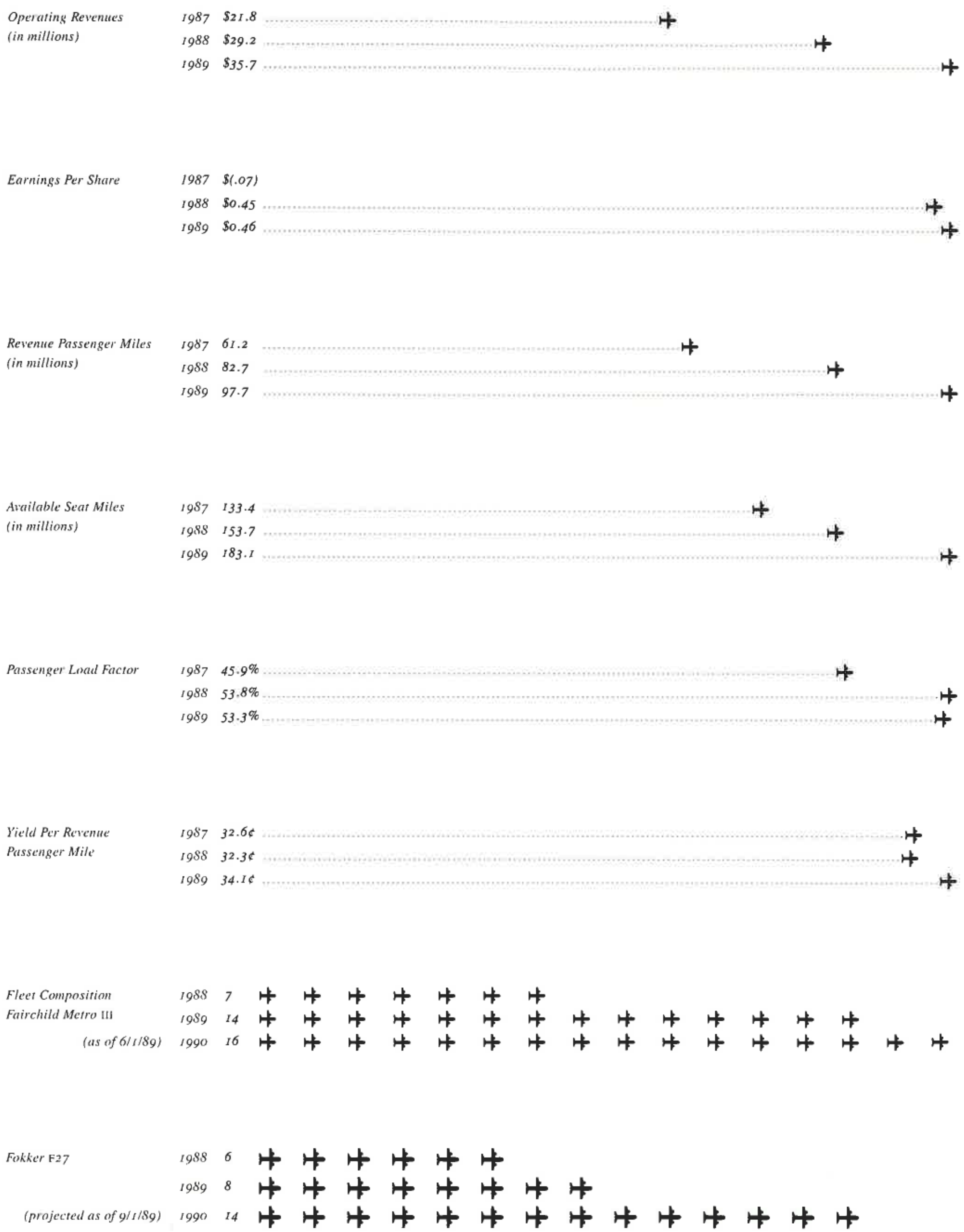
In all, we expect to double our fiscal 1989 operating revenues during the 12 months following the completion of our Detroit start-up. In addition to strong traffic and load factors during the coming year, we should also record higher yields, reflecting the shorter hauls on our Detroit system. The higher unit operating costs resulting from these shorter route lengths should be more than offset by increased yields. A special word of thanks is due our many fine employees, whose outstanding efforts have helped build Mesaba into a large and growing dual-hub regional airline. And as always, we sincerely appreciate the continuing support and confidence of our shareholders and customers.

From left to right: Patrick J. Thompson, Senior Vice President, Operations; Kenneth P. Bronson, Vice President, Finance and Treasurer; Robert D. Swenson, Chairman, President and Chief Executive Officer; and Philip L. Swenson, Vice President Planning/Marketing and Secretary.

