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FOR THE DISTRICT OF NEVADA

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U.S. BANKRUPTCY COURT
PATRICIA Proceedings Under Chapter 11

In re:

NATIONAL AIRLINES, INC., a Delaware
corporation,

Debtor.

Case No. 00-19258-LBR

Honorable Linda B. Riegler

12/4/01
930am

**DISCLOSURE STATEMENT CONCERNING THE DEBTOR'S
PLAN OF REORGANIZATION**

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EXHIBITS TO DISCLOSURE STATEMENT

- EXHIBIT 1 – Plan of Reorganization
- EXHIBIT 2 – Selected Financial Statements
- EXHIBIT 3 – Liquidation Valuation
- EXHIBIT 4 – Going Concern Valuation

INTRODUCTION AND SUMMARY

Overview

On December 6, 2000 (the "Petition Date"), National Airlines, Inc., a Delaware corporation ("National" or the "Debtor"), filed a petition for relief under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") with the United States Bankruptcy Court for the District of Nevada, (the "Bankruptcy Court"). On November 9, 2001, National filed its initial plan of reorganization (the "Plan"). National will file a Plan Supplement, incorporating the forms of the material documents necessary to implement the Plan, no later than seven business days before the deadline for filing objections to the confirmation of the Plan, or such other date as the Bankruptcy Court may require.

Please note that the capitalized terms that are used in this Disclosure Statement are defined in the Plan which accompanies this Disclosure Statement as Exhibit 1.

The purpose of this Disclosure Statement is to provide National's creditors with adequate information to make an informed judgment about the Plan. This information includes, among other matters, a brief history of the Debtor, a summary of its Chapter 11 Case, a description of the Debtor's assets and liabilities, and an explanation of the principal terms and conditions of the Plan.

Pursuant to the Plan, claims of certain creditors will be unimpaired by the Plan while other claims of creditors will be modified in accordance with the terms of the Plan described in this Disclosure Statement. All of the existing equity securities of National will be cancelled and terminated and holders of equity interests in National will receive nothing under the Plan.

It is important that creditors read and carefully consider this Disclosure Statement and the Plan, and that creditors vote promptly on the acceptance of the Plan. National is unable to service or otherwise satisfy all of its current debt obligations and all of its other obligations to other creditors. National believes that the restructuring contemplated by the Plan will yield a recovery to creditors greater than the return that could be achieved through other restructuring alternatives or a liquidation under Chapter 7 of the Bankruptcy Code.

If you have any questions concerning the procedures for voting on the Plan or your treatment under the Plan, please contact Sean T. Cork, Squire, Sanders & Dempsey L.L.P., Two Renaissance Square, 40 North Central Avenue, Suite 2700, Phoenix, Arizona 85004, telephone number (602) 528-4000, facsimile number (602) 253-8129.

YOU SHOULD READ THIS DISCLOSURE STATEMENT IN ITS ENTIRETY BEFORE VOTING ON THE PLAN. THIS DISCLOSURE STATEMENT SUMMARIZES CERTAIN TERMS OF THE PLAN, BUT THE PLAN ITSELF IS THE GOVERNING DOCUMENT. IF ANY INCONSISTENCY EXISTS BETWEEN THE PLAN AND THE DISCLOSURE STATEMENT, THE TERMS OF THE PLAN CONTROL.

A SUMMARY DESCRIPTION OF THE CLASSIFICATION OF YOUR CLAIM OR EQUITY INTEREST AND THE TREATMENT PROPOSED UNDER THE PLAN ARE CONTAINED UNDER "SUMMARY OF CLASSIFICATION AND TREATMENT UNDER THE PLAN" BEGINNING ON PAGE 4. A COMPLETE COPY OF THE PLAN IS ATTACHED TO THIS DISCLOSURE STATEMENT AS EXHIBIT 1.

THE DEBTOR RESERVES THE RIGHT TO AMEND, MODIFY, OR SUPPLEMENT THE PLAN AT ANY TIME BEFORE THE CONFIRMATION OF THE PLAN, PROVIDED THAT SUCH AMENDMENTS OR MODIFICATIONS DO NOT MATERIALLY ALTER THE TREATMENT OF, OR DISTRIBUTIONS TO, CREDITORS AND HOLDERS OF EQUITY INTERESTS UNDER THE PLAN.

THE FINANCIAL PROJECTIONS CONTAINED IN THIS DISCLOSURE STATEMENT REPRESENT THE DEBTOR'S ESTIMATES OF FUTURE EVENTS BASED ON CERTAIN ASSUMPTIONS MORE FULLY DESCRIBED BELOW, SOME OR ALL OF WHICH MAY NOT BE REALIZED. NONE OF THE FINANCIAL ANALYSES CONTAINED IN THIS DISCLOSURE STATEMENT ARE CONSIDERED TO BE A "FORECAST" OR "PROJECTION" AS TECHNICALLY DEFINED BY THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS. THE USE OF THE WORDS "FORECAST," "PROJECT," OR "PROJECTION" WITHIN THIS DISCLOSURE STATEMENT RELATES TO THE BROAD EXPECTATIONS OF FUTURE EVENTS OR MARKET CONDITIONS AND QUANTIFICATIONS OF THE POTENTIAL RESULTS OF OPERATIONS UNDER THOSE CONDITIONS. ACTUAL RESULTS COULD VARY SIGNIFICANTLY FROM THOSE PROJECTED.

ALL FINANCIAL INFORMATION PRESENTED IN THIS DISCLOSURE STATEMENT WAS PREPARED BY THE DEBTOR WITH THE ASSISTANCE OF ITS PROFESSIONAL FINANCIAL ADVISORS. EACH CREDITOR AND EQUITY INTEREST HOLDER IS URGED TO REVIEW THE PLAN IN FULL BEFORE VOTING ON THE PLAN TO ENSURE A COMPLETE UNDERSTANDING OF THE PLAN AND THIS DISCLOSURE STATEMENT.

CERTAIN STATEMENTS, PROJECTIONS OF FUTURE OPERATING RESULTS, VALUATION ESTIMATES AND THE LIKE CONTAINED IN THIS DISCLOSURE STATEMENT AND ELSEWHERE ARE STATEMENTS THAT THE DEBTOR BELIEVES CONSTITUTE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER IMPORTANT FACTORS THAT COULD CAUSE THE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF NEW NATIONAL, OR INDUSTRY RESULTS, TO DIFFER MATERIALLY FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. SUCH RISKS, UNCERTAINTIES AND OTHER IMPORTANT FACTORS INCLUDE, AMONG OTHERS: GENERAL ECONOMIC AND BUSINESS CONDITIONS; COMPETITION; LOSS OF ANY SIGNIFICANT MARKET SHARE; CHANGES IN BUSINESS STRATEGY OR DEVELOPMENT PLANS; AVAILABILITY, TERMS AND DEPLOYMENT OF CAPITAL; ADVERSE UNINSURED DETERMINATIONS IN ANY EXISTING OR FUTURE LITIGATION OR REGULATORY PROCEEDINGS AND ANY OTHER FACTORS REFERENCED IN THIS DISCLOSURE STATEMENT OR OTHERWISE. SEE "RISK FACTORS." THESE FORWARD-LOOKING STATEMENTS SPEAK ONLY AS OF THE DATE OF THIS DISCLOSURE STATEMENT, AND THE DEBTOR EXPRESSLY DISCLAIMS ANY OBLIGATION OR UNDERTAKING TO DISSEMINATE ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING STATEMENT CONTAINED IN THIS DISCLOSURE STATEMENT TO REFLECT ANY CHANGE IN DEBTOR'S EXPECTATIONS WITH REGARD TO SUCH STATEMENTS OR ANY CHANGE IN EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED.

THIS DISCLOSURE STATEMENT IS INTENDED FOR THE SOLE USE OF CREDITORS AND OTHER PARTIES IN INTEREST AND FOR THE SOLE PURPOSE OF ASSISTING THEM IN MAKING AN INFORMED DECISION ABOUT THE PLAN. NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS IN CONJUNCTION WITH THE SOLICITATION OF VOTES TO ACCEPT OR REJECT THE PLAN OTHER THAN THE INFORMATION AND REPRESENTATIONS CONTAINED IN THIS DISCLOSURE STATEMENT OR IN THE BALLOTS. IF GIVEN OR MADE, ANY SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE DEBTOR.

[THIS DISCLOSURE STATEMENT HAS BEEN APPROVED BY THE BANKRUPTCY COURT AS CONTAINING ADEQUATE INFORMATION TO PERMIT A CREDITOR TO VOTE ON THE PLAN. APPROVAL OF THE LEGAL ADEQUACY OF THIS DISCLOSURE STATEMENT BY THE BANKRUPTCY COURT IS NOT A CERTIFICATION BY THE BANKRUPTCY COURT AS TO THE TRUTH OR ACCURACY OF THE FACTUAL MATTERS THAT ARE CONTAINED IN THIS DISCLOSURE STATEMENT.]

THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT.

CAPITALIZED TERMS USED BUT NOT DEFINED IN THIS DISCLOSURE STATEMENT HAVE THE DEFINITIONS GIVEN TO THEM IN THE PLAN.

THE DEBTOR URGES YOU TO VOTE FOR THE PLAN AS IT BELIEVES THAT THE PLAN WILL PROVIDE FOR A LARGER DISTRIBUTION TO HOLDERS OF CLAIMS THAN WOULD OTHERWISE RESULT IF AN ALTERNATIVE RESTRUCTURING PLAN WERE PROPOSED OR THE DEBTOR'S ASSETS WERE LIQUIDATED.

Summary of Classification and Treatment Under the Plan¹

As described more fully in this Disclosure Statement, the Plan contemplates a restructuring of National's pre-petition indebtedness and operations. National, as reorganized pursuant to the Plan, is referred to herein as "New National." Under the Plan, New National will be responsible for payments to holders of Claims which are classified as Unclassified Claims and for payments and/or distributions to holders of Allowed Claims in Classes 1-8, 9 and 10. Most of the holders of Claims will receive shares of Common Stock in New National (the "New Common Stock"). Under the Plan, the companies which leased aircraft to National (the "Aircraft Lessors") will receive a significant percentage of the shares of the New Common Stock issued in accordance with the terms of the Plan. The amount of New Common Stock received by a holder of a Claim entitled to receive New Common Stock will be based on the ratio of the Allowed amount of such holder's Claim to the Allowed amount of all Claims entitled to receive shares of New Common Stock under the Plan.

Treatment of Aircraft Lessors

As mentioned above, the Aircraft Lessors will initially hold a significant percentage of the outstanding shares of New Common Stock. Before the Bankruptcy Court confirms the Plan, National will elect to either assume or reject the leases pursuant to which National leases its fleet of commercial aircraft (the "Aircraft Leases"). If National rejects an Aircraft Lease, the applicable Aircraft Lessor will have a General Unsecured Claim against National and will receive New Common Stock in full satisfaction of such Claim or such other treatment as agreed to between National and the Aircraft Lessor. The Aircraft Lessor may also have an Aircraft Lease Administrative Claim and may also receive New Common Stock or such other treatment as agreed to between National and the Aircraft Lessor with respect to such Claim. If National assumes an Aircraft Lease, the applicable Aircraft Lessor and National will enter into a new Aircraft Lease with modified terms and conditions, and the Aircraft Lessor will receive New Common Stock on account of any "cure" amounts payable under the Bankruptcy Code. National expects that it will assume most, if not all, of its Aircraft Leases, but it may reject an Aircraft Lease if National is unable to negotiate a mutually acceptable restructured lease agreement with the Aircraft Lessor. National also intends to enter into additional lease agreements to increase the number of planes in its fleet of commercial aircraft.

Passenger Facility Charges

Several airports have assessed passenger facility charges ("PFCs") against National before and after National filed for Chapter 11, and National has failed to pay some of the PFCs that it owes. National expects that it will distribute cash, New Common Stock or make other arrangements with those airports in satisfaction of the PFCs that were assessed prior to the Petition Date. Any PFCs assessed after the Petition Date will be paid by the Debtor or New National, as applicable, in the ordinary course of its business.

Other Claims and Equity Interests

The Plan divides Claims and Equity Interests into Classes and sets forth the treatment afforded to each Class. The classification of Claims and the distributions to be made under such classification takes into account the relative priorities of Claims, Equity Interests, and Equity Related Claims. The Debtor believes

¹ This summary contains only a brief and simplified description of the classification and treatment of Claims and Equity Interests under the Plan. This summary does not describe every provision of the Plan. Accordingly, you should refer to the entire Disclosure Statement (including exhibits) and the Plan for a complete description of the classification and treatment of Claims and Equity Interests.

that it has classified all Claims, Equity Interests, and Equity Related Claims in compliance with the provisions of Section 1122 of the Bankruptcy Code.

If the Plan is confirmed by the Bankruptcy Court, each holder of an Allowed Claim will receive the same treatment as all holders of other Allowed Claims in the same Class, regardless of whether a particular holder voted to accept the Plan. Moreover, upon confirmation, the Plan will be binding on all Creditors and holders of Equity Interests regardless of whether such Creditors or holders of Equity Interests voted to accept the Plan.

Set forth in the table below is a summary of the classification and treatment under the Plan of Claims and Equity Interests, other than the Claims related to the Aircraft Leases and the PFCs discussed above. If a Class is indicated as being impaired, the holders of Claims in that Class are entitled to vote on the Plan. If a Class is indicated as being unimpaired, the holders of Claims in the Class are not entitled to vote on the Plan.

Class	Type of Claim or Interest	Treatment
Unclassified	Allowed Administrative Claims	<p>Unimpaired. Administrative Claims are generally Claims that arose during the pendency of the Chapter 11 Case which are subject to Bankruptcy Court approval. Under the Plan, the Allowed Administrative Claims will be paid in full in Cash (or otherwise satisfied in accordance with the terms of the Plan) by New National on the latest of: (a) the Effective Date, or as soon thereafter as practicable; (b) such date as may be fixed by the Bankruptcy Court, or as soon thereafter as practicable; (c) the tenth Business Day after such Claim is Allowed, or as soon thereafter as practicable; and (d) such date as the holder of such Claim and New National may agree. The Debtor estimates that as of the Effective Date there will be \$ _____ of Administrative Claims.</p>
Unclassified	Preserved Ordinary Course Administrative Claims	<p>Unimpaired. Preserved Ordinary Course Administrative Claims are also Claims that arose during the pendency of the Chapter 11 Case. Typically, such Claims include Claims of vendors and other entities supplying goods and services to the Debtor. Under the Plan, the Allowed Preserved Ordinary Course Administrative Claims will be paid by New National in accordance with either: (a) the terms and conditions under which such Claim arose; or (b) in the ordinary course of New National's business. Such payments are to be made by New National without further action by the holder of such Claim. The Debtor estimates that as of the Effective Date there will be \$ _____ of Preserved Ordinary Court Administrative Claims.</p>
Unclassified	Priority Tax Claims	<p>Priority Tax Claims are certain tax claims of the Internal Revenue Service and other governmental entities that are afforded priority treatment under the Bankruptcy Code.</p>

Class	Type of Claim or Interest	Treatment
		<p>Under the Plan, the Allowed Priority Tax Claims will be paid by New National in full in Cash on the Effective Date; <i>provided, however</i>, that New National may elect to pay such Claims through deferred Cash payments over a period not exceeding six (6) years after the date of assessment of such Claim, of a value as of the Effective Date, equal to the Allowed amount of such Claim. In that event, such payments are to be made in equal annual installments of principal, plus interest accruing from the Effective Date at the rate on the unpaid portion of the Allowed Priority Tax Claim set forth in the Sections 6621 and 6622 of the Internal Revenue Code of 1986, as amended. The first such payment is to be made payable on the latest of: (a) the Effective Date, or as soon thereafter as practicable; (b) such date as may be fixed by the Bankruptcy Court, or as soon thereafter as practicable; (c) the tenth Business Day after such Claim is Allowed, or as soon thereafter as practicable; and (d) such date as the holder of such Claim and New National may agree; <i>provided, however</i>, that New National retains the right to prepay any such Allowed Priority Tax Claim, or any remaining balance of such Claim, in full or in part, at any time on or after the Effective Date without premium or penalty. The Debtor estimates that as of the Effective Date there will be \$ _____ of Priority Tax Claims.</p>
Unclassified	Professional Fees	<p>Unimpaired. Professional Fees are the Claims approved by the Bankruptcy Court for compensation and reimbursement of expenses submitted by the professionals who have been retained by any Committee or the Debtor pursuant to an order of the Bankruptcy Court. Under the Plan, the Professional Fees will be paid (a) in full in Cash by New National in such amounts as are allowed by the Bankruptcy Court or (b) in accordance with the agreement of such professional and National. The Debtor estimates that as of the Effective Date there will be \$ _____ of Professional Fees.</p>
Unclassified	DIP Lender Claims (Mercury Air Group, Inc.)	<p>Unimpaired. The DIP Lender Claims are the Claims of each DIP Lender related to amounts due under each DIP Facility unless all or any portion of such Claim is separately classified under the Plan. Under the Plan and simultaneously with the closing of the Exit Financing Facility, all DIP Lender Claims shall be fully and finally satisfied in accordance with the terms of the applicable DIP Financing Order. Absent the consent of Mercury Air Group, Inc. ("Mercury"), on the Effective Date, New National will satisfy all existing sums due to Mercury other than the amounts which represent the Secured Claim of</p>

Class	Type of Claim or Interest	Treatment
1	Priority Claims	<p>RPA Airline Automation Services, Inc. which will be treated as a Miscellaneous Secured Claim. The Debtor estimates that as of the Effective Date there will be \$ _____ of DIP Lender Claims.</p> <p>Unimpaired. Priority Claims are those Claims which are entitled to priority under Section 507(a) of the Bankruptcy Code, but it does not include the Unclassified Claims discussed above. Under the Plan, the Allowed Priority Claims will be paid in full in Cash by New National upon the latest of: (a) the Effective Date, or as soon thereafter as practicable; (b) such date as may be fixed by the Bankruptcy Court, or as soon thereafter as practicable; (c) the tenth Business Day after such Claim is Allowed, or as soon thereafter as practicable; and (d) such date as the holder of such Claim and New National may agree. The Debtor estimates that as of the Effective Date there will be \$ _____ of Claims in Class 1.</p>
2	Secured Tax Claims	<p>Unimpaired. Secured Tax Claims are comprised almost exclusively of unpaid property taxes that are determined to be secured by operation of applicable state law. Under the Plan, the Allowed Secured Tax Claims will be paid in full in Cash by New National upon the latest of: (a) the Effective Date, or as soon thereafter as practicable; (b) such date as may be fixed by the Bankruptcy Court, or as soon thereafter as practicable; (c) the tenth Business Day after such Claim is Allowed, or as soon thereafter as practicable; and (d) such date as the holder of such Claim and New National may agree. The Debtor estimates that as of the Effective Date there will be \$ _____ of Claims in Class 2.</p>
3	JFK/IAT Claims	<p>Unimpaired. The JFK/IAT Claims are comprised of any Claims of JFK International Air Terminal, L.L.C. ("JFK/IAT") against the Debtor. In full satisfaction of all JFK/IAT Claims, New National will abide by the "Stipulation and Agreed Order Regarding Assumption of that Certain Common Use Agreement as between the Debtor and JFK International Air Terminal, L.L.C." as modified by any subsequent agreement of the Debtor and JFK/IAT, and the note issued in connection with such stipulation shall be subordinate in payment priority to the Exit Financing Facility. The Debtor estimates that as of the Effective Date there will be \$ _____ of Claims in Class 3.</p>
4	GC Claims	<p>Impaired. The GC Claims are all Claims of Goodrich Corporation, formerly known as The B.F. Goodrich Company, and its subsidiaries and affiliates, including,</p>

Class	Type of Claim or Interest	Treatment
		<p>without limitation, B.F. Goodrich Aerospace MRO Group, Inc., and Goodrich Aerospace Component & Overhaul & Repair, Inc. ("GC") against the Debtor. Under the Plan, the GC Claims will be satisfied in full on the Effective Date by (i) issuing to GC its Pro Rata share of the New Common Stock based on the amounts outstanding under the 10% Deferred Note B, dated May 10, 2001 (the "Series B Note") or (ii) extinguishing the 10% Deferred Note A, dated May 10, 2001 (the "Series A Note") and issuing a new note (the "GC Note") with a principal balance equal to the aggregate amount currently outstanding under the Series A Note. The GC Note will bear interest at the same rate as the Series A Note and principal payments will be made monthly based on a 10 year amortization schedule. All amounts owing under the GC Note will be due and payable on the fifth anniversary of the Effective Date. The GC Note shall be subordinate in payment priority to the Exit Financing Facility.</p> <p>In addition, New National will enter into a long-term maintenance contract with GC (which will supersede all prior agreements) on terms and conditions acceptable to GC and New National.</p> <p>On the Effective Date, GC's liens and security interests on the aircraft to be operated by New National will automatically terminate, but GC's liens and security interests on the aircraft related to the rejected Aircraft Lease will terminate upon the request of New National.</p> <p>The Debtor estimates that as of the Effective Date there will be \$ _____ of Claims in Class 4.</p>
5	GECC Claims	<p>Impaired. The GECC Claims consist of any Claims of General Electric Capital Corporation and its subsidiaries and Affiliates ("GECC"). In full and final satisfaction of all GECC Claims, GECC shall receive a note with a principal amount equal to the Allowed amount of its Secured Claim (the "GECC Note"). The GECC Note shall bear interest at the rate of 8% per annum and shall be payable in 60 equal monthly principal installments of \$[58,333.33]. The note shall be secured by the liens and security interests that GECC had in the Debtor's property immediately prior to the Effective Date; provided, however, that the GECC Note shall be subordinate in payment priority to the Exit Financing Facility.</p> <p>In lieu of receiving the GECC Note, GECC may, at its option by so indicating on the Ballot for Class 5, choose to</p>

Class	Type of Claim or Interest	Treatment
6	Harrah's Claims	<p>receive Cash in the amount of \$2,500,000 on the Effective Date or as soon thereafter as is practicable.</p> <p>The Debtor estimates that as of the Effective Date there will be \$ _____ of Claims in Class 5.</p> <p>Impaired. The Harrah's Claims consist of any Claims that Harrah's Operating Company, Inc., and/or any of its subsidiaries or affiliates (collectively, "Harrah's"), may have against the Debtor.</p> <p>In full satisfaction of the Harrah's Claims relating to the letters of credit which Harrah's caused to be issued in favor of U.S. Bank National Association ("U.S. Bank"), Harrah's and New National shall enter into an agreement dated as of the Effective Date which will provide, among other things, that:</p> <ol style="list-style-type: none"> 1) Harrah's shall cause the letter of credit issued by Bank of America, N.A. for the benefit of U.S. Bank (the "LOC") in a principal amount of \$14,000,000 as of the Effective Date to be extended through the eighteen-month anniversary of the Effective Date, and if the principal amount of the LOC is less than \$14,000,000 as of the Effective Date, Harrah's shall cause the principal amount of the LOC to be increased to \$14,000,000. 2) During the term of the LOC, New National shall pay to Harrah's a monthly non-refundable fee (the "Monthly LOC Fee") in an amount equal to: (i) the amounts, calculated on a monthly basis, charged to Harrah's in connection with the issuance of the LOC by the financial institution that issues the LOC, plus (ii) .067% of the average daily face amount of the LOC during such month. 3) New National shall reduce Harrah's exposure on the LOC in accordance with a mutually agreeable monthly payment schedule (each such monthly payment, the "Monthly Exposure Reduction") through (a) a voluntary reduction of the face amount of the LOC by New National, (b) a Cash payment to Harrah's, (c) a voluntary reduction in the required principal amount of the LOC by U.S. Bank or (d) any combination of (a) through (c). New National may at any time reduce Harrah's exposure on the LOC by an amount greater than the Monthly Exposure Reduction and any such reduction in excess of the Monthly

Class	Type of Claim or Interest	Treatment
		<p>Exposure Reduction then due shall be applied to any Monthly Exposure Reductions payable for the next succeeding subsequent monthly periods.</p> <p>4) Upon the expiration of the LOC, Harrah's shall remit to National an amount equal to (a) \$1,608,727.77, if such amount has not been paid to New National in accordance with (5) below, plus (b) the aggregate of the Cash payments made by the Debtor or New National to Harrah's with respect to the LOC, including, without limitation, any portion of the Monthly Exposure Reductions which were Cash payments, plus (c) interest at 5% per annum from the Effective Date on the aggregate outstanding balance of Cash transferred by New National to Harrah's in connection with the LOC (other than any Monthly LOC Fee), including the \$1,608,727.77 held by Harrah's, minus (d) the aggregate amount of draws by U.S. Bank on the LOC from the Effective Date through the expiration date of the LOC to the extent not otherwise previously reimbursed or otherwise satisfied by New National. Harrah's shall not be obligated to remit to New National any Monthly LOC Fees paid by the Debtor or New National to Harrah's in respect of the LOC.</p> <p>5) On the Effective Date, New National may choose to reduce the principal amount of the LOC by \$1,608,727.77, and upon providing notice to Harrah's of the same, Harrah's shall transfer to New National \$1,608,727.77 in immediately available funds.</p> <p>In full satisfaction of the remainder of the Harrah's Claims, Harrah's and New National shall enter into an agreement dated as of the Effective Date pursuant to which New National will provide a ticket program to Harrah's on terms and conditions mutually agreeable to Harrah's and New National.</p> <p>The Debtor estimates that as of the Effective Date there will be \$ _____ of Claims in Class 6.</p>
7	<p>Miscellaneous Secured Claims</p>	<p>Impaired, subject to optional treatment. Miscellaneous Secured Claims are those Claims which are secured by a lien on any property of the Debtor. On or before 10 Business Days following approval by the Bankruptcy Court of the Disclosure Statement, the Debtor will elect one of the following alternative treatments for each holder of an Allowed Miscellaneous Secured Claim: (a) abandon or</p>

Class	Type of Claim or Interest	Treatment
		<p>surrender the collateral securing such Claim, (b) pay to the holder of such Claim on the Effective Date Cash in an amount equal to such Claim; (c) treat the holder of such Claim in accordance with the terms and conditions of all instruments or documents evidencing such Claim; (d) cure any default under any instrument or document evidencing such Claim; or (e) treat the holder of such Claim in accordance with the terms and conditions of any agreement entered into by the Debtor and the holder of such Claim with respect to such Claim.</p> <p>The Debtor estimates that as of the Effective Date there will be \$ _____ of Claims in Class 7.</p>
8	Convenience Claims	<p>Impaired. Convenience Claims include those Allowed General Unsecured Claims which are in an amount of \$2,500 or less or any General Unsecured Claim that is reduced to \$2,500 by election of the holder thereof on the Ballot or as otherwise provided in the Plan. Under the Plan, each holder of a Convenience Claim will be paid in Cash by New National the lesser of: (a) the amount of such Allowed Claim or (b) such holder's Pro Rata share of \$500,000. Fifty percent (50%) of the amount payable to each holder of a Claim in Class 8 shall be paid by New National as soon as practicable after the Effective Date, and the remainder of such amount shall be payable on or before the nine-month anniversary of the Effective Date</p> <p>The Debtor estimates that as of the Effective Date there will be \$ _____ of Claims in Class 8.</p>
9	General Unsecured Claims	<p>Impaired. General Unsecured Claims are those Claims which are not secured by any of the Debtor's property and which are not classified in any other Class. General Unsecured Claims include, without limitation, Claims which arise from the rejection of an executory contract or non-residential real property lease pursuant to Section 365 of the Bankruptcy Code. Under the Plan, each holder of an Allowed General Unsecured Claim will receive on the Effective Date its Pro Rata share an uncertificated beneficial interest in a trust established by New National (the "Trust"). New National will contribute to the Trust the General Unsecured Creditors' Pro Rata share of New Common Stock.</p> <p>The costs and expenses of the Trust will be paid by New National in accordance with the Trust Agreement. The Trust will also be bound by a voting agreement pursuant to which the shares of New Common Stock held by the Trust will be voted in the same proportion as the shares of New Common</p>

Class	Type of Claim or Interest	Treatment
		<p>Stock held by other parties. The Trust will distribute the New Common Stock held by it upon the earliest to occur of (i) the fifth anniversary of the Effective Date, (ii) the date on which New National becomes a reporting company under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and (iii) the date on which New National consummates a public offering of common stock which is registered under the Securities Act of 1933, as amended.</p> <p>Certain actions will be taken to ensure that the Trust will not be required to register under the Exchange Act. Such actions include, without limitation, the following: (i) the beneficial interests in the Trust will be uncertificated; (ii) the beneficial interests in the Trust will be non-transferable; and (iii) the sole purpose of the Trust will be to hold the New Common Stock in trust for the General Unsecured Creditors in Class 9 (and certain Aircraft Lessors at their option) and to liquidate and/or distribute the same.</p> <p>The Debtor estimates that as of the Effective Date there will be \$ _____ of Claims in Class 9.</p>
10	Equity Interests and Equity Related Claims	<p>Impaired. Equity Interests and Equity Related Claims consists of any Claim (i) related to any interest in the Debtor represented by any class or series of common or preferred stock issued by the Debtor prior to the Petition Date and any warrants, options or rights to purchase, receive or otherwise acquire any such common or preferred stock or (ii) arising from the rescission of a purchase or sale of any debt security issued by the Debtor prior to the Petition Date or for damages arising from the purchase or sale of such securities, including any damages under any state or federal law or regulation or any contract. Holders of Allowed Equity Interests and Equity Related Claims will not receive or retain any rights, property or distributions under the Plan.</p>
<p><u>Voting and Confirmation Procedures</u></p>		
<p>This Disclosure Statement is accompanied by copies of the following: (a) the Plan, attached as Exhibit 1 to this Disclosure Statement; (b) the Plan Supplement; (c) a Ballot to accept or reject the Plan; and (d) an Order of the Bankruptcy Court approving: (i) the Disclosure Statement under Section 1125 of the Bankruptcy Code, (ii) the forms of Ballots to be used for voting on the Plan, and (iii) the notice of, and fixing the time for, submitting Ballots and the Confirmation Hearing.</p>		
<p>The appropriate form of Ballots are to be used by holders of Claims in Classes 4, 5, 6, 7, 8 or 9. Holders of Claims in Classes 1, 2 or 3 are unimpaired under the Plan and are deemed to have accepted the</p>		

Plan without voting. Holders of Claims and Equity Interests in Class 10 are impaired under the Plan and are deemed to have rejected the Plan without voting.

Who May Vote. Under the Bankruptcy Code, impaired Classes of Claims or Equity Interests are entitled to vote to accept or reject a plan of reorganization. A Class that is not impaired under a plan is deemed to have accepted a plan and does not vote. A Class is "impaired" under the Bankruptcy Code when the legal, equitable, and contractual rights of the holders of Claims or Equity Interests in that Class are modified or altered. For purposes of the Plan, holders of Claims in Classes 4, 5, 6, 7, 8 and 9 are impaired and entitled to vote on the Plan. On the other hand, a Class that is impaired but receives nothing under a plan is deemed to reject such plan without the necessity of a vote. Class 10 under the Plan is impaired, receives nothing under the Plan, and is not entitled to vote.