Sincerely,

Robert D. Swenson
Chairman of the Board,
President and Chief Executive Officer

Fiscal Years Ended March 31,



During fiscal 1989, the Company experienced several operational changes which have had and are expected to continue to have a significant impact on operations. In September 1988, the Company's Airlink marketing agreement with Northwest Airlines, Inc. ("Northwest") was restated to include Airlink service to and from Northwest's hub airport at Detroit, Michigan. As a result, the Company initiated a substantial expansion of its aircraft fleet as well as the addition of new employees to accommodate the Detroit service. Further, in November 1988 the Company completed its new Minneapolis/Saint Paul headquarters and hangar. Such changes have affected the fiscal 1989 results of operations and financial condition discussed below.

Earnings Summary

The Company reported net income of $1,645,000 or 46 cents per share for the fiscal year ended March 31, 1989, an increase of 6% from $1,549,000 or 45 cents per share in fiscal 1988. A net loss of $213,000 or seven cents per share was reported in fiscal 1987. The Company's fiscal 1989 revenues benefited from increased passenger traffic and a higher yield per revenue passenger mile. Revenue growth was restrained in the fourth quarter by delayed aircraft deliveries at the Company's new Detroit hub. As a result, the Company's operating margin for the year was reduced even though operations during the fourth quarter continued to be profitable.

Results of Operations

Operating Revenues.

Operating revenues totaled $35,653,000 in fiscal 1989, an increase of 22% from $29,171,000 in 1988, and also up from $21,806,000 in 1987. The higher passenger revenues in fiscal 1989 resulted from increased revenue passenger miles flown and a higher yield per revenue passenger mile. Reflecting increased passenger traffic on the Minneapolis/Saint Paul system and the addition of Detroit service, revenue passenger miles rose 18% in fiscal 1989 to 97,665,000, and were also up from 61,172,000 in 1987. Yield per revenue passenger mile was 34.1 cents in fiscal 1989, an increase over the 32.3 cents reported in 1988 and 32.6 cents in 1987. The increase resulted principally from the shorter stage lengths of flights into and out of the new Detroit hub. Available seat miles for fiscal 1989 rose 19% to 183,111,000 from 153,685,000 in 1988 and 133,414,000 in 1987 due principally to the addition of new service at Detroit. Accordingly, the passenger load factor of 53.3% in fiscal 1989 declined slightly from 53.8% in 1988, but was considerably higher than the 45.9% attained in 1987.

Operating Expenses.

Total operating expenses rose 25% in fiscal 1989 to $32,772,000 from $26,266,000 in 1988, and were also up from $22,148,000 in 1987. Operating costs per available seat mile increased to 17.7 cents in 1989 from 16.8 cents in 1988 and 16.3 cents in 1987. The higher operating cost per available seat mile was due principally to the shorter stage lengths of flights at the new Detroit hub.

Flight operations expense increased 19% in fiscal 1989, reflecting higher lease expenses associated with the addition of seven new Fairchild Metro III and two used Fokker F27 aircraft. In addition, total fuel consumption increased 24% in fiscal 1989, reflecting a 21% increase in block hours flown. Partially offsetting the increased fuel consumption, the average cost of fuel declined to 71 cents per gallon in 1989 from 77 cents in 1988.

Maintenance costs rose 25% in fiscal 1989 due to the increase in hours flown, additional capacity and higher repair costs for the fleet of Metro III and F27 aircraft, as well as the additional maintenance support required to be provided at the Detroit hub. The Company also provided $1,390,000 in fiscal 1989 for future aircraft overhauls, compared with $1,363,000 in 1988.

Aircraft and traffic servicing expense rose 30% in fiscal 1989 due to the increased level of flight operations. Ground and in-flight personnel were added to support higher traffic volumes, and additional aircraft handling expenses were incurred in connection with the introduction of service to Detroit. Other expenses such as landing fees and charges related to terminals and facilities also rose.

General and administrative expenses increased 32% in fiscal 1989 due principally to higher staffing levels associated with the expanded operations and additional recruiting, training and professional service costs.

Depreciation and amortization expense rose 34% in fiscal 1989, reflecting the Company's increased investment in equipment to support the expansion of operations and higher capitalized overhaul expenditures on Company-owned aircraft.

Operating Income.

Operating income totaled $2,881,000 in fiscal 1989, compared with $2,905,000 in 1988 and an operating loss of $342,000 in 1987. The Company realized an operating margin of 8.1% in 1989, down from 10.0% in 1988.

Financial Condition

Cash and short-term investments decreased by $324,000 to $3,077,000 at March 31, 1989. In September 1988, the Company restated its marketing agreement with Northwest to include Airlink service at Detroit. In connection with the restated marketing agreement, the Company has funded certain costs related to the transition of Airlink operations in Detroit. Total funds used during the year ended March 31, 1989 for this purpose amounted to $2,187,000, which are fully recoverable over the initial five-year term of the restated marketing agreement. Net cash flow provided from operations totaled $3,729,000 in fiscal 1989, down from $5,537,000 in fiscal 1988, reflecting additional investments related to the transition of Airlink operations at Detroit from the previous carrier. Net cash flow provided from financing activities amounted to $4,185,000 resulting principally from increased bank borrowings under a new revolving credit and term loan agreement. Funds used to acquire spare parts, property and equipment totaled $6,034,000 in fiscal 1989, up from $1,156,000 in 1988, due to the introduction of service at Detroit.

The Company had working capital of $3,540,000 and a current ratio of 1.68 at March 31, 1989 compared with $2,564,000 and 1.58 at March 31, 1988.

In November 1988, the Company moved into its new Minneapolis/Saint Paul headquarters and hangar. The projected total cost of this facility is $4,800,000, of which $4,075,000 was financed through a 20-year capitalized lease with the Metropolitan Airports Commission.

To assist in funding the expansion of service to Detroit, the Company entered into a new bank loan agreement in November 1988 that provides for borrowings of up to $3,000,000 under a revolving line of credit at prime plus one-half of one percent and $6,000,000 under a term loan at prime plus one percent. All borrowings are collateralized by F27 aircraft, spare parts, inventory and accounts receivable. At March 31, 1989, the Company had drawn down $4,900,000 on these lines, with the remaining $4,100,000 available for future requirements.

Long-term debt, net of current maturities, was $8,645,000 at March 31, 1989, compared with $1,981,000 at the end of fiscal 1988. At March 31, 1988, the Company's long-term debt consisted primarily of a convertible debenture held by Northwest Aircraft Inc., a wholly-owned subsidiary of NWA Inc. The principal amount of the debenture was due in semi-annual installments through November 1991 and was convertible into the Company's common stock at the rate of $3.96 per share. In October 1988, Northwest Aircraft elected to convert all of the remaining principal balance of the debenture into 531,543 shares of the Company's common stock.

The debenture conversion contributed to the fiscal 1989 increase in stockholders' equity, which rose to $10,650,000 at March 31, 1989 from $6,670,000 at the end of fiscal 1988. The ratio of long-term debt to stockholders' equity increased to .81 at March 31, 1989 from .30 at March 31, 1988.

The Company has negotiated five-year operating leases with Northwest Aircraft for nine Fairchild Metro III aircraft and nine Fokker F27 aircraft to accommodate the new Detroit service. As of March 31, 1989, seven of the Metro III and two of the F27 aircraft had been delivered, and subsequent to fiscal year-end the Company took delivery of the final two Metro III aircraft and two additional F27 aircraft. Four of the remaining five F27s are scheduled to be delivered during the second quarter of fiscal 1990 with the fifth F27 expected to be delivered during the fourth quarter.

The Company has historically relied upon internally generated funds, borrowings and the sale of common stock to fund its working capital requirements. Management believes that funds from operations, borrowings and lease financing will provide adequate resources to meet anticipated capital needs in fiscal 1990.

Effect of Change in Accounting Principle

In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96 (FASB 96), "Accounting for Income Taxes," which changes the method used in accounting for income taxes. This new standard, which the Company must adopt for fiscal 1991, requires that changes in income tax rates be taken into account when determining deferred tax amounts. The Company elected not to adopt FASB 96 for the fiscal year ended March 31, 1989, and believes that its adoption will not have a material impact on the Company's results of operations and financial condition.

Consolidated Balance Sheets *AirTran Corporation and Subsidiary*

At March 31,	*1989*	*1988*
Assets		
Current Assets:		
Cash and short-term investments	**$ 3,077,482**	$ 3,401,552
Accounts receivable, net	**3,233,114**	2,613,825
Income tax refund receivable	**183,000**	—
Inventories	**1,545,437**	724,139
Prepaid expenses and deposits	**721,932**	225,331
Total current assets	**8,760,965**	6,964,847
Property and equipment (Note 2):		
Facilities under capital lease	**4,646,727**	—
Flight equipment	**14,080,488**	10,419,135
Other property and equipment	**4,092,046**	2,309,901
Accumulated depreciation and amortization	**(6,355,278)**	(4,211,183)
Net property and equipment	**16,463,983**	8,517,853
Other Assets, principally Airlink contract rights, net of accumulated amortization of $609,000 and $526,000, respectively (Notes 3 and 7)	**2,605,823**	149,016
	$27,830,771	$15,631,716
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current maturities of long-term debt (Note 4)	**$ 317,034**	$ 491,332
Accounts payable	**2,214,652**	1,349,510
Accrued liabilities–		
Payroll	**846,640**	617,506
Maintenance (Note 2)	**1,155,998**	969,823
Property taxes	**251,935**	174,403
Other	**434,777**	462,686
Income taxes payable	—	336,000
Total current liabilities	**5,221,036**	4,401,260
Long-Term Debt, net of current maturities (Note 4)	**8,645,341**	1,980,692
Other Noncurrent Liabilities, principally accrued maintenance (Note 2)	**1,226,424**	1,334,436
Deferred Income Taxes (Note 5)	**2,088,000**	1,245,000
Commitments (Note 6)		
Stockholders' Equity (Note 7):		
Common stock, $0.01 par value; 15,000,000 shares authorized, 3,579,482 and 2,992,905 shares issued and outstanding, respectively	**35,795**	29,929
Paid-in capital	**6,614,094**	4,456,081
Warrants issued for 799,931 and 234,539 common shares, respectively	**791,181**	225,789
Retained earnings	**3,208,900**	1,958,529
Total stockholders' equity	**10,649,970**	6,670,328
	$27,830,771	$15,631,716