If, however, an objection is filed by the Debtor with respect to your Claim, you will have the responsibility to request that the Bankruptcy Court grant temporary allowance of your Claim for voting purposes. Rule 3018 of the Federal Rules of Bankruptcy Procedure provides that the Bankruptcy Court after notice and hearing may temporary allow the Claim in an amount which the Bankruptcy Court deems proper for the purpose of accepting or rejecting the Plan. If an objection is filed by the Debtor with respect to your claim, you are urged to seek the assistance of an attorney with respect this matter.

Voting Instructions. All votes to accept or reject the Plan must be cast by using the appropriate form of Ballot enclosed with this Disclosure Statement. No votes other than ones using such Ballots will be counted, except to the extent the Bankruptcy Court orders otherwise. The Bankruptcy Court has set [] as the Voting Record Date under the Plan. The Voting Record Date is the date for the determination of record holders of Claims entitled to receive a copy of this Disclosure Statement and vote, using appropriate Ballots, to accept or reject the Plan. All Ballots (including master Ballots for record holders of Notes as described above) must be actually received by National's [Name and address of Voting Agent] [Telephone and fax number of Voting Agent] (the "Voting Agent"), by [] p.m.,] Pacific Standard Time, on [] (the "Voting Deadline"), unless the Bankruptcy Court extends such date before such time.

For your vote to count, your Ballot must be properly completed according to the voting instructions on the Ballot and received no later than the Voting Deadline by the Voting Agent. Any Ballot not indicating an acceptance or rejection will be deemed an acceptance of the Plan.

For questions about voting procedures, the amount of your Claim, or the packet that you received, please contact:

Sean T. Cork, Esq.
SQUIRE, SANDERS & DEMPSEY L.L.P.
40 North Central Avenue, Suite 2700
Phoenix, Arizona 85004
Telephone: (602) 528-4000
Facsimile: (602) 253-8129

Acceptance or Rejection of the Plan

Under the Bankruptcy Code, a Class of Claims entitled to vote is deemed to have accepted the Plan if it is accepted by creditors in such Class who, of those actually voting on the Plan, hold at least two-thirds in amount and more than one-half in number of the Allowed Claims of such Class. A Class of Equity Interests entitled to vote is deemed to have accepted the Plan if it is accepted by holders of Equity Interests who hold at least two-thirds in amount of the Equity Interests of such Class that have actually voted on the Plan.

If the Plan is not accepted by all impaired Classes of Allowed Claims, the Plan may still be confirmed by the Bankruptcy Court under Section 1129(b) of the Bankruptcy Code if: (a) the Plan has been accepted by at least one impaired Class of Claims; and (b) the Bankruptcy Court determines, among other things, that the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to each non-accepting impaired Class (the "Cramdown Provisions"). If the Plan is not accepted by all impaired Classes of Allowed Claims or Equity Interests, the Debtor reserves the right to ask the Bankruptcy Court to confirm the Plan under the Cramdown Provisions.

Confirmation Hearing; Objections

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a Confirmation Hearing. Section 1128(b) of the Bankruptcy Code provides that any party-in-interest may object to Confirmation of the Plan. Under Section 1128 of the Bankruptcy Code and Rule 3017(c) of the Bankruptcy Rules, the Bankruptcy Court has scheduled the Confirmation Hearing before the Honorable Linda B. Riegler, United States Bankruptcy Judge, at the United States Bankruptcy Court, District of Nevada, 300 Las Vegas Boulevard South, Las Vegas, Nevada 89101 for **December 28, 2001** at _____ p.m., Pacific Standard Time. A notice (the "Confirmation Hearing Notice") setting forth the time and date of the Confirmation Hearing has been included along with this Disclosure Statement. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice, except for an announcement of such adjourned hearing date by the Bankruptcy Court in open court at such hearing.

Any objection to Confirmation of the Plan must be in writing, must comply with the Bankruptcy Rules and the Local Rules of the Bankruptcy Court, and must be filed and served as required in the notice of the Confirmation Hearing included herewith.

BACKGROUND AND EVENTS PRECIPITATING THE CHAPTER 11 FILING

Overview of the Debtor and its Business Operations

National was founded in April 1995 by Michael Conway, its current Chairman of the Board, President and Chief Executive Officer. National offers full-service scheduled passenger jet service between its Las Vegas hub and major metropolitan areas throughout the United States. National initiated scheduled flight operations on May 27, 1999, with service at Chicago Midway and Los Angeles, and has since added service to New York JFK, Newark, San Francisco, Dallas/Ft. Worth, Philadelphia, Miami, Chicago O'Hare and Washington, D.C. (Reagan/National). Due to the September 11, 2001 terrorist attacks, certain restrictions on service to Washington Reagan/National Airport were imposed by the federal government, forcing National to temporarily suspend service to Washington, D.C.

In order to service its existing route structure and provide capacity for *ad hoc* charter service, National operates a modern, fuel-efficient fleet of 15 Boeing 757 jet aircraft. Each aircraft is configured comfortably with 175 seats, including 22 in first class. National believes that the Boeing 757 is the best-suited aircraft for its current route structure and service amenities.

Following the September 11, 2001 terrorist attacks, National sustained a significant drop in future bookings. Since that time, the number of bookings has begun to recover, but these bookings have been at significantly reduced fares. National believes that the demand for airline services to and from Las Vegas will eventually return to historical levels. National's business plan seeks to leverage the historically strong demand for airline seats to and from Las Vegas. Las Vegas currently has approximately 120,000 hotel rooms with several thousand more rooms being built over the next few years. National believes that with this increased hotel capacity comes the need for additional air transportation. However, in response to the September 11, 2001 attacks, certain carriers have announced or implemented capacity reductions. National hopes to fill this void by offering daily nonstop service to most major metropolitan areas throughout the United States, focusing particularly in the eastern region.

In April 2000, less than one year after starting flight operations, National enplaned its one-millionth customer. From the inception of its operations to October 31, 2001, National has carried 4,770,477 passengers. After only 18 months of operations, National ranked second among all domestic carriers in the Conde Nast 2000 Reader's Choice Awards.

Products and Services

National distinguishes itself from other carriers serving the Las Vegas market by offering convenient nonstop service and a quality product at competitive fares. National currently offers the following products and services:

- Free unlimited Las Vegas stopovers (no penalties) for its connecting passengers – an exclusive service;
- Conveniently scheduled nonstop flights to and from Las Vegas throughout the day and evening;
- An employee culture and attitude that emphasizes superior customer service;
- Full interline capabilities to facilitate a seamless travel experience for passengers making connections from other airlines;

- An all Boeing 757 fleet in a spacious two-class configuration with 22 first class seats and 153 main cabin seats featuring a spacious 43" seat pitch in first class and a 33" seat pitch throughout main cabin;
- Participation in all major computerized reservation systems with the capability to provide 360-day advance bookings and advance seat assignments;
- A state-of-the-art internet site that allows National's customers to purchase tickets and select their seat assignments;
- Electronic ticketing technology to expedite airport check-in; and
- A unique frequent flier program based on dollars spent (not miles or flights flown).

National's products and services have been designed to provide broad-based appeal to a wide spectrum of airline passengers traveling to Las Vegas, as well as those passengers who are likely to use Las Vegas as a connecting point. These groups consist of the following:

- Vacationing tourists – both the free and independent travelers and those who purchase inclusive air and ground packages;
- Convention visitors – Las Vegas is the largest convention city in the world;
- Price sensitive frequent business travelers who can experience significant savings on National compared to the fares charged by the major United States carriers for non-stop service between gateway cities to the east and west of Las Vegas; and
- Business and leisure travelers originating in Las Vegas.

The Greater Las Vegas area and surrounding Clark County have a population of over 1.3 million people and, according to the 2000 Census, was the fastest growing area in the United States during the past decade.

Market

National still believes that Las Vegas is under-served in terms of air service. This condition is anticipated to worsen in light of the capacity reduction announced by carriers after the events of September 11, 2001. The Company believes that some of these capacity reductions will be permanent. In addition, no national or major airline is headquartered in Las Vegas and no single air carrier dominates the Las Vegas market. During the first quarter 2001, McCarran International Airport ("McCarran") was the second largest airport in the United States in terms of passengers originating and terminating at that location, behind only Los Angeles (LAX). According to McCarran, the total daily departing seats increased from 54,948 to 65,249 (an increase of 19%) from May 1999 (prior to National's commencement of service) to August 2001. National accounted for approximately 53% of that total increase of departing seats during that period. Also, as of August 2001, total long-haul seats into and out of Las Vegas (defined as flights to or from cities east of the Mississippi river) have increased by 46.2% over those available as of May 1999, with National accounting for 44% of that total increase.

Before the terrorist attacks of September 11, 2001, and even more so after, certain airlines have either implemented or announced service reductions in the Las Vegas market. Based upon announced reductions and schedules filed by carriers in the Official Airlines Guide, overall scheduled seat capacity in the Las Vegas market for December 2001 is anticipated to decline by 13% versus capacity in September

2001. The following list sets forth, by carrier, December 2001 scheduled capacity reductions as a percentage of September 2001 capacity: America West (-13%); Delta (-11%); United (-25%); American (-8%); Continental (-8%); Northwest (-45%); and Alaska (-29%). While National reduced its schedule by approximately 15% immediately following the September 11, 2001 attacks, National currently plans to introduce one additional daily roundtrip flight between Las Vegas and each of Chicago-O'Hare, Los Angeles (LAX) and San Francisco in December 2001. After instituting these additional flights, National's daily departing seats from Las Vegas will be approximately 90% of its average daily departing seats that were scheduled for September 2001.

Las Vegas is primarily a leisure market in which lower fares prevail. Many of the airlines announcing service cuts in the Las Vegas market have high unit costs and an anticipation of even higher costs in the future. As a result, as capacity begins to return to the United States air market, higher cost carriers will first return capacity to higher yielding markets before returning to the lower yielding Las Vegas market. National believes that this situation together with National's comparatively low cost structure will create significant growth opportunities. Based upon announced and anticipated carrier capacity reductions, the table below sets forth the percentage change in the number of seats to be flown into Las Vegas in December 2001 compared to September 2001 by existing market served by National.

<u>Market</u>	<u>Sept. '01 vs. Dec. '01</u> <u>Change in Seats</u>
Chicago (MDW/ORD)	-10%
Dallas (DFW)	-10%
Los Angeles (LAX)	-20%
Miami (MIA)	+21% ⁽¹⁾
New York (JFK)	-55%
Newark	-25%
Philadelphia (PHL)	-13%
San Francisco (SFO)	-30%

⁽¹⁾ This increase in service from Miami is a typical increase roundtrip service during the winter months.

Capacity reductions also have been initiated or announced in markets National anticipates serving over the next five years. Based upon announced and anticipated carrier capacity reductions, the table below sets forth the percentage change in the number of seats to be flown into Las Vegas in December 2001 compared to September 2001 in markets included in National's five year business plan.

<u>Market</u>	<u>Sept. '01 vs. Dec. '01</u> <u>Change in Seats</u>
Atlanta	-20%
Boston	-35%
Denver	-29%
Detroit	-23%
Houston	-18%
Orlando	-54%
San Diego	-13%
San Jose	+3%
Seattle	-5%

In terms of average daily seat departures, National was the third largest carrier at McCarran in August 2001, behind only Southwest and America West. Of the five largest carriers at McCarran, comparing August 2000 to August 2001, only National and Southwest increased capacity at McCarran while the other three (America West, United and Delta) all reduced capacity. United Airlines has already removed nine flights from the Las Vegas market, some of which are on routes that National serves.

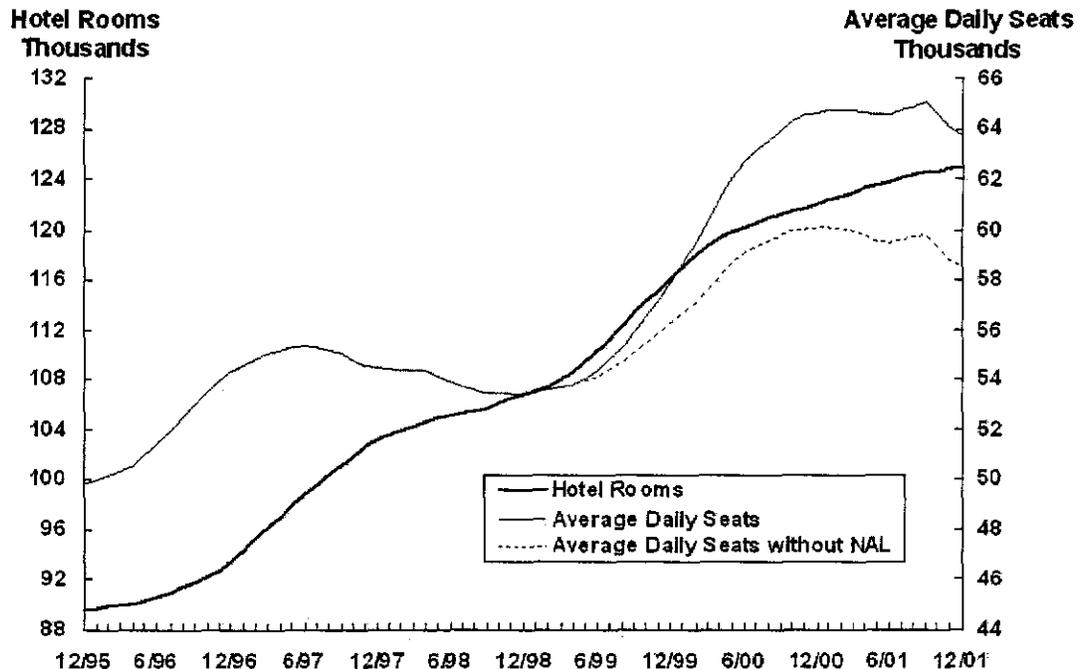
Based in Las Vegas, National focuses on addressing the growing demand for airline seats to and from Las Vegas. Of the 15 largest hotels in the world, 14 are located in Las Vegas. According to the Las Vegas Convention and Visitors Authority ("LVCVA"), hotel occupancy rates from 1993 to 2000 in Las Vegas averaged over 90% year-round, as compared to the national average over that same period of 67%. Hotel room inventory has grown rapidly over the past six years, increasing 38%. LVCVA reports that approximately 10,830 more hotel and motel rooms are scheduled to be added by the end of 2004 with an additional 36,027 new rooms listed as tentative. These scheduled and tentative room additions represent total potential inventory growth of up to 38% from 2000 levels.

As primarily a leisure destination, yields on routes to and from Las Vegas tend to be 30% lower than industry average. National believes that many high cost airlines, lacking the cost structure to profitably compete for low fare leisure traffic, have been reluctant to add frequencies to serve the Las Vegas market as evidenced by the recently announced capacity reductions. Consequently, airline seat growth has not kept up with the rapid increase in hotel rooms.

The chart below shows the growth of hotel rooms in Las Vegas and the growth of airline seats serving Las Vegas both with National's service and without its seats:

Seat Growth Versus Hotel Room Growth

Sources: Rooms: LVCVA; Seats: McCarran Airport Authority



Note: Seat and room data based on 12-month moving average; Oct 01 - Dec 01 room inventory estimated based on LVCVA Construction Bulletin for 2001.

Business related travel has also been increasing to and from Las Vegas. According to statistics compiled by the LVCVA, in 2000 Las Vegas hosted more conventions, trade shows and exhibitions than any other city in the United States. From 1970 through 1999, Las Vegas hosted 37,146 conventions attended by 43.1 million delegates who contributed \$40 billion to the economy of Las Vegas. In 2000, Las Vegas conventions attracted 3.9 million delegates, that had an estimated \$4.3 billion economic impact (excluding gaming) on the Las Vegas economy, as compared to 1994 in which Las Vegas attracted nearly 2.7 million delegates, that had an estimated \$3.0 billion economic impact (excluding gaming) on the Las Vegas economy.