The accompanying notes to consolidated financial statements are an integral part of these balance sheets

Consolidated Statements of Operations *AirTran Corporation and Subsidiary*

For the Years Ended March 31	*1989*	*1988*	*1987*
Operating Revenues:			
Passenger	**$33,325,477**	$26,719,358	$19,914,990
General aviation, freight and charter	**1,466,792**	1,541,802	698,988
Public service	**860,722**	909,498	1,192,443
Total operating revenues	**35,652,991**	29,170,658	21,806,421
Operating Expenses:			
Flight operations	**12,660,297**	10,648,670	8,767,275
Maintenance	**8,135,331**	6,523,824	4,666,615
Aircraft and traffic servicing	**6,608,407**	5,076,284	4,265,761
Depreciation and amortization	**2,458,164**	1,835,827	1,630,379
Reservations, sales and advertising (Note 1)	**312,664**	217,752	1,157,919
General and administrative	**2,597,402**	1,963,278	1,660,149
Total operating expenses	**32,772,265**	26,265,635	22,148,098
Operating income (loss)	**2,880,726**	2,905,023	(341,677)
Nonoperating Expense (Income):			
Interest expense	**276,618**	366,221	477,500
Other, net	**(140,539)**	(157,001)	(344,606)
Net nonoperating expense	**136,079**	209,220	132,894
Income (loss) before income taxes	**2,744,647**	2,695,803	(474,571)
Provision (Benefit) for Income Taxes (Note 5)	**1,100,000**	1,147,000	(262,000)
Net income (loss)	**$ 1,644,647**	$ 1,548,803	$ (212,571)
Net Income (Loss) Per Share:			
Primary	**$0.48**	$0.51	$(0.07)
Fully diluted	**0.46**	0.45	(0.07)
Weighted Average Shares Outstanding:			
Primary	**3,458,096**	3,054,687	2,880,210
Fully diluted	**3,778,740**	3,646,996	2,919,238

The accompanying notes to consolidated financial statements are an integral part of these statements

Consolidated Statements of Changes in Stockholders' Equity *AirTran Corporation and Subsidiary*

For the Years Ended March 31 (See Note 7)	*Common Stock*		*Paid-In Capital*	*Warrants*		*Retained Earnings*	*Total Stockholders' Equity*
	Shares	*Amount*		*Shares*	*Amount*		
Balance, March 31, 1986	2,851,111	$28,511	$4,270,815	120,495	$111,745	$ 801,876	$ 5,212,947
Exercise of stock options	87,366	874	69,168	—	—	—	70,042
Issuance of stock bonuses	3,350	33	12,126	—	—	—	12,159
Issuance of warrants	—	—	—	114,044	114,044	—	114,044
Net loss	—	—	—	—	—	(212,571)	(212,571)
Balance, March 31, 1987	2,941,827	29,418	4,352,109	234,539	225,789	589,305	5,196,621
Exercise of stock options	34,980	350	40,385	—	—	—	40,735
Conversion of NWA debentures	16,098	161	63,587	—	—	—	63,748
Dividends paid on common stock ($.06 per common share)	—	—	—	—	—	(179,579)	(179,579)
Net income	—	—	—	—	—	1,548,803	1,548,803
Balance, March 31, 1988	2,992,905	29,929	4,456,081	234,539	225,789	1,958,529	6,670,328
Exercise of stock options	55,034	550	58,416	—	—	—	58,966
Conversion of NWA debentures	531,543	5,316	2,099,597	—	—	—	2,104,913
Issuance of warrants	—	—	—	565,392	565,392	—	565,392
Dividends paid on common stock ($.12 per common share)	—	—	—	—	—	(394,276)	(394,276)
Net income	—	—	—	—		1,644,647	1,644,647
Balance, March 31, 1989	3,579,482	$35,795	$6,614,094	799,931	$791,181	$3,208,900	$10,649,970

The accompanying notes to consolidated financial statements are an integral part of these statements