The LVCVA data also shows that Las Vegas has a pro-business environment and is one of the fastest growing communities in the United States for middle and upper middle class retirees. Taxes in Las Vegas are relatively low. In addition, there are no city or state income taxes. Many high technology companies recently have located to Las Vegas due, in part, to the city's proximity to the government's sophisticated military technology centers such as Nellis Air Force Base and the College of Engineering at UNLV.

National believes that these factors make Las Vegas an ideal location for a hub of a full-service, low cost, long-haul carrier. National also believes that these same factors also act as a barrier of entry into the Las Vegas market to high cost carriers that are unable to compete effectively for the predominantly low fare Las Vegas leisure air traffic. National believes that it is well positioned for

continued growth. National currently leases five gates from McCarran for full time use, and National pays fees per use on the sixth. As National's fleet grows, National will have access to additional gates as needed. National is located in Concourse D, the newest concourse at the airport. National also believes that it has developed an excellent working relationship with the management of McCarran and as National expands its operations, National should be able to obtain additional gate space as necessary.

Strategy

Reorganization

National believes that the effective implementation of its business plan will provide significantly improved results. National believes that its balance sheet will be significantly stronger and provide adequate capitalization in the event of adverse future events as well as provide more flexibility to enter fuel hedging agreements and obtain improved transaction terms. In addition, adequate capitalization will allow National the opportunity to grow its fleet and route network prudently under the appropriate competitive and economic conditions.

National's business plan provides several opportunities for improving revenue generation. National anticipates that completing the recapitalization contemplated by the Plan will force its competitors to change their pricing policies that have kept fares on National's routes at low levels in an attempt to render its service uncompetitive in those markets. Because of National's comparatively low cost structure, National believes that it can achieve consistent profitability as fare levels improve.

National's business plan also includes the introduction of a new aircraft type in its fleet. These aircraft will be configured with approximately 150 seats and will serve some of its existing and planned short and medium haul routes. National believes the reduction in capacity by other carriers with higher unit costs will provide National with growth opportunities using these aircraft and additional Boeing 757 aircraft. As more destinations are added to National's route network, there will be significant opportunities to increase the level of connecting traffic at National's hub, which should result in higher load factors. Finally, through the reorganization process the exclusive marketing arrangements National has with Harrah's Las Vegas and Rio will cease, which will provide National with opportunities to expand its promotional and marketing relationships with all the hotels and casinos in Las Vegas.

Upon emerging from Chapter 11, National's already low cost structure will be further reduced. These reductions will come primarily from renegotiating National's aircraft leases rates to the current market. Since National commenced flight service in mid-1999, the used aircraft lease market has softened significantly. The market has further softened in reaction to the events of September 11, 2001. Overall, National believes that the renegotiation of the lease rates relative to its existing aircraft fleet will result in estimated annual savings of approximately \$30 million over its existing contractual lease rates.

National also will seek to renegotiate the terms of a number of important executory contracts through which it receives outsourced "back of the house" services. An additional \$4 million in annual savings should be realized through these renegotiations. In applying fresh start accounting, National will decrease the value of assets to existing market value. As a result, National believes that its depreciation and amortization expense will decrease, resulting in National's costs being reduced by approximately \$1 million per month on a declining basis over the next 18 to 24 months.

Finally, National's current business plan provides for increasing the size of its fleet from 15 aircraft to 50 aircraft over the next five years. However, the implementation of such growth will depend on prevailing economic and competitive conditions at the time. This planned increase in capacity would increase the base over which fixed costs could be spread, further decreasing National's unit cost.

General Strategy

Overall, National intends to continue focusing on its low cost structure and serving its longer haul routes to major city niches with Boeing 757 aircraft. This strategy will be supplemented by the introduction of 150-seat aircraft to serve short and medium haul markets. Given the current state of affairs in the United States airline industry, National believes there is an opportunity for an efficient, service oriented, low-cost carrier to exploit specific niches within the domestic air transportation market.

National's current long-term cost reduction and revenue enhancement initiatives in New National will include the following:

- Incorporating a fuel-hedging plan with the intent to proactively defend against possible future fuel price run-ups.
- Implementing a prudent growth plan and adhering to a disciplined route asset allocation strategy based upon prevailing competitive and economic conditions.
- Using National's newly implemented, state-of-the-art revenue management system to increase the level of passenger revenues.
- Expanding current marketing agreements to include additional Las Vegas hotel/casino properties to ensure that benefits from additional promotional efforts are realized.
- Implementing a more aggressive peak/off-peak net fare pricing strategy. This strategy is designed to improve off-peak load factors by aggressively pricing net fares to tour operators.
- Participating in additional bank settlement plans to increase revenue from international sources.
- Increasing focus and emphasis on improving National's online ticket sales.
- Entering into code share agreements with foreign carriers and, where strategically applicable, domestic carriers.
- Expanding National's casino desk program to more Las Vegas casino properties. This program is designed to be used by the casino marketing groups in each property to obtain discounts for the property's high-roller customers.
- Implementing a new corporate travel strategy to target small and medium-sized business travel. The one-stop markets that National currently serves do have sizeable amounts of business travel.

Although National faces competition on all of its routes, National faces significant competition across its entire route system only from America West Airlines. The table below sets forth the routes operated by the five largest airlines in the Las Vegas market over the routes that National will operate as of December 31, 2001:

National's Competitive Non-Stop Cities (March 2001)

<u>National</u>	<u>Southwest</u>	<u>America West</u>	<u>American</u>	<u>United</u>	<u>Delta</u>
New York/Kennedy (4)		New York/Kennedy (3)			
New York/Newark (2)		New York/Newark (2)			
Washington/National (1)		Washington/National (1)			
Dallas/Fort Worth (3)		Dallas/Fort Worth (1)	Dallas/Fort Worth (7)		Dallas/Fort Worth (3)
Philadelphia (2)		Philadelphia (2)			
Miami (2)		Miami (1)			
Chicago/Midway (3)	Chicago/Midway (3)				
Los Angeles (7)	Los Angeles (16)	Los Angeles (8)	Los Angeles (5)	Los Angeles (6)	Los Angeles (3)
San Francisco (7)		San Francisco (5)		San Francisco (7)	
Chicago/O'Hare (3)		Chicago/O'Hare (3)	Chicago/O'Hare (4)	Chicago/O'Hare (5)	

Numbers in parenthesis indicate daily non-stop flights provided to/from Las Vegas

Due to the events of September 11, 2001, and the resulting operating limitations imposed at Washington National Airport, National has temporarily suspended operations at DCA. America West has also suspended service. However, given America West's current fleet of aircraft, unless the operating rules for National Airport are revised to allow 757 operations at Washington National Airport, America West may become the only airline with non-stop service between Las Vegas and Washington National Airport.

In the Las Vegas market, Southwest Airlines and America West Airlines control the origination-destination fare levels because of their market share and size. Carriers striving to compete profitably must have a cost structure that allows them to profit at these fare levels. National believes that it has such a structure as its unit costs are below those of all of its major competitors, including Southwest Airlines and America West Airlines.

	<u>Three Months Ended September 30, 2001</u>		<u>Jan. '01 – Sep. '01 Pro Forma (1)</u>	
	<u>CASM (cents)</u>		<u>Pro Forma (1)</u>	
	<u>As Reported</u>	<u>Excluding Fuel Costs</u>	<u>As Reported</u>	<u>Excluding Fuel Costs</u>
National Airlines	7.09	5.77	6.16	4.81
USAir	12.13	10.52		
American	11.12	9.16		
Continental	9.41	7.94		
United	11.20	9.46		
Northwest	9.95	8.14		
Alaska	9.79	8.18		
Delta	10.02	8.83		
America West	8.66	7.38		
Southwest	7.62	6.44		

⁽¹⁾ Pro forma adjustments reflect the following cost reductions National expects to obtain through the Chapter 11 process: (i) reduction of aircraft rent accruals to proposed renegotiated aircraft lease rates rather than accruals at the pre-Chapter 11 contract rates; (ii) removal of reorganization related expenses that will not be incurred after emerging from Chapter 11; (iii) fresh start reporting adjustments which reduce asset values to market, which reduces depreciation and amortization expenses and (iv) renegotiation of executory contract terms.

National achieves this low level of unit cost rate through high aircraft utilization (13 hours per day), and long average length of haul (1,285 miles) of a single-aisle cost effective aircraft type (B757-200). National believes that it will be able to increase load factors it has obtained to date over the next five years through attracting passengers in its markets where other carriers have reduced service, expanding National's relationships with larger hotels in Las Vegas and creating connecting traffic through its hub as more destinations are added to its route network. As National adds incremental 150-seat aircraft to its fleet, National unit cost is anticipated to increase. However, because those aircraft will be used in short to medium haul markets, the average passenger yield on a system basis is anticipated to increase.

In general, National believes its growth prospects are solid as a result of its unique market position and the rapid demographic changes in the Southwestern United States. Other carriers serving the Las Vegas market operate with limited service and very specific strategies. Because of these strategies and the unique Las Vegas market, National believes the future actions of its competitors are more predictable than in other markets and that with its low cost structure, National will be able to compete effectively with larger more established carriers. Each of the largest carriers in the Las Vegas market has an identifiable strategy. National believes it has a niche in this market:

Airline	Approximate Market Share (by seats)	Service
Southwest	37%	- 737 narrow body - No frills - Second tier cities
America West	17%	- Mixed fleet - Domestic service
National	8%	- 757 aircraft - Major domestic city service - Non-stop operations
United	7%	- Mixed fleet - Domestic hub connect service
Delta	7%	- Mixed fleet - Domestic hub connect service
Others (23 carriers)	24%	- Other major hub, Charter, International operators

National believes that its competitors in this market will continue along their current strategic paths, thus potentially never directly impacting our current "757, major city, non-stop" service strategy. With respect to the competitors in National's markets, National believes that:

- Southwest is unlikely to change its well-known strategy and begin offering long haul, full-service flights to major cities.
- America West, National's largest competitor, operates two hubs in this region, with its Las Vegas hub generally operating between 9:30 p.m. and 1:30 a.m., offering far less competing service during the day. Given the current state of the airline industry, America West will be under pressure to reduce its presence in Las Vegas in favor of its much larger, and more strategic, hub in Phoenix.
- The major carriers view Las Vegas as a "strategic market," presumably operating with marginal economics, and thus they are unlikely to add significant service in response to our presence. National believes that major carriers serve Las Vegas to burn-off accrued frequent

flier miles and their corresponding balance sheet liability for those miles, and to offer a "network presence" for marketing programs and filling beyond hub sectors with discretionary traffic. This belief is supported by the announced service reductions by the higher cost airlines. For example, United Airlines has announced the termination of nine daily flights into Las Vegas, including all flights by Shuttle by United. Several of these United flights that will be terminated operate over routes National currently serves.

National's business plan continues to contemplate a significant involvement of its 175 seat Boeing 757 in its fleet. Through 2006, National intends to increase the size of its Boeing 757 fleet from the current 15 aircraft to 30 aircraft. In addition, National's business plan also contemplates the addition of a new 150-seat aircraft type. From 2002 through 2006, National intends to add 20 of these aircraft to the fleet. The addition of 150-seat aircraft into the fleet will allow National to take advantage of market opportunities as other airlines reduce capacity from short and medium haul markets. Although the addition of this aircraft type will increase system unit costs, there will be a corresponding increase in average passenger yield. National believes that this increase in yield should more than offset the increased unit cost.

Before the attacks of September 11, 2001, National began implementing cost control and revenue enhancement programs. While the terrorist attacks have resulted in near-term revenue challenges, National believes that, in a period of normal operations, the successful implementation of the strategic revenue enhancement programs described below will increase passenger revenues.

Net Fare Program

There are three distinct seasons for demand in the Las Vegas market:

- ***Peak***, runs from Memorial Day to Labor Day. Demand during this period is generally good throughout the week, with a moderate drop-off on Tuesdays, Wednesdays and night flights.
- ***Shoulder***, runs from September through October and mid-February through May. During this season, demand remains good on peak days, but falls on Tuesdays, Wednesdays, Saturdays and night flights.
- ***Off-Peak***, runs from November through mid-February. During this season demand falls across the board, with the exception of New Year's and Super Bowl weekends.

To more aggressively attack shortfalls in demand, National is implementing a multi-tiered net fare program with its tour operators and air-only distribution channels and, at the same time, expanding its air-only distribution channels. The tour operators deal primarily with vacation packages to Las Vegas for the most-price sensitive customers, while the air-only operators deal primarily with price-sensitive customers in the through markets. This same approach will be used in the group area to aggressively attempt to move groups to off-peak flights using price incentives. The overall objectives are to fill more seats on low demand flights, maximize incremental revenue, and minimize revenue dilution.

National's newly developed Net Fare Program consists of four pricing tiers, available in part or in all of the demand seasons, as follows:

- ***Peak Fares***: These fares are available for travel to Las Vegas on Thursdays and Fridays and from Las Vegas on Sundays and Mondays. Base Peak Fares will be discounted during the Off-Peak season.

- **Off-Peak Fares:** These fares are available for travel on all other days of the week. Base Off-Peak Fares will be discounted in both the Shoulder and Off-Peak seasons, with bigger discounts available during the Off-Peak season.
- **Night Fares:** These fares are available on most travel days on a flight-specific basis. Base Night Fares will be discounted by season.
- **236 Fares:** These fares are available for travel on Tuesdays, Wednesdays and Saturdays during the Shoulder and Off-Peak seasons, with bigger discounts during the Off-Peak season.

National currently is implementing this program with most of its major tour operators and air-only operators. National also is expanding air-only distribution channels to include additional consolidators and Internet sites, such as Orbitz and Travelution. The air-only channels will be used aggressively during those special event periods when Las Vegas hotel/casino properties are full, meaning an increased amount of connecting and through traffic at the hub is necessary to maintain load factors (e.g., Comdex, NAB, MAGIC, etc.). This program will also form the basis of Weekend Web Specials on our web site, targeting specific low-demand flights.

National believes the Net Fare Program should be more successful than its past initiatives because:

- National will have access to more distribution channels than in the past, reaching a larger potential customer base.
- National now has a group manager software program fully operational, which allows it to target specific market segments and uses price to move groups to off-peak flights.
- National now has its revenue management program fully operational, which allows it to look at demand forecasts 340 days out, giving it the ability to be more proactive on the low demand flights and a greater ability to maximize yield on high demand flights.

Corporate Program

Simultaneously, National is targeting corporate travel, with a heavy emphasis on the markets for connecting or through traffic at its hub. There is a significant amount of business travel in National's current one-stop markets, and National believes that it can expand its share of business in these one-stop travel markets by targeting the more price-sensitive corporate travelers in small and medium-sized companies. Towards this goal, National is taking the following two-pronged approach to implement this program, primarily via the travel agent community:

- Offering a range of discounts and overrides to specific large agency groups for use by the agencies' corporate clients.
- Offering a similar range of corporate discounts to specific companies through their travel agents.

In addition to the discounts and overrides, National will use first class upgrades, Club National passes and drink coupons as further incentives. In rolling this program out to the travel agent community, National is also including incentives for the individual agents who sign up corporate clients on National's behalf.

Prepaid Casino Program

National is discussing an advanced ticket purchase program with major Las Vegas casinos that have expressed an interest. This program would be administered by each property's casino desk, i.e., the hotel function that facilitates high-roller travel. The response by the major properties has been favorable to the idea.

Marketing

National believes that travel agents continue to provide an important service, particularly to a primarily leisure market like Las Vegas. National utilizes several forms of arrangements in its travel agency network. Specifically, National engages travel agents through: (i) standard commission arrangements; (ii) "override" agreements and (iii) just a few "exclusive territory" agreements with foreign based travel agents. Most major carriers have reduced commissions paid to travel agents to 5% with certain caps from their former 10% commission level. National, on the other hand, has not followed this lead and continues to pay commissions at 10% without a cap, and 12% commissions for vacation packages booked through our National Airlines Vacations division.

In its typical travel agency arrangement, National tickets are sold through a travel agent who deducts a standard commission of the face amount of the ticket, and remits the balance to National through the Airline Reporting Corporation ("ARC"), a clearinghouse. National is a member of ARC, through which all of its standard commission transactions are processed. Standard commission agencies do not have written agreements with National; rather, National and the travel agencies are indirectly bound by their agreements with ARC. National also avails itself to services pertaining to travel agency matters that are available from the International Airlines Travel Agent Network, a subsidiary of the International Air Transport Association. The standard commission travel agencies are able to choose whether to write tickets on National.

National also has "override" agreements with certain of its most productive travel agencies. These travel agencies earn additional commissions upon attaining certain National ticket sales levels. In a typical National override agreement, the travel agency receives the standard commission, and up to an additional commission if specified levels of ticket sales are reached.

The remainder of National's revenue is generated primarily through Internet sales as well as through direct telephone sales, ticket brokers and wholesalers.

National markets its own tour packages through a division known as National Airlines Vacations. The tour packages consist of air transportation and ground services such as hotel accommodations and rental car usage. The parties that provide the hotel and rental car services are referred to as tour service providers. National receives all of the proceeds from a tour package sale. In exchange, the customer receives National airline tickets and tour vouchers from National Airlines Vacations. The customer presents the tour vouchers to the tour service providers who provide the service, and the tour service providers receive payment upon presentment of the tour vouchers to National.

National Airlines Vacations focuses on both budget conscious travelers, as well as those visitors interested in the rapidly growing high-end accommodations offered throughout Las Vegas. Through the practice of volume purchasing of the various elements that make up the packages, National Airlines Vacations expects to improve upon the lower margins typical of air transportation to Las Vegas.

National's frequent flier program, known as National Comps, is a unique and simple program. National Comps points are given based on dollars spent, not on the number of miles or flights flown. Members earn National Comps points based on the fare paid. This provides larger rewards to those

purchasing higher priced tickets such as first class transportation, longer haul flights and tickets purchased close-in to the date of travel. For every flight a National Comps member takes, National credits that member's account with the number of points equal to 10% of the dollar value of the fare. National also provides additional points to members who enroll in the program online or book their tickets online. In addition, unlike other airlines, National allows a National Comps member and that member's immediate family to combine points into one account, with no capacity restriction on the use of travel redeemed with frequent flier points. National Comps members can redeem points for free travel and first class upgrades on National as well as for other offered rewards.

As of October 31, 2001, there were more than 156,000 individual members of National Comps, and National is adding approximately 6,000 new members per month. From January 1, 2001 to July 31, 2001 approximately 8.4% of National's passengers were National Comps members, compared to 6.2% for all passengers in 2000.

Alliances

National currently has interline agreements with numerous airlines. Interline agreements allow carriers to accept each other's tickets for transportation over the accepting carrier's system. Thus, ticket holders know that if a flight is canceled, their tickets can be used with another carrier on a substitute flight. Interline agreements allow travel agents and carriers to write tickets that involve more than one-ticket. Without an interline agreement, a customer buying a ticket directly from a carrier would be issued a ticket only for those segments of the itinerary that involved that carrier, even though the optimal itinerary might require the use of a second carrier. Similarly, if the customer sought to buy a ticket from a travel agent and no interline agreement was in place, the travel agent would be required to issue two tickets, thus making it significantly less convenient for the travel agent to book flights on a carrier that is not part of the interline arrangement. Carriers also interline the luggage of passengers connecting from one airline to another as well as certain ground handling and special maintenance services.

National's interline agreements take three principal forms: unilateral, bilateral and multilateral. Under unilateral and bilateral agreements, two carriers typically contract directly for interline and other services and provide for regular periodic settlement of their accounts, either directly or through a clearinghouse.

National also is a party to the "IATA Multilateral Interline Traffic Agreements—Passenger and Cargo" (the "Multilateral Agreement"). Pursuant to the Multilateral Agreement, each party is authorized to issue tickets and all other necessary or appropriate documents for transportation over the lines of other parties to the Multilateral Agreement.

National also has alliances and various other types of cooperative agreements with over 110 foreign carriers. These affiliations enhance the ability of foreign carriers to be more competitive against their much larger United States rivals for passengers originating in countries outside of the United States that are visiting more than one city in the United States and, in particular, Las Vegas. In a reciprocal arrangement, National would also direct its domestic passengers traveling internationally to National's foreign air carrier partners.

National has established and continues to seek arrangements with foreign carriers that include one or more of the following:

- Revenue apportionment agreements for interlining passengers between the two carriers;
- Joint marketing and advertising of each airline's services to and from commonly served United States gateway cities;

- Joint frequent flier programs; and
- Joint marketing of Las Vegas vacation packages.

National is an ideal United States domestic airline for a foreign carrier to forge such a marketing alliance because National currently does not intend to serve any international overseas routes and, as a result, will not be a competitive threat to the foreign carrier.

Effective September 2000, National's reciprocal frequent flier program with Virgin Atlantic Airways became effective. National Comps members may earn National Comps points while flying on Virgin Atlantic Airways and may redeem National Comps points for travel on Virgin Atlantic Airways. Also, Virgin Atlantic Airways' frequent flier members may earn and redeem Virgin Atlantic frequent flier awards on National. Virgin Atlantic Airways received top honors in 2000 as "Best Transatlantic Airline" by Conde Nast Traveler's readers for the third consecutive year. Virgin Atlantic Airways serves London from the following 10 U.S. gateways, many of which overlap the airports and cities that National serves: New York (JFK), Newark, Los Angeles, Orlando, Chicago, San Francisco, Washington (Dulles), Miami, Boston and Las Vegas.

Information Systems

National's recent entry into the air travel market has provided it with the flexibility to develop an information system infrastructure using the latest technology, without being bound to legacy systems. Further, National has embarked on an effort to create one of the most modern and capable information systems used by an air carrier in the United States using both internal systems and the resources of outside third party providers. National's systems have been designed to take advantage of a wide variety of Internet capabilities to better provide more timely information to our passengers and vendors, alike.

National's systems capture data that go well beyond the basic flight reservation and allow it to capture a variety of passenger preferences to better serve their traveling needs. National's web site provides on-line ticketing by passengers, as well as several unique features, including selecting a seat at the time of ticket purchase. For the year 2001 through October, online bookings represented approximately 24.0% of ticketed revenue. Of this revenue, one-third was booked through National's web site, and the remainder came from other online booking sources. Over the year, National's online bookings as a percentage of revenue have increased. For the months of September 2001 and October 2001, approximately 30% of ticket revenue came through online sources. National's web site also provides in-flight tracking of National's flights. This functionality results in a decline in calls to National's reservation centers from those inquiring as to when a particular flight will depart or arrive.

National also has compiled a database of over 110,000 customer e-mail addresses, up from 34,000 as of December 1999. National obtains these e-mail addresses during the National Comps registration process and through customers voluntarily providing their address through National's web site. Using this database, National can update and notify its customers with timely information regarding fares, sales and other promotions.

Recently, National enhanced its web-presence through deployment of its "wireless Web site," which was developed in conjunction with 2Roam, a leading wireless software and service provider. This site provides up-to-date flight information on all of National's flights, wireless ticket reservation capabilities and account activity status reports for National Comps accounts. The site is accessible from virtually every type of wireless device.

National currently is electronically linked with several of its key suppliers. This allows National to reduce inventory through quick ordering and processing of on-board provisions and amenities. National's systems also link to Boeing's systems for tracking parts and for scheduling maintenance.

In addition, National recently completed the installation of a state-of-the-art revenue management system, which National was expecting to provide incremental unit revenue gains of between 3% and 5% beginning in the fourth quarter of 2001. However, given the events of September 11, 2001, there may be a delay in realizing these gains. The cost associated with this system is linked to the incremental revenue generated. Therefore, this additional benefit will not be offset by disproportionately high costs. A revenue management system improves revenue by automatically matching demand to capacity (number of seats at every fare level), on a flight-by-flight, day-by-day, week-by-week basis, with the objective to earn the most revenue for every single flight. Historical implementations at mature domestic carriers have seen unit revenues grow by up to 10%.

Services

Ticket counters, gates and airport office facilities at each of the airports National serves are operated by National's employees. Services such as baggage handling, reservation call centers, catering, ground operations, cleaning and other non-customer contact services are being handled through arrangements made with other airlines and airline-service companies for National's operations outside of Las Vegas and, to some extent, in Las Vegas. National has been able to negotiate and enter agreements for these services at attractive prices, while at the same time allowing it to exercise comprehensive oversight of the services and their quality. As National's routes and cities served expand, National believes it will be able to continue to obtain these types of services and facilities at competitive rates. National's employees handle all direct face-to-face customer contact functions such as ticket counter, gates and baggage claim positions.

Insurance

National carries insurance of types customary in the airline industry and at amounts deemed adequate to protect it and its property and to comply with federal regulations and its aircraft lease agreements. These policies principally provide coverage for public and passenger liability, property damage, cargo and baggage liability, loss or damage to aircraft, engines, and spare parts, and workers' compensation.

Following the events of September 11, 2001, changes occurred to National's third-party and hull war risk insurance. With respect to its hull war risk insurance, its insurers imposed an additional 0.05% annual surcharge based upon the average fleet value of the aircraft. When prorated across the remaining term of National's insurance policy, this surcharge resulted in \$189,800 in additional premiums through May 2002.

With respect to National's third-party war risk insurance, following the events of September 11, 2001, National's insurers amended its liability policy to exclude coverage for war risks and offered an endorsement that would provide more limited war risk coverage. National acquired this endorsement that provides war risk third-party liability coverage in the amount of \$50 million per occurrence. The premium for this endorsement is based upon the number of passenger enplanements. National expects to incur additional premiums in the amount of approximately \$1.28 million through May 2002 for this endorsement.

Under the Air Transportation Safety and System Stabilization Act, Congress provided availability of federal additional third-party war risk insurance up to \$1.45 billion above the \$50 million limit available from our insurance carriers through January 11, 2002. National acquired this additional

coverage through January 11, 2002 at a premium of \$7.50 per estimated departure over that period. At this time, National has not been informed as to whether the federal additional coverage will be extended past January 11, 2002 or, if extended, at what premium. Various industry groups are reviewing alternative solutions that would be implemented subsequent to January 11, 2002 as alternatives to what is currently available in the marketplace.

Under the Air Transportation Safety and System Stabilization Act, Congress authorized the reimbursement of increased insurance premiums for up to three-months. At this time, the FAA has only authorized one third of this reimbursement. National has applied to be reimbursed \$216,000 for the additional premiums paid for the first 30 days of coverage. National expects the initial 30-day reimbursement payment in November 2001. No decision has been made by federal regulators as to whether reimbursement will be available for increased premiums beyond the initial 30-day period.

Fleet

National currently leases and operates a fleet of 15 Boeing 757 aircraft. Given National's current routes and schedule, this fleet size allows it to maintain one aircraft as a spare to cover required airframe overhauls and to provide *ad hoc* charter service. When no aircraft is in heavy maintenance, two operational aircraft will be available to support scheduled operations and provide *ad hoc* charter service.

National's business plan continues to contemplate a significant involvement of our 175 seat Boeing 757 in our fleet. Through 2006, National intends to increase the size of its Boeing 757 fleet from the current 15 aircraft to 30 aircraft. National will also introduce a 150 seat aircraft type. The table below details our planned fleet growth, assuming appropriate competitive and economic conditions through 2006 by aircraft type:

	<u>Total Aircraft in Fleet</u>	<u>No. B757 Aircraft</u>	<u>No. 150 Seat Aircraft</u>
December 31, 2000	15	15	-
December 31, 2001	15	15	-
December 31, 2002	20	18	2
December 31, 2003	28	20	8
December 31, 2004	35	22	13
December 31, 2005	42	25	17
December 31, 2006	50	30	20

Fuel

During the fall of 1999, National began to experience a dramatic increase in fuel prices. During the first month of flight operation, the price per gallon of jet fuel was 69.3 cents. During October, November and December 1999, National's average price per gallon of jet fuel was 70.6 cents, 77.6 cents and 83.2 cents, respectively. As a result of this increase, National's total fuel expense during the fourth quarter of 1999 was approximately \$800,000 greater than it would have been had fuel remained at the May 1999 price level. For fiscal year 2000, National paid an average fuel price of \$1.01 per gallon. During September 2000, National's average per gallon jet fuel price was nearly \$1.17.

The average price per gallon of jet fuel for fiscal year 2000 was an unprecedented 101.1 cents per gallon. The per gallon price peaked at 116.6 cents per gallon in September 2000. The increase in average price in 2000 compared to 69.3 cents when the Company commenced operations, resulted in incremental fuel cost of approximately \$20 million. Since the end of 2000, the average per gallon price of fuel has declined but still remains high compared to historical prices. For the nine months ended September 30, 2001, the average price was 88.5 cents per gallon.

National has entered into an Aviation Fuel Management Agreement with Mercury. Pursuant to this fuel management agreement, Mercury ensures that the correct quantities of aviation fuel are received at various locations, and also provides fuel storage and into-plane services as well as reports and invoices detailing fuel consumption, costs and all applicable duties, taxes and fees. As part of its reorganization strategy, National hopes to enter into petroleum swap contracts or other hedging devices to protect against further spikes in fuel prices.

Headquarters and Ground Facilities

National currently leases all of the real property that it uses for its operations. National's headquarters are located near McCarran International Airport in Las Vegas, Nevada. At present, National leases an aggregate of approximately 318,000 total square feet comprised of ticket counter, back office and gate space at the various airports that it serves, 64,882 square feet of office space at two primary locations, 190,143 square feet of ground operations space, and 35,265 square feet of maintenance, storage, training and cargo facility space at McCarran International Airport. Currently, National operates at the following cities/airports: Las Vegas, Chicago Midway, Los Angeles, New York JFK, Newark, San Francisco, Dallas/Ft. Worth, Philadelphia, Miami and Chicago-O'Hare. National's Washington Reagan/National services have been temporarily suspended due to operating restrictions at the airport following the terrorist attacks of September 11, 2001.

Employees

As of August 31, 2001, the number of National employees had grown to 1,398, including 1,162 full-time and 236 part-time personnel, which after giving effect to overtime is a total of 1,543 full-time equivalents. At August 31, 2001, National's employees included 183 pilots, 371 flight attendants, 293 customer service agents, 69 technicians and related personnel, 103 ground operations personnel, 51 National Airlines Vacations employees and 328 management and other personnel.

Expecting a drop in air travel demand following the attacks of September 11, 2001, National temporarily reduced its flight schedule through reducing the number of daily flights to certain cities, reducing frequencies of flights to others on certain off-peak days of the week, and suspended service to Washington Reagan/National Airport. Overall, scheduled service was reduced approximately 15%. As a result, National reduced its workforce by the equivalent of approximately 260 employees through reduced hours and voluntary or involuntary unpaid leave. Those employees on leave did retain their medical benefits (provided the employee continues to make premium contributions), life insurance benefits, and flight benefits on National flights. National hopes that full service will be restored by mid-2002 and employees can be called back from leave. In addition, National temporarily reduced the salaries of officers by 10% and of directors and managers by 5%. Also, in response to the situation, National suspended its 401(k) matching program and automatic annual step raises.

After giving effect to placing employees on leave and making other adjustments to compensation, as of September 30, 2001, the number of National employees was 1,161, including 993 full-time and 168 part-time personnel, which after giving effect to overtime is a total of 1,305 full-time equivalents. At September 30, 2001, National's employees not on leave included 152 pilots, 288 flight attendants, 234 customer service agents, 60 technicians and related personnel, 81 ground operations personnel, 45 National Airlines Vacations employees and 301 management and other personnel.