Consolidated Statements of Cash Flows *AirTran Corporation and Subsidiary*

For the Years Ended March 31	*1989*	*1988*	*1987*
Cash Flows from Operating Activities:			
Net income (loss)	**$1,644,647**	$1,548,803	$ (212,571)
Adjustments to reconcile net income (loss) to net cash provided by operating activities–			
Depreciation and amortization	**2,458,164**	1,835,827	1,630,379
Accrued maintenance, long-term	**(90,718)**	156,102	1,004,929
Deferred income taxes	**843,000**	811,000	(262,000)
Gain on sale of commuter aircraft	**—**	—	(287,418)
Changes in working capital items:			
Accounts receivable, net	**(619,289)**	(134,210)	(720,040)
Income tax refund receivable	**(183,000)**	—	—
Inventories	**(821,298)**	6,940	(143,630)
Prepaid expenses and deposits	**(496,601)**	48,173	141,492
Accounts payable	**865,142**	(140,350)	230,161
Accrued liabilities	**464,932**	1,068,892	391,970
Income taxes payable	**(336,000)**	336,000	—
Net cash flows provided by operating activities	**3,728,979**	5,537,177	1,773,272
Cash Flows from Investing Activities:			
Purchases of property and equipment	**(6,033,659)**	(1,156,325)	(1,754,992)
Increase in other assets, principally Airlink contract rights	**(2,187,050)**	—	(63,283)
Decrease in other liabilities	**(17,292)**	(17,296)	(65,346)
Proceeds from commuter aircraft sold	**—**	—	1,678,500
Net cash flows used for investing activities	**(8,238,001)**	(1,173,621)	(205,121)
Cash Flows from Financing Activities:			
Proceeds from issuance of debt	**4,900,000**	—	1,007,383
Repayment of debt	**(379,738)**	(2,966,997)	(1,242,418)
Proceeds from issuance of common stock and warrants	**58,966**	104,483	196,245
Dividends paid	**(394,276)**	(179,579)	—
Net cash flows provided by (used for) financing activities	**4,184,952**	(3,042,093)	(38,790)
Net (Decrease) Increase in Cash and Short-Term Investments	**(324,070)**	1,321,463	1,529,361
Cash and Short-Term Investments:			
Beginning of year	**3,401,552**	2,080,089	550,728
End of year	**$3,077,482**	$3,401,552	$2,080,089
Supplementary Disclosure of Cash Flow Information, Cash Paid During the Year for:			
Interest	**$ 204,255**	$ 378,467	$ 383,315
Income taxes	**773,567**	—	—

The accompanying notes to consolidated financial statements are an integral part of these statements

Note 1 Corporate Reorganization and Business

Corporate Reorganization:

Effective September 1, 1988, Mesaba Aviation, Inc. (Mesaba) became a wholly-owned subsidiary of AirTran Corporation (AirTran), collectively, referred to as the Company, pursuant to a plan of reorganization approved by the stockholders of Mesaba on August 18, 1988. The stockholders of Mesaba automatically became stockholders of AirTran with the identical equity interest in AirTran as they previously had in Mesaba. AirTran assumed all Mesaba's stock option plans.

Business:

The Company is a regional air carrier providing scheduled passenger and air freight service to 33 cities in the Upper Midwest. Effective December 1, 1984, the Company began operating as Mesaba/Northwest Airlink (Airlink) under a five-year marketing agreement with Northwest Airlines, Inc. (Northwest). On September 15, 1988, the agreement was restated to add Airlink service for Northwest's hub airport at Detroit, Michigan, effective December 10, 1988 (the Restated Marketing Agreement). The initial term of the Restated Marketing Agreement continues through December 9, 1993 and automatically renews indefinitely thereafter. Either party may terminate the agreement on 12 months' notice any time after December 9, 1992. As part of this cooperative marketing agreement, all flights appear in Northwest's timetables and the Company receives ticketing and certain check-in, baggage and freight-handling services from Northwest at certain airports. The Company also benefits from its relationship with Northwest through prorated fare arrangements, advertising and marketing programs. Approximately 76% of the Company's passengers connected with Northwest in fiscal 1989, 70% in 1988 and 65% in 1987.

Note 2 Flight Equipment

The Company's fleet consisted of the following aircraft as of March 31, 1989:

Number of Aircraft	*Type of Aircraft*	*Seating Capacity*
14	Fairchild Metro III (Metro III)	19
8	Fokker F27 (F27)	42-48

The Company owns three of the F27 aircraft; the remaining aircraft are leased under operating leases.

Aircraft maintenance and repairs are charged to expense when incurred, except for major airframe and engine overhauls. For purchased aircraft, major overhaul costs are capitalized when the expenditure is incurred and amortized over the minimum available operating hours until the next scheduled overhaul. For leased aircraft, the estimated cost of future overhauls is accrued based upon hours flown, thus providing for the overhaul cost when it occurs.

Note 3 Summary of Significant Accounting Policies

Short-Term Investments:

Short-term investments, which consist primarily of commercial paper and interest-bearing deposits with maturities of less than 90 days, are stated at cost, which approximates market.

Inventories:

Inventories consist of expendable aircraft service parts and fuel and are stated at the lower of average cost or market. Expendable parts are charged to maintenance as used.