Even with this recent reduction in force, in general, National considers its relations with its employees to be excellent. No National employees currently are represented by a collective bargaining unit. However, in late June 2000, the International Association of Machinists and Aerospace Workers (IAM) filed an Application for Investigation of Representation Dispute with the National Mediation Board seeking to be recognized as the collective bargaining representative for National's fleet service

personnel in Las Vegas. An election was conducted by the National Mediation Board, and National fleet service workers voted against union representation. In October 2001, National received notice from the National Mediation Board that the IAM has again filed an Application for Investigation of Representation Dispute. An election will be held in December 2001.

In November 2000, the International Brotherhood of Teamsters filed an Application for Investigation of Representation Dispute with the National Mediation Board seeking to be recognized as the collective bargaining representative for National's maintenance and related personnel. An election was held in January 2001 and National Airlines maintenance and related personnel voted against union representation.

National believes that it has implemented a unique compensation program as compared to what generally exists today in the airline industry. Pay scales for most jobs at the entry level are tied to the market and are competitive with entry-level wages offered at the major and national airlines. Step increases in the wage levels are expected to occur only for the first five years of an employee's service, after which all levels will be capped except for general cost of living adjustments. Wherever appropriate, National seeks to promote from within, which allows employees to increase their salaries by taking on additional responsibilities and advancement within the organization.

Assuming National achieves profitability, National expects to implement a profit sharing program. Under the contemplated profit sharing program, 15% of National's pretax income will be distributed to its employees, supplementing their base compensation. National believes that such a profit sharing program will tie the employees' financial success to that of National. National also offers employees traditional types of benefits such as (major medical, dental, vision, and life insurance, contributory 401K programs, etc.). National is also in the process of formulating and implementing a number of programs which will address other specific needs of its workforce, including a comprehensive child care program and long-term disability protection.

Current Directors and Executive Officers.

Directors. Listed below are the names of each outside director of National, the year of commencement of each person's term as a director of National and the principal occupations and business experience for each director.

Robert Broadbent. Mr. Broadbent has served as a director of National since 1998. Mr. Broadbent is a resident of Las Vegas and the Principal of Broadbent and Walker Consulting since 1997. From 1986 to 1997, Mr. Broadbent served as the Director of Aviation for Clark County, in which capacity he had primary responsibility for the operation and development of Las Vegas' McCarran International Airport, currently among the ten busiest airports in the United States. Mr. Broadbent has overseen the completion of numerous projects, including a terminal expansion program, the construction of a new runway, a runway rehabilitation project and the development of a charter international terminal. Between 1983 and 1986, Mr. Broadbent was appointed by President Reagan as Assistant Secretary of Water and Science in the Department of Interior. Prior to that Mr. Broadbent served as a Clark County Commissioner for 12 years.

Arnold H. Kroll. Mr. Kroll has served as a director of National since 1998. Mr. Kroll is a member of the Restructuring Committee of the Board of Directors. Mr. Kroll is a Senior Advisor of Burnham Securities Inc., and has served in such capacity since May 2000. Previously, Mr. Kroll served as a Managing Director and then Senior Advisor of Schroder & Co., Inc. and its predecessor companies from 1988 through April 2000. Schroder was National's placement agent in connection with its private placements of common stock. Mr. Kroll was employed from 1972 to August 1988 by the investment banking firm of L.F. Rothschild & Co. Incorporated, and its predecessor as a Managing Director. From

1983 to 1992, Mr. Kroll served as a member of the America West Airlines board of directors. Mr. Kroll has been a stockholder of National since October 1995.

Robert A. Morrow. Mr. Morrow has served as a director of National since 1998. Mr. Morrow, a resident of Las Vegas, is Chairman and Chief Executive Officer of Dominion Development, Ltd., a real estate development and investment firm. Mr. Morrow also holds investments in several other travel-related industries and has been a stockholder of National since October 1995.

Jock Patton. Mr. Patton has served as a director of National since 1998. Mr. Patton is a member of the Restructuring Committee of the Board of Directors. Mr. Patton is a private investor and the Chief Executive Officer of Rainbow Multimedia Group, Inc. From 1992 through June of 1997 when the company was sold, Mr. Patton was the President of StockVal, Inc., a provider of securities analysis software to mutual funds, major money managers and brokerage firms worldwide. Mr. Patton is a member of the board of directors of Hypercom Corporation and JDA Software Group, Inc. and is an independent trustee of eighteen different mutual funds within the Pilgrim America family of funds. From 1987 to 1991, Mr. Patton served as a member of the board of directors of America West Airlines, Inc. Mr. Patton has been a stockholder of National since October 1995.

Executive Officers. Listed below are the names of each executive officer and/or inside director of National, the year of commencement of each person's term as an executive officer and/or inside director of National, the principal responsibilities of each executive officer and the principal occupations and business experience for each executive officer.

Michael J. Conway. Mr. Conway founded National in 1995 and since its inception has served as the Chairman of the Board, President and Chief Executive Officer. Mr. Conway has more than 25 years of experience in the airline industry. Prior to developing National Airlines, Mr. Conway served as an aviation consultant for financial investors and foreign airlines. Between 1981 and 1993, Mr. Conway co-founded America West Airlines and held a variety of positions, including CEO, COO, President, Executive Vice President and Chief Financial Officer. Mr. Conway also served as Vice President and Controller at Continental Airlines. In addition, Mr. Conway's extensive experience includes 11 years at Price Waterhouse, where he specialized in airlines and large multinational corporations.

James R. Carr. Since 1998, Mr. Carr has served as National's Senior Vice President, Operations. Mr. Carr's primary responsibilities involve overseeing National's flight operations and maintenance functions, and serving as National's primary interface with the Federal Aviation Administration. Mr. Carr has more than 27 years of aviation experience, including over 18 years in commercial airlines. Mr. Carr has served in a variety of capacities, including Vice President of Flight Operations and Chief Pilot at America West Airlines. Mr. Carr has also logged more than 10,000 flight hours in multi-engine aircraft, including nearly 4,000 flight hours in the Boeing 757.

David S. Maritt. Since 2000, Mr. Maritt has served as National's Senior Vice President, Marketing. Mr. Maritt's primary responsibilities involve developing the strategic concept of National Airlines' sales, marketing, and advertising efforts as well as overseeing the cohesive integration of the overall marketing concept as it applies to the National's branding and image-creation through all divisions of the airline, including customer services, reservations, and in-flight services. Mr. Maritt has more than 20 years of experience in the travel and tourism industries, including nearly nine years in the aviation industry. Prior to joining National, he served as Vice President - Marketing at the Rio Suite Hotel & Casino, a strategic marketing partner of National. Mr. Maritt also has worked in the transportation/tourism industries at Caesars Palace Casino Hotel and American Airlines.

Tom Milligan. Since 1999, Mr. Milligan has served as National's Senior Vice President, Aircraft Acquisitions. Mr. Milligan's primary responsibilities involve overseeing National's acquisition

of aircraft, engines and spare parts for use in National's operations, and negotiating the terms and conditions pursuant to which National will lease and/or acquire aircraft, engines and spare parts. Prior to National, Mr. Milligan worked for The Boeing Commercial Airplane Company beginning in 1966. At Boeing, Mr. Milligan held various positions including director of new product marketing, director of sales in North America, group director for sales for North America and business manager for American sales. Before joining Boeing, Mr. Milligan served in the U.S. Navy for four years.

Raymond T. Nakano. Mr. Nakano is a co-founder of National, a member of its board of directors and since its inception has served as National's Senior Vice President-Finance and Chief Financial Officer. Mr. Nakano's primary responsibilities involve overseeing National's financial and information systems as well as serving as the National's primary liaison with lenders, aircraft providers, financial analysts and investor constituencies. Mr. Nakano has more than 23 years of airline experience, serving most recently as the Acting Chief Financial Officer at America West Airlines. Mr. Nakano also held the title of Vice President and Controller. Prior to that, Mr. Nakano spent nine years with Continental Airlines in a variety of management positions.

Frank M. Schubert. Since 1998, Mr. Schubert has served as National's Senior Vice President, Customer Services. Mr. Schubert primary responsibility involves overseeing National's customer services, including inflight dining service, flight attendants, cargo sales and service and all Las Vegas and field station airport service functions, as well as training for each of these aspects. Mr. Schubert also oversees the customer product planning area and management of National's customer relations. Mr. Schubert has more than 24 years of airline experience, holding a variety of management positions including serving as Vice President of Customer Services at America West Airlines and Director of Field Marketing for Frontier Airlines.

Mark S. Suman. Mr. Suman is a co-founder of National and since its inception has served as National's Senior Vice President, Marketing and Strategic Planning. Mr. Suman's primary responsibilities involve overseeing market development, fleet planning, scheduling and revenue management, including yield management, pricing, sales, marketing and advertising. Mr. Suman has more than 24 years of aviation experience. Prior to joining National Airlines, Mr. Suman served as Senior Director, Market Planning at America West Airlines. Between 1981 and 1990, Mr. Suman served as Vice President at Kurth & Co., a prestigious aviation consulting firm based in Washington, D.C. Mr. Suman also worked at the Civil Aeronautics Board for seven years, during which time the airline industry was deregulated.

Kevin J. Tourek. Since 1998, Mr. Tourek has served as National's Senior Vice President, Legal and Human Resources and Corporate Secretary. Mr. Tourek's primary responsibility involves overseeing National's legal affairs as well as National's administrative functions, including human resources, drug testing, and compliance with regulatory agencies. Mr. Tourek most recently was a Partner at Streich Lang, serving with the highly-respected law firm in Phoenix for more than 11 years. Mr. Tourek was one of the main contacts for legal matters for America West Airlines while at Streich Lang, and served in a similar capacity for National Airlines during the National's incorporation and capital fundings phase. Mr. Tourek has extensive experience in the areas of equipment finance, securities law and corporate law.

United States Airline Industry Conditions

National faces significant competition with respect to its routes, services and fares. All routes served by National are subject to competition from both new and existing carriers, and service over virtually all of National's routes is highly competitive. On most routes, National competes with at least one, and usually more than one, scheduled passenger airline. National also competes with all-cargo carriers, charter airlines and, particularly on its shorter routes, with surface transportation. National

regularly monitors competitive developments in the airline industry, and evaluates its strategic alternatives. These strategic alternatives include, among other things, codesharing arrangements, other marketing alliances, internal growth, joint ventures, mergers and acquisitions.

Notwithstanding the foregoing, many of National's competitors have substantially greater financial resources and/or lower cost structures. Airline profits levels are highly sensitive to changes in fuel costs, fare levels and passenger demand. Passenger demand and fare levels have historically been influenced by, among other things, the general state of the economy, international events, airline capacity and pricing actions taken by carriers. Larger airlines with greater financial resources may be able to offer more competitive pricing than National and may be able to absorb financial losses in periods of low demand for airline services. If National fails to stay competitive with its competitors it will likely have a material adverse effect on the market share, business operations and financial condition of National.

As a result of the September 11, 2001 terrorist attacks, the airline industry in general, is facing many of the same impacts that arose during the early 1990's due to Middle East unrest and the Persian Gulf war. During the early 1990's, passenger demand and airline yields were affected adversely by, among other things, the general state of the economy, the Persian Gulf War and competitive fare pricing actions taken by carriers. Because of this adverse operating environment, the United States airline industry incurred unprecedented losses from 1990 to 1993.

Notwithstanding the September 11, 2001 attacks, over the next several years, National believes that there is an opportunity for an efficient, service oriented, low-cost carrier to exploit specific niches within the domestic air transportation market. Thus far, most new entrants into this market have been low-cost, no frills, short-haul carriers. National believes that a niche will exist for a full-service, long-haul carrier that is able to maintain a low operating cost structure.

Seasonality and Other Factors that Impact Demand for Air Travel

In general, demand for air travel to Las Vegas is higher in the June and September quarters, because there is more vacation travel during these periods than during the remainder of the year. Demand for air travel is also affected by factors such as economic conditions, fare levels and weather conditions. In addition, demand for air travel at particular airlines may be impacted from time to time by, among other things, actual or threatened disruptions to operations due to terrorist attacks and hijackings. Due to these and other factors, operating results for an interim period are not necessarily indicative of operating results for an entire year, and operating results for an historical period are not necessarily indicative of operating results for a future period.

Regulatory Matters

The United States Department of Transportation (the "DOT") and the Federal Aviation Administration (the "FAA") exercise regulatory authority over air transportation in the United States. The DOT has authority to issue certificates of public convenience and necessity required for airlines to provide domestic air transportation. An air carrier which the DOT finds "fit" to operate is given unrestricted authority to operate domestic air transportation (including the carriage of passengers and cargo). Except for constraints imposed by Essential Air Service regulations, which are applicable to certain small communities, airlines may terminate service to a city without restriction.

The DOT has jurisdiction over certain economic and consumer protection matters such as unfair or deceptive practices or methods of competition, advertising, denied boarding compensation, baggage liability and disabled passenger transportation. The FAA regulates air carrier operations generally, including airline operating certificates, control of navigable air space, flight personnel, aircraft certification and maintenance, and other matters affecting air safety.

National is also subject to various other federal, state, local laws and regulations. The United States Department of Justice has jurisdiction over airline competition matters. The United States Postal Service has authority over certain aspects of the transportation of mail. Labor relations in the airline industry are generally governed by the Railway Labor Act.

Environmental matters are regulated by various federal, state, local and foreign governmental entities.

Fares and Rates

Airlines are permitted to set ticket prices in most domestic and international city pairs without governmental regulation, and the industry is characterized by significant price competition. Most of National's tickets are sold by travel agents, and fares are subject to commissions, overrides and discounts paid to travel agents, brokers and wholesalers.

Prepetition Debt Structure

General Electric Capital Corporation Loan Facility

In November of 1999, in connection with National entering into an engine overhaul agreement and lease agreements for four new aircraft with affiliates of GECC, National obtained a partially secured loan in the original principal amount of \$15 million from GECC. As of December 6, 2000, the principal balance under the GECC facility was approximately \$10.7 million and was secured by certain owned aircraft spare parts. The treatment of GECC's secured claim and unsecured claim will be the subject to the Plan.

Boeing Loan Facility

During 1999, National entered into a letter of intent with The Boeing Corporation ("Boeing") for firm delivery of eight new Boeing 757 aircraft. Of those eight aircraft, GE Capital Aviation Services ("GECAS") has agreed to purchase the first four aircraft from Boeing for delivery during early 2001. National entered into lease agreements with GECAS for the lease of those four aircraft. During the course of the Chapter 11 proceedings, National rejected all of those lease agreements and did not take delivery of any of the aircraft.

Upon execution of the aircraft purchase agreements between Boeing and GECAS, Boeing provided National an unsecured \$12 million credit facility. In June 2000, National drew \$6 million against this facility. The remaining \$6 million was never drawn due to the failure to satisfy certain conditions precedent. The treatment of Boeing's claim will be subject to the Plan.

Harrah's Letters of Credit

In October 1999, Harrah's, National's largest shareholder, caused its bank to issue a letter of credit in the amount of \$10 million to National's Visa and MasterCard processing bank. National's bank relied upon the letter of credit rather than its cash reserve requirement against its exposure for sales of tickets for future travel. As a result, the processing bank released the cash reserved it held to National and did not hold back additional cash for the reserve until the calculated reserve requirement was in excess of \$10 million. In subsequent transactions during 2000, the letter of credit amount was increased to a total of \$16 million. This facility has been reduced and modified during National's Chapter 11 proceedings and will be further modified upon effectiveness of the Plan.

National obtained a \$5 million revolving line of credit with Nevada State Bank for the issuance of letters of credit to National's aircraft and real property lessors, as well as others, for security deposits required by such parties. National's payment obligation under the line of credit was initially 100% secured by cash held in a restricted account with the bank. Through a series of two transactions, Harrah's caused its bank to issue Nevada State Bank an unsecured letter of credit in the amount of \$8.6 million to secure National's repayment obligation under the Nevada State Bank line of credit. Upon receiving that letter of credit, Nevada State Bank released its lien on National's cash collateral and that cash became available for use by National. While National was operating in Chapter 11, the Harrah's letter of credit expired on December 31, 2000. Nevada State Bank, just prior to the expiration of the letter of credit, drew on the letter of credit and Harrah's funded the \$8.6 million obligation. The treatment of Harrah's claim against National for reimbursement of this amount will be subject to the Plan.

Harrah's Term Loans

In March 2000, Harrah's provided National with a \$10 million short-term credit facility. During March 2000, \$5 million was drawn against the facility, and the remaining \$5 million was drawn in April 2000. The loan was due on December 31, 2000. During the month of September 2000, Harrah's agreed to increase the credit facility from \$10 million to \$13 million.

During October 2000, Harrah's made available to National an additional \$3 million with terms and conditions similar to the \$13 million short-term credit facility with the exception that the maturity date was November 10, 2000. No principal or interest payments were made on this \$3 million facility prior to December 6, 2000.

On November 3, 2000, Harrah's provided National with an additional \$1 million loan, on substantially the same terms and conditions, with a maturity date of December 31, 2000.

All of these unsecured claims of National will be treated in accordance with the Plan.

Mercury Aviation Fuel Arrangement

In April 1999, National entered into an Aviation Fuel Services Management Agreement (the "Fuel Management Agreement") with Mercury. Pursuant to the Fuel Management Agreement, Mercury agreed to extend credit to National to purchase airline fuel for up to \$2,000,000 of fuel purchases. National also is indebted to RPA Airline Automation Services, Inc. ("RPA"), for certain ancillary services provided in connection with the Fuel Management Agreement pursuant to a Purchase and Support Agreement: Object Code Application Software, dated December 23, 1998 (the "RPA Agreement"). Mercury and National subsequently amended the Fuel Management Agreement to reduce the amount of credit available to National under the Fuel Management Agreement on September 24, 1999. The collateral for National's obligations to Mercury consisted of rights to payment and other contract rights of National with respect to American Express, Discover Card, Novus Card and ACH/IATA as well as certain specified passenger seats, galleys and galley carts and any proceeds of the foregoing. Mercury continues to provide fuel to National as part of a debtor-in-possession financing arrangement pursuant to which Mercury has agreed to extend National up to \$250,000 of credit in connection with fuel purchases.

Prepetition Shareholder's Equity Structure

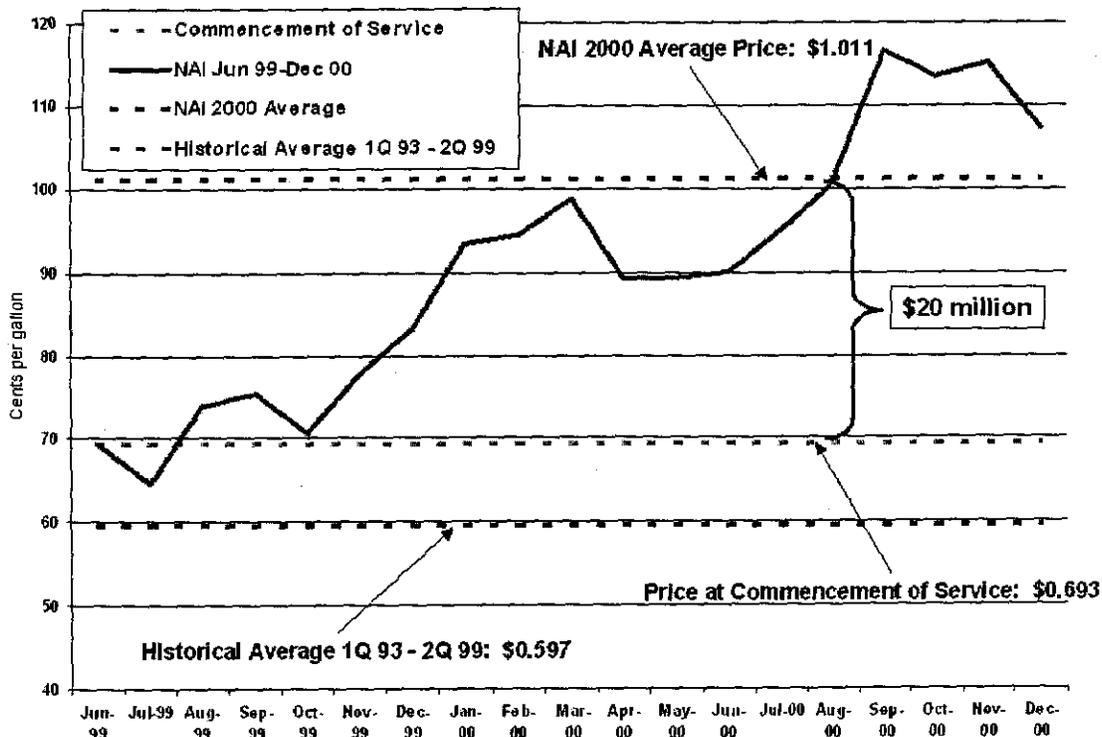
National is a Delaware corporation and its affairs are governed by its Amended and Restated Certificate of Incorporation, Amended and Restated Bylaws and the Delaware General Corporation Law. The authorized capital stock consists of 40,000,000 shares of common stock, par value \$.001 per share, and 5,000,000 shares of preferred stock, par value \$.001 per share. As of the Petition Date, there were 12,596,301 shares of common stock outstanding, held of record by over 100 stockholders, and no shares

of preferred stock had been issued. In addition, as of the Petition Date, there were options and warrants outstanding to purchase an aggregate of 13,243,354 shares of common stock of National. None of the shares of National stock are publicly traded.

Events Precipitating Chapter 11 Filing

The combination of three key factors occurring during 2000 negatively impacted National's liquidity position, ultimately causing it to file for protection under Chapter 11 of the Bankruptcy Code on December 6, 2000. The most significant of these factors was the dramatic and sustained increase in the price of jet fuel beginning at the end of 1999 and continuing through the end of 2000. For the six-year period prior to National commencing its flight operations, the average per gallon price of fuel was about \$.60 compared to \$.69 when National commenced service in mid-1999. For the full year 2000, National paid an average of more than \$1.01 per gallon. This differential of \$.32 per gallon (\$1.01 less \$.69) resulted in an increase of National's fuel cost by approximately \$20 million for 2000. The significant increase in the price of fuel lasting for such a long period of time was unprecedented in the industry. Unlike other established carriers, National did not have the ability to enter into effective hedge agreements because of limited capital resources and the timing of the increase beginning just months after National commenced operations.

The chart below demonstrates the dramatic and sustained rise in jet fuel prices that National experienced from commencement of its service through 2000 as compared to the historical fuel price.



Second, to offset the loss of liquidity from increased fuel costs, National incurred additional debt at high interest rates. During the twelve month period ended December 31, 1999, National expended \$24.5 million in capital asset acquisitions and made \$3.8 million in maintenance reserve payments to

aircraft lessors. From January 1, 2000 through September 30, 2000, National expended an additional \$15.6 million in capital asset acquisitions and made \$10 million in maintenance reserve payments to aircraft lessors. Expenditures for capital assets included: capitalized aircraft rent; aircraft modification costs; rotatable aircraft parts; aircraft seats and galleys; computer communications and ground equipment; and improvements to leasehold facilities.

For a period of time during 1999 and most of 2000, National was able to obtain loans and other credit support from its largest shareholder and strategic business partners with an interest in National's success. Ultimately, however, these sources no longer were able or willing to provide further financial assistance. Given the general state of the economy at the end of 2000, the continuing high jet fuel prices, and National's leveraged position, additional equity or debt investors were not available to offset the liquidity crunch National was facing.

Finally, the Las Vegas market is predominantly leisure travel in nature. As a result, average passenger fares are significantly less than other domestic markets. National had developed an infrastructure geared towards supporting an aircraft fleet larger than the 11 aircraft in the fleet at the end of 1999. In an effort to reduce cost per available seat mile to improve operating margins, National increased its fleet size to 15 aircraft by mid-2000. The increase in capacity enabled National to spread its fixed costs associated with its infrastructure across a much larger base. However, of the four aircraft added to the fleet in 2000, National executed commitments or leases for three of those aircraft during 1999 and executed the commitment for the fourth in January 2000. At the time National committed to acquire these aircraft, National did not anticipate either the significant degree to which fuel prices would escalate or the sustained period over which fuel prices would remain high. Because of National's commitments to take delivery of these aircraft, National incurred additional cash outflows for aircraft security deposits as well as those related to modifying and inducting the aircraft into its fleet. The addition of these aircraft resulted in expenditures of approximately \$5.4 million for security deposits and modification costs. In addition, National incurred costs to modify its new airport destinations, including the acquisition and installation of the necessary information systems at those locations.

SIGNIFICANT EVENTS DURING THE CHAPTER 11 CASE

Commencement of the Chapter 11 Case

On December 6, 2000 (the "Petition Date"), in furtherance of its restructuring efforts, the Debtor filed its voluntary petitions for relief under Chapter 11 of the Bankruptcy Code. The Chapter 11 Case was assigned to the Honorable Linda B. Riegle, United States Bankruptcy Judge for the District of Nevada. Since the Petition Date, the Debtor has continued to operate its businesses and manage its properties as Debtor-in-possession under Sections 1107(a) and 1108 of the Bankruptcy Code. No trustee has been appointed in the Chapter 11 Cases.

First Day Orders

On or shortly after the Petition Date, the Bankruptcy Court entered several orders authorizing the Debtor to pay various prepetition claims and granting other relief necessary to help the Debtor stabilize its day-to-day business operations. These orders were designed to allow the Debtor to continue business operations with minimum disruptions and dislocations, and to ease the strain on the Debtor's relationships with its employees and other parties. Included among the orders entered by the Bankruptcy Court were orders authorizing National to: (a) pay wages, salaries, commissions, reimbursable business expenses, vacation leave compensation, employment taxes, employee benefit payments, and workers compensation payments; (b) pay or honor prepetition obligations to ticket holders, other airlines, travel agents, clearing houses, tour service providers, fuel providers, outside mechanics' and repairmen's claims, and other

essential suppliers; (c) maintain certain bank accounts, cash management systems and business forms; and (d) ensure continued utility service.

Post-Petition Financing

Mercury

On March 2, 2001, the Bankruptcy Court issued an order (the "Mercury Order") authorizing and empowering the Debtor to obtain credit from Mercury. The Mercury Order authorized and empowered the Debtor to obtain credit from Mercury in such amounts as may be available to or for the benefit of Debtor under the Fuel Management Agreement. The Debtor's postpetition obligations to Mercury are secured by certain of the Debtor's assets. The term of the Mercury Order currently expires on December 31, 2001. The Debtor believes that it will obtain additional extensions of the terms of the Mercury Order through the contemplated effective date of the Plan.

Retention of Professionals

On December 26, 2000, the Bankruptcy Court entered an order authorizing the Debtor to retain Squire, Sanders & Dempsey L.L.P. as bankruptcy and reorganization counsel. On December 28, 2000, the Bankruptcy Court entered an order authorizing the Debtor to retain Bryan Cave LLP as special counsel. On March 15, 2001, the Bankruptcy Court entered an order authorizing the Debtor to employ Shea & Carlyon, Ltd. as Debtor's special (local) counsel, which employment was deemed effective as of December 6, 2000. On April 25, 2001, the Bankruptcy Court entered an order authorizing the Debtor to retain Dresdner Kleinwort Wasserstein, Inc., formerly known as Wasserstein Perella & Co., as the financial advisor and investment banker. On June 26, 2001, the Bankruptcy Court entered an order authorizing the Debtor to retain Hogan & Hartson, LLP as special counsel for certain regulatory and environmental matters.

Appointment of Official Unsecured Creditors' Committee

On December 13, 2000, the Office of the United States Trustee ("UST") filed the Appointment of Unsecured Creditors Committee (the "Unsecured Creditors' Committee" or the "Committee"), which was amended by the UST on December 22, 2000. As of the date hereof, the following Creditors serve on the Unsecured Creditors' Committee: BFGoodrich Aerospace MRO Group, Inc., Kellstrom Industries, Inc., Driessen Aircraft, Swissport USA, Inc., and SKS Advertising. In addition, the Port Authority of N.Y. & N.J. was appointed as a non-voting, *ex officio* member of the Unsecured Creditors' Committee.

On January 12, 2001, the Bankruptcy Court authorized the Unsecured Creditors' Committee to employ and retain Haynes & Boone LLP as its counsel. On February 7, 2001, the Bankruptcy Court entered an order authorizing the Unsecured Creditors' Committee to retain Timothy S. Cory & Associates as local counsel. On February 7, 2001, the Bankruptcy Court entered an order authorizing the Unsecured Creditors' Committee to retain Development Specialist, Inc. as business and financial advisors.

Section 1110 Stipulations

During the course of the Chapter 11 proceedings, the Debtor entered into numerous stipulations with the Aircraft Lessors. The stipulations addressed the forbearance by the lessors of their "fly away rights" under Section 1110 of the Bankruptcy Code and terms and conditions under which the Debtor would continue to use the aircraft.

The Bar Date for Filing Proofs of Claim

On July 12, 2001, the Bankruptcy Court entered the Notice and Order Setting Bar Date and Establishing Notice Procedures setting a bar date as of August 31, 2001 for holders of Claims to submit their proof of claims. The order established not only a bar date, but also the address for filing a proof of claim, the required form and related procedures for filing a proof of claim.

Harrah's Stipulations

On September 25, 2001, the Bankruptcy Court entered an order authorizing the Debtor and Harrah's to agree, that for due consideration, Harrah's would cause the expiration date of the irrevocable letter of credit issued by Bank of America, N.A. for the benefit of U.S. Bank in the reduced amount of \$14 million to be extended through October 15, 2001, and upon the occurrence of certain events, again through October 30, 2001. In consideration for Harrah's extension of this letter of credit, Debtor agreed to pay Harrah's a \$100,000 monthly extension fee and authorized U.S. Bank to increase the deposit/reserve amount required by this letter of credit arrangement. In consideration for such extension, Harrah's has agreed to a further extension of the letter of credit through December 31, 2001. The Debtor has to pay a non-refundable extension fee in the amount of \$50,000 per month for November and December, 2001. The face amount of this letter of credit is \$13 million during November 2001 and is to be reduced to \$12.5 million during December 2001.

GECC Stipulations

On January 5, 2001, the Bankruptcy Court entered an order approving settlement between the Debtor and GECC with respect to four separate aircraft lease agreements (the "Leases") dated as of June 5, 2000 between GECC and the Debtor, in which the Debtor leased four Boeing 757-200 BR aircraft (the "Aircraft"). In consideration for the termination of the Leases, GECC agreed to release the Debtor from any claims arising because of breach of the Leases and return to it the deposit in the amount of \$120,000 which the Debtor had paid to GECC.

On January 8, 2001, the Bankruptcy Court entered a stipulated order requiring the Debtor, beginning on or about January 3, 2001, to provide GECC with a hand count and ongoing reports regarding the status of those spare parts and rotables that are subject to GECC's security interest. The Debtor estimated that, as of the date of the order, its inventory of spare parts subject to the GECC security interest had a fair market value of approximately \$3.5 million. Additionally, the order required the Debtor to replenish those spare parts and rotables consumed during the period between the Petition Date and January 12, 2001, and in the event the Debtor obtained debtor-in-possession financing prior to January 12, 2001, required the Debtor to commence making periodic payments equal to the diminution in value, if any, of GECC's collateral.