Property and Equipment:

Property and equipment is stated at cost and depreciated on a straight-line basis for financial reporting purposes over estimated useful lives of 7-10 years for aircraft engines, flight equipment and rotable parts; 3-10 years for all other equipment; 5-36 years for buildings and improvements; and for facilities under capital lease, over the lease term. Leasehold improvements are amortized over the shorter of the life of the lease or the life of the asset. Accelerated cost recovery methods of depreciation are applied for tax reporting purposes.

Airlink Contract Rights:

In connection with the Restated Marketing Agreement, the Company paid a contract rights fee in the form of a stock purchase warrant to Northwest Aircraft Inc. (NWA), an affiliate of Northwest (see Note 7). In addition, the Company agreed to fund certain costs related to the transition of Airlink operations in the Detroit and Milwaukee service areas. Such transition costs are included as contract rights and are fully recoverable under the terms of the Airlink agreement. Contract rights are amortized on a straight-line basis over five years to coincide with the initial term of the Airlink agreement.

Revenue Recognition:

Passenger revenues are recorded as income when the respective services are rendered. The Company also receives public service subsidy revenues for serving certain communities that do not generate sufficient traffic to fully support profitable air service.

Income Per Share:

Primary net income per share has been computed based upon the weighted average number of common and dilutive common equivalent shares outstanding during each year. Prior to October 1988, fully diluted net income per share was determined on the assumption that all convertible debentures were converted with income adjusted for the interest, net of tax, paid on the debentures.

Note 4 Long-Term Debt

Long-term debt as of March 31 is summarized as follows:

	1989	1988
Revolving credit note; interest at 1/2% above prime rate (12% at March 31, 1989); due December 31, 1990 with interest payable monthly; collateralized by receivables, aircraft and parts	$2,900,000	$ —
Term note; interest at 1% above prime rate (12.5% at March 31, 1989); due in quarterly installments beginning October 1, 1989 with interest payable monthly; collateralized by receivables, aircraft and parts	2,000,000	—
Convertible debentures issued to NWA; interest rate of 9%	—	2,229,912
Capitalized lease	4,062,375	—
Other	—	242,112
	8,962,375	2,472,024
Less–Current maturities	(317,034)	(491,332)
Total long-term debt	$8,645,341	$1,980,692

On October 17, 1988, NWA exercised its conversion privilege granted under the June 1985 Debenture Purchase Agreement. The Company issued 531,543 common shares for the conversion of the remaining debenture principal balance of $2,104,913.

The Company entered into a loan agreement with a bank in November 1988 which provides for borrowings of up to $3,000,000 under a revolving line of credit and $6,000,000 under a separate term loan commitment. The term loan commitment will be automatically reduced by the unused portion at June 30, 1989. The loan agreement requires the Company to maintain minimum levels of tangible net worth, net working capital and certain other financial ratios. The Company was in compliance with these requirements at March 31, 1989.

The Company's corporate headquarters and hangar facility is leased from the Metropolitan Airports Commission under a 20-year capital lease. At March 31, 1989, remaining minimum lease payments totaled $8,445,000, of which $4,383,000 represented interest costs.

As of March 31, 1989, the portions of long-term debt due in the five subsequent years are as follows:

1990	$ 317,034
1991	3,474,765
1992	568,465
1993	577,127
1994	468,910
Thereafter	3,556,074
	$8,962,375

Note 5 Income Taxes

The Company provides deferred taxes for all temporary differences between financial and income tax reporting. The provision (benefit) for income taxes for the three years ended March 31, 1989 is comprised of the following elements:

	1989	1988	1987
Current	$ 257,000	$ 336,000	$ —
Deferred:			
Accelerated depreciation	309,000	366,000	489,000
Contract rights	940,000	(57,000)	(96,000)
Deferred maintenance costs	337,000	(435,000)	(551,000)
Alternative minimum taxes	(565,000)	—	—
Accrued expenses not deductible for tax reporting purposes	(152,000)	18,000	215,000
Deferred tax effects of tax operating loss carryforwards	—	805,000	257,000
Tax over book gain on sale of fixed assets	—	—	(550,000)
Difference between investment tax credits realized for tax reporting purposes and investment tax credits recognized for book purposes	(26,000)	114,000	(26,000)
Total provision (benefit) for income taxes	$1,100,000	$1,147,000	$ (262,000)

The difference between the statutory federal income tax rate and the effective tax rate for the three years ended March 31, 1989 is as follows:

	1989	1988	1987
Statutory federal tax rate	34.0%	37.0%	(46.0)%
State taxes, net of federal effect	6.3	5.3	(5.3)
Amortization of deferred investment tax credits	(.9)	(1.0)	(5.5)
Other, net	.7	1.2	1.6
Effective tax rate	40.1%	42.5%	(55.2)%

In December 1987, the Financial Accounting Standards Board issued Standard No. 96 (FASB 96), "Accounting for Income Taxes," which particularly affects the treatment of deferred taxes. As amended by FASB 100, the new accounting rules and disclosure must be adopted by fiscal 1991, with earlier adoption permitted. The Company has elected not to adopt FASB 96 for the fiscal year ended March 31, 1989, and believes that adoption of this statement will not have a material effect on the Company's financial position or results of future operations.

Note 6 Commitments

Lease Commitments:

The Company leases aircraft, land, hangar facilities and certain terminal facilities under operating leases which provide for approximate future minimum rental payments as follows at March 31, 1989:

1990	$ 8,954,000
1991	8,930,000
1992	8,693,000
1993	7,063,000
1994	5,577,000
Thereafter	12,373,000

Rent expense under all operating leases totaled approximately $5,734,000 in 1989, $4,094,000 in 1988 and $3,614,000 in 1987.

The Company negotiated five-year operating leases with NWA for nine Metro III aircraft and nine F27 aircraft to accommodate the expansion of service to Detroit. As of March 31, 1989, seven new Metro III aircraft and two F27 aircraft have been delivered to the Company. Subsequent to year end, the Company took delivery of an additional two F27 and two Metro III aircraft. All lease commitments related to the above aircraft are included in the lease commitment table. The remaining five F27 aircraft are expected to be delivered during the second and fourth quarters of fiscal 1990.

Employment Agreements:

The Company has entered into severance agreements with certain of its key executives. Such agreements provide that, in the event these executives' employment with the Company is terminated within 24 to 36 months of a change in control (as defined), then the Company shall compensate such executives based upon a multiple of average annual compensation over the past five years. The maximum contingent liability of the Company pursuant to all such agreements is approximately $700,000 at March 31, 1989.

Note 7 Capital Stock

Stock Option Plans:

The Company has stock option plans for key employees and directors which authorize the issuance of up to 525,000 shares of common stock for such options. Under the plans, options are granted by the compensation committee of the board of directors and are exercisable for five years commencing one year after the date of grant. The purchase price of the stock is 110% of the fair market value of the stock at the date of grant for participants owning 10% or more of the outstanding common stock and 100% of the fair market value for all other participants.

Stock option transactions for the three years ended March 31, 1989 were as follows:

	Shares Under Option
Options outstanding, March 31, 1986	314,590
Granted ($2.88 to $5.00 per share)	63,000
Exercised ($0.72 to $2.00 per share)	(87,366)
Options canceled	(17,000)
Options outstanding, March 31, 1987	273,224
Granted ($3.88 to $5.00 per share)	34,630
Exercised ($0.72 to $3.63 per share)	(34,980)
Options canceled	(2,000)
Options outstanding, March 31, 1988	270,874
Granted ($3.50 to $5.25 per share)	37,000
Exercised ($0.72 to $3.63 per share)	(55,034)
Options canceled	(12,000)
Options outstanding, March 31, 1989 ($2.00 to $5.25 per share)	240,840
Exercisable at March 31, 1989	203,840
Available for grant at March 31, 1989	72,620

The Company has an employee stock purchase plan which allows all full-time personnel employed for more than six months the opportunity to purchase shares of stock in AirTran at the market price through payroll deductions. All administrative costs of this plan are paid by the Company.

Warrants:

The Company issued warrants to the underwriter involved with its 1986 stock offering. These warrants allow for the purchase of 35,000 shares of AirTran's common stock at $3.90 per share and are exercisable any time through November 1990.

The Company has 199,539 warrants outstanding to NWA in consideration of guarantees by NWA of its 1986 and 1987 lease agreements for Metro III aircraft. These warrants allow for the purchase of shares of AirTran's common stock at $5.15 per share through July 1, 1991.

In September 1988, AirTran issued a common stock purchase warrant to NWA in consideration of the Company being selected to provide Airlink service at Detroit. The warrant allows for the purchase of up to 565,392 shares of AirTran common stock at $5.00 per share through December 9, 1993. This warrant was valued at $1.00 per share based upon an independent appraisal.

To the Stockholders of AirTran Corporation:

We have audited the accompanying consolidated balance sheets of AirTran Corporation (a Minnesota corporation, previously Mesaba Aviation, Inc.) and Subsidiary as of March 31, 1989 and 1988, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended March 31, 1989. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 AirTran Corporation and Subsidiary as of March 31, 1989 and 1988, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1989 in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

Minneapolis, Minnesota,
May 19, 1989

Five-Year Selected Financial and Statistical Data *AirTran Corporation and Subsidiary*

Years Ended March 31, (dollar amounts in thousands, except per share data)	*1989*	*1988*	*1987*	*1986*	*1985*
Statement of Operations Data:					
Operating revenues	**$ 35,653**	$29,171	$ 21,806	$ 13,763	$ 9,244
Operating expenses	**32,772**	26,266	22,148	12,844	8,715
Operating income (loss)	**$ 2,881**	$ 2,905	$ (342)	$ 919	$ 529
Net income (loss)	**$ 1,645**	$ 1,549	$ (213)	$ 201	$ 165
Net income (loss) per share					
Primary	**$ 0.48**	$ 0.51	$ (0.07)	$ 0.08	$ 0.07
Fully Diluted	**0.46**	0.45	(0.07)	0.08	0.07
Weighted average number of shares outstanding (000's)					
Primary	**3,458**	3,055	2,880	2,538	2,267
Fully Diluted	**3,779**	3,647	2,919	2,538	2,267

March 31,	*1989*	*1988*	*1987*	*1986*	*1985*
Balance Sheet Data:					
Current assets	**$ 8,761**	$ 6,965	$ 5,564	$ 4,661	$ 1,699
Net property and equipment	**16,464**	8,518	9,044	8,707	6,519
Other assets, net	**2,606**	149	303	495	457
Total assets	**$ 27,831**	$ 15,632	$ 14,911	$ 13,863	$ 8,675
Current liabilities	**$ 5,221**	$ 4,401	4,357	$ 3,349	$ 1,722
Long-term liabilities	**11,960**	4,561	5,357	5,301	3,937
Stockholders' equity	**10,650**	6,670	5,197	5,213	3,016
Total liabilities and stockholders' equity	**$ 27,831**	$ 15,632	$ 14,911	$ 13,863	$ 8,675

Years Ended March 31,	*1989*	*1988*	*1987*	*1986*	*1985*
Selected Operating Data:					
Revenue passengers carried	**428,895**	376,101	292,457	152,087	92,736
Revenue passenger miles (000)	**97,665**	82,712	61,172	31,815	20,097
Available seat miles (000)	**183,111**	153,685	133,414	79,462	53,613
Cost per available seat mile	**$ .177**	$ .168	$ .163	$ .157	$ .157
Passenger load factor	**53.3%**	53.8%	45.9%	40.0%	37.5%
Breakeven load factor	**49.2%**	49.1%	47.6%	38.7%	36.9%
Yield per revenue passenger mile	**$ .341**	$ .323	$ .326	$ .348	$ .304
Number of departures	**34,697**	30,314	30,194	26,851	24,398

Board of Directors

Earl W. Dagg [2]
Medical Doctor

M. C. Lund [1]
Former President, Frontier Airlines, Inc.

Rodger T. Munt [1,3]
Vice President, Marketing/Strategic Planning,
Dee Howard Co.

William G. Ness [2,3]
Chief Executive Officer, Arctco, Inc.

John S. Olbrych [1,2]
Vice President, State Street Bank & Trust Co.

Mervin D. Prestebak
Private Investor

Alan R. Stephen [3]
President, Scenic Airlines, Inc.

Lowell T. Swenson [1]
Former Chairman of the Board, Mesaba Aviation, Inc.

Philip L. Swenson
Vice President, Planning and Marketing, and Secretary,
AirTran Corporation

Robert D. Swenson [1]
Chairman of the Board, President and Chief Executive Officer, AirTran Corporation

[1] *Executive Committee*
[2] *Audit Committee*
[3] *Compensation Committee*

Corporate Officers

Robert D. Swenson
Chairman of the Board, President, and
Chief Executive Officer

*Patrick J. Thompson**
Senior Vice President, Operations

Kenneth P. Bronson
Vice President, Finance and Treasurer

*Richard A. Lawrence**
Vice President, Flight Operations

*Lawrence E. McCabe**
Vice President, Corporate and Government Affairs

Philip L. Swenson
Vice President, Planning/Marketing and Secretary

*Michael R. Wind**
Vice President, Ground and In-Flight Services

**Officers of Mesaba Aviation, Inc. only*

Stock Price and Dividend Information

The common stock of AirTran Corporation is traded on the NASDAQ National Market under the symbol ATCC. The following table sets forth the high and low last sale prices of the Company's common stock for the fiscal quarters of 1989 and 1988.

		Bid Price of Common Shares 1989	1988	*Dividends Per Share* 1989	1988
1st Quarter	High	4⅜	5⅜	$.03	–
	Low	3⅝	4⅜		
2nd Quarter	High	5½	5⅝	$.03	–
	Low	5	4¼		
3rd Quarter	High	5⅞	4½	$.03	$.03
	Low	5¾	2⅞		
4th Quarter	High	7⅛	4½	$.03	$.03
	Low	6½	3½		

On June 15, 1989, the number of recordholders of the Company's common stock was approximately 1,140.

Shareholder Information

Transfer Agent
Norwest Bank, Minneapolis, N.A.

Corporate Counsel
Briggs and Morgan, Minneapolis, Minnesota

Auditors
Arthur Andersen & Co., Minneapolis, Minnesota

Form 10-K
A copy of the Company's Form 10-K annual report will be provided free of charge to any shareholder upon written request to: Vice President, Finance and Treasurer AirTran Corporation, 7501 26th Avenue South, Minneapolis, Minnesota 55450.

Notice of Annual Meeting
The Annual Meeting of Shareholders will be held at 3:30 p.m., Friday, August 4, 1989 at AirTran Corporation's headquarters, 7501 26th Avenue South, Minneapolis, Minnesota.

Address
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612/726-5151

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