Goodrich Stipulations

On May 10, 2001, the Bankruptcy Court entered an order approving the Debtor's entry into the Assumption of Executory Contract Agreement between The B.F. Goodrich Company, B.F. Goodrich Aerospace Component Overhaul & Repair, Inc., and B.F. Goodrich Aerospace MRO Group, Inc (collectively "GC") and Debtor dated as of February 28, 2001 (the "Assumption Agreement"). GC and the Debtor are parties to a series of executory contracts (the "GC Contracts") under which Debtor receives goods and services from GC which include Airframe Heavy Maintenance, Wheel and Brake Services, Component Overhaul and Repair Services, and aerostructure goods and services.

Pursuant to the Assumption Agreement, the Debtor agreed to assume the GC Contracts pursuant to its powers under 11 U.S.C. Section 365. Pursuant to the Assumption Agreement, the Debtor agreed to provide deferred payments to GC with regard to its payment defaults, perform its obligations under the GC Contracts as modified by the Assumption Agreement and give adequate assurance of its future performance of the GC Contracts.

Under the Assumption Agreement, the Debtor acknowledged that GC had a lien upon certain aircraft for materials and services provided in connection with certain services rendered by GC for an aggregate secured claim of \$4,733,648.43. Pursuant to the Assumption Agreement, the Debtor delivered to GC that certain 10% Deferred Note A with an original principal balance of \$4,733,648.43 (the "Series A Note"). In addition, the Debtor delivered to GC that certain 10% Deferred Note B with an original principal balance of \$3,899,238.92 (the "Series B Note") which represented the unsecured portion of the amounts owing by the Debtor to GC.

JFK/IAT Stipulation

On February 15, 2001, the Bankruptcy Court entered a stipulation and agreed order authorizing the Debtor to assume that Certain Common Use Agreement with JFK International Air Terminal, L.L.C. pursuant to which Debtor has been using and occupying certain common areas and portions of Terminal 4 at JFK Airport Terminal 4, Jamaica, New York, in the State of New York. Pursuant to the stipulated and agreed order, the Debtor executed a Promissory Note in favor of JFK/IAT in the amount of \$1,771,549.81, the outstanding balance due and owing to JFK prior to the Petition Date.

Assumption of Airlines Reporting Corporation's Carrier Services Agreement

On January 29, 2001, the Bankruptcy Court entered an order authorizing and approving the assumption of the Carrier Services Agreement entered between Airlines Reporting Corporation ("ARC") and the Debtor on or about March 3, 1999. Pursuant to the Bankruptcy Court's order, ARC was authorized to withhold 50% of the net cash disbursements due the Debtor under the agreement until a cash reserve requirement fund is funded with \$1,400,000 cash.

Air Transportation Safety and System Stabilization Act

On September 22, 2001, President Bush signed into law the Air Transportation Safety and System Stabilization Act (the "Act"), which for all U.S. airlines and air cargo carriers (collectively, air carriers), provides for, among other things:

- \$5 billion in compensation for direct losses (including lost revenues) incurred as a result of the federal ground stop order and for incremental losses incurred through December 31, 2001 as a direct result of the attacks;
- subject to certain conditions, the availability of up to \$10 billion in federal government guarantees of certain loans made to air carriers for which credit is not reasonably available as determined by a newly established Air Transportation Stabilization Board;
- the authority of the Secretary of Transportation to reimburse air carriers (which authority expires 180 days after the enactment of the Act) for the increase in the cost of insurance, for coverage ending before October 1, 2002, over the premium in effect for the period September 4, 2001 to September 10, 2001;
- at the discretion of the Secretary of Transportation, a \$100 million limit on the liability of any air carrier to third parties with respect to acts of terrorism committed on or to such air

carrier during the 180-day period following the enactment of the Act;

- the extension of the due date for the payment by air carriers of certain excise taxes; and
- compensation to individual claimants who were physically injured or killed as a result of the terrorist attacks of September 11, 2001.

In addition, the Act provides that, notwithstanding any other provision of law, liability for all claims, whether compensatory or punitive, arising from the terrorist-related events of September 11, 2001 against any air carrier shall not exceed the liability coverage maintained by the air carrier.

Under the Act, each air carrier is entitled to receive the lesser of its direct and incremental losses for the period of September 11, 2001 to December 31, 2001 or its available seat mile allocation of the \$5 billion of compensation available under the Act. National received a total of \$11,031,000 from the United States government under the Act and expects to receive an additional \$11,000,000 in two installments: one installment in November 2001 and one installment in January 2002.

In addition, New National expects that up to 90% of its financial obligations arising under the Exit Financing Facility will be guaranteed by the United States government pursuant to the Act.

FINANCIAL INFORMATION

Financial Statements

Attached as Exhibit 2 to this Disclosure Statement are financial statements of National for the prior two fiscal years and the current fiscal year to date.

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

Operating Results

Development and Preoperating Stage (April 1995- May 1999)

National was organized in April 1995 and subsequently completed an initial private placement of common stock for net proceeds of approximately \$2.8 million. These proceeds were used to defray development stage expenses during the period from inception through August 1998. During this period, National developed its business plan, hired and/or identified the majority of its executive management personnel and raised the necessary funding to start the airline.

National completed a second private placement of common stock for gross proceeds of approximately \$48.5 million in July and August 1998 which facilitated the development of the airline. During the start-up phase, which covered the period from September 1, 1998 through May 26, 1999, National obtained the necessary governmental approvals to commence flight operations, acquired necessary operating assets including facilities and Boeing 757 aircraft, hired and trained all requisite personnel and developed and implemented policies, procedures and systems.

National was the first start-up carrier in the United States that was subject to revised FAA guidelines for certification. As a result of the new procedures implemented by the FAA to certify National as a United States air carrier, the process took longer than either National or the FAA expected. National estimates that the cost of the three month delay was approximately \$3 million.

Initial Operating Phase (June 1999 – December 1999)

Revenue operations began on May 27, 1999 with 291 full-time equivalent employees and three Boeing 757 aircraft serving Chicago Midway and Los Angeles International Airport from National's Las Vegas hub. As of August 31, 2001, National had grown its operations to 15 Boeing 757 aircraft, 1,543 full-time equivalent employees and National had added New York JFK, San Francisco, Philadelphia, Dallas-Fort Worth, Newark, Miami, Washington DC and Chicago-O'Hare to its route network.

Las Vegas is primarily a leisure market, and average fares are approximately 30% below the average domestic fare. Accordingly, part of National's strategy for 1999 was to grow capacity to a certain size to facilitate the allocation of fixed costs across a larger revenue generating base to lower its unit cost of operations (cost per available seat mile, or "CASM").

During National's initial seven months of operations, National incurred a net loss of \$33.1 million on total operating revenues of \$55.6 million. The net losses incurred during the seven month period ended December 31, 1999 are attributable to a number of factors, the most significant of which are summarized below.

- Two of the three aircraft with which National initiated operations were delivered late out of modification, thereby requiring National to enter into expensive wet lease arrangements for a period of time to protect its flight schedule.
- Most of the aircraft in National's fleet were previously operated by foreign airlines. As a result, certain operational challenges arose with respect to integrating those aircraft into the fleet. This resulted in flight cancellations and delays, as well as increased maintenance costs.
- As in the case of most start-up airlines, difficulties in matching aircraft delivery dates to in-service dates created some timing issues whereby in some cases rent payments for aircraft commenced well in advance of when the aircraft could be placed into revenue service.
- National made significant investments in developing its infrastructure that could effectively support a rapidly expanding airline. These costs affected National's financial performance in 1999. However, as incremental capacity was added, National's unit cost declined significantly, contributing to improved margins and profitable operations.
- During November and December 1999, National experienced unexpected, extremely low bookings net of cancellations. Average daily bookings net of cancellations during November were 3,664 net bookings and in December were 3,548 net bookings. The low level of daily bookings greatly affected passenger traffic during the period November 1999 through the first half of February 2000. There were several reasons for these low booking levels, including consumer anxiety of potential terrorism and other problems resulting from Y2K, greatly inflated hotel and event prices in Las Vegas during the New Year's celebration, and employer requirements on potential visitors to remain close to home in the event of actual Y2K problems.
- During the fall of 1999, National began to experience a dramatic increase in fuel prices. During the first month of flight operation, the price per gallon of jet fuel was 69.31 cents. During October, November and December 1999, National's average price per gallon of jet fuel was 70.62 cents, 77.55 cents and 83.19 cents, respectively. As a result of this increase, National's total fuel expense over the fourth quarter of 1999 was approximately \$800,000 greater than it would have been had fuel remained at the May 1999 price of 69.31 cents.

Fiscal Year 2000

For the fiscal year 2000, National incurred a net loss of \$35.1 million on total operating revenues of \$265.9 million. In January and February 2000, National incurred an aggregate net loss of \$10.9 million (31.1% of the annual net loss) and in December National incurred a net loss of \$12.6 million (35.9% of the annual net loss). These losses during the first two months of the year were primarily caused by the dramatic increase in fuel prices and the carry-over effect from low bookings during November and December 1999. A significant portion of the losses for December 2000 was directly related to National's customers' reaction to its filing for Chapter 11 protection on December 6, 2000 and related issues.

Overall for the fiscal year 2000, National paid an average fuel price of \$1.01 per gallon. During this period, National was not hedged on its fuel costs as it had limited capital resources and fuel prices began to dramatically increase just months after National began flight operations in May 1999. National's incremental fuel cost for the year was approximately \$20 million over that would have been incurred if fuel prices had remained at the same level as when National commenced service. Despite National's unit cost advantage, high fuel prices coupled with a softening economy produced lower profits through during the spring and summer and increased losses from September through December.

The table below summarizes certain selected financial and operating information for the periods indicated.

	2000				2000
	Quarterly Period Ended				Twelve Months Ended
	March 31 (000)	June 30 (000)	September 30 (000)	December 31 (000)	December 31 (000)
Operating Revenues	\$ 49,903.1	\$ 66,665.1	\$ 77,885.7	\$ 71,929.1	\$ 265,883.0
Operating Expenses	59,472.8	64,254.8	79,226.2	93,139.9	296,133.7
Operating Income (Loss)	(10,069.7)	2,410.3	(1,380.5)	(21,210.8)	(30,250.7)
Margin (%)	(20.4)	3.6%	(1.8)	(29.5)	(11.4)
EBITDA	(8,333.3)	3,962.6	1,068.4	(19,293.1)	(23,075.4)
Net Income (Loss)	(10,755.8)	1,490.5	(2,637.6)	(23,163.4)	(35,066.3)
Cash and Cash Equivalents	3,795.5	1,101.1	2,994.1	1,787.7	1,787.7
<i>Selected Operating Statistics:</i>					
Load Factor (%)	55.0	69.9	69.8	64.6	65.2
Break-even Load Factor (%):	66.8	67.3	71.0	84.5	73.0
Passenger Yield (cents)	10.07	9.99	9.75	9.40	9.77
Total RASM (cents)	5.54	6.99	7.06	6.07	6.37
CASM (cents)	7.00	6.98	7.19	8.22	7.39
Avg. Per Gal. Fuel Price (cents)	95.69	89.50	103.89	112.01	101.05

After incurring an aggregate net loss of \$10.9 million for the first two months of 2000, National was profitable in each of the next six months despite continued high fuel prices. During those six months fuel surcharges were in effect and National's aggregate profit was \$2.6 million. The per gallon price of fuel increased from 93.91 cents for the first two months of 2000 to 94.01 cents for the six-month period ended August 31, 2000. During the initial seven months of operations through December 31, 1999, the average per gallon price of fuel was 75.35 cents. This increase in the per gallon price of fuel increased fuel cost by \$5.7 million during the six-month period ended August 31, 2000.

The improvement in operating results during the six-month period ended August 31, 2000, despite the increase in the price of fuel, was primarily attributable to the following factors:

- Over the course of 2000, there was a significant improvement in bookings after January 1, 2000. Bookings during the latter part of 1999 for travel in 1999 and the early part of 2000 were extremely low due to Y2K related concerns. Bookings increased during early 2000 after no significant Y2K related incidents occurred. In addition, bookings also increased because after nearly nine-months of flying, National began to experience an increased recognition of its product and there was pent-up consumer demand for leisure travel to Las Vegas that did not occur during the last two months of 1999. For the period January 1, 2000 through September 30, 2000, National experienced 6,812 average daily books net of cancellations, an increase of 89% compared to the average daily bookings for November and December 1999. The result was increased load factors during the spring, summer and fall 2000.
- As a result of continued high fuel prices, National, along with the industry, implemented fuel surcharges at various times during the first half of 2000. These surcharges contributed to increasing the average one-way fare from \$119.80 for the first two months of 2000 to \$129.01 for the subsequent six-month period, an increase of 7.7%. However, this increase in the average fare did not offset totally the increase in fuel cost.

After six consecutive months of profitability, National then incurred a net loss of \$3.6 million for the month of September 2000, which is generally a seasonally slow month relative to passenger traffic. The combination of a decline in passenger load factor from 73.6% in August to 65.1% in September and an increase in the average per-gallon price of fuel from 100.5 cents to 116.6 cents during the same periods were the major factors contributing to the loss. During the fourth quarter of 2000, National continued to incur net losses because this period is seasonably soft relative to passenger traffic, it continued to pay high fuel prices and fuel surcharges in leisure fare categories were eliminated. In addition, during the latter portion of 2000, National began to experience pricing pressures from its primary competitors, many of whom were still operating under fuel hedging agreements that insulated them from the dramatic sustained increase in fuel prices.

For the twelve months ended December 31, 2000, National's unit cost of 7.40 cents was lower than that of any major United States airline even with the average per gallon price of fuel increasing to 101.1 cents from an average of 77.8 cents for the first seven months of our operations, an increase of nearly 30%. Excluding the cost of fuel, National's unit cost for the twelve months ending December 31, 2000 was 5.86 cents which was lower than all major airlines notwithstanding National's small aircraft fleet.

Post-Chapter 11 Filing Operating Results (January 2001 – September 2001)

Financial Results

For the nine month period ending September 30, 2001, National incurred a net loss of \$26.8 million, including an \$11 million cash grant received from the United States government in September. However, on a pro forma basis, adjusting for the reduction or elimination of certain expenses through the renegotiation of aircraft lease rates to market and executory contracts in the Chapter 11 process, the reduction of depreciation and amortization expense from fresh start reporting adjustments and the elimination of expenses directly related to the reorganization, the net loss of \$26.8 million would be reduced on a pro forma basis to a loss of \$3.8 million over the same nine month period. Of the actual net loss, \$14.5 million, or 54.1% occurred during the first quarter. National's losses were primarily related to reduced travel and bookings especially during the initial months after the Chapter 11 filing in December.

The net loss during the first nine months of 2001 was further exacerbated by pricing pressures initiated by National's competitors. National's load factor for the nine months ended September 30, 2001 increased to 68.0% from 65.5% for the same period in 2000. However, average yield for the first nine months of 2001 was 8.58 cents compared to a yield of 9.91 cents for the first nine months of 2000. This reduction in yield was partially attributable to the removal of fuel surcharges that were in effect during portions of 2000 as well as fare competition over National's routes. Given the number of revenue passenger miles in 2001, the year-over-year reduction in yield resulted in a revenue reduction of \$32.6 million.

For the nine months ended September 30, 2001 fuel prices averaged 88.5 cents per gallon as compared to 96.8 cents per gallon for the same period in 2000. This decline equated to a fuel expense reduction of approximately \$4.6 million.

Through 2001, National continued to achieve one of the lowest unit costs in the industry. For the nine months ended September 30, 2001, National's actual CASM was 7.01 cents and on the same pro forma basis reflected in the table below, CASM was 6.16 cents. In comparison, the two lowest cost major airlines in the industry today are Southwest and America West who, for the first three quarterly periods of 2001, reported CASM of 7.66 cents and 8.77 cents, respectively. CASM for September increased dramatically because of a reduction of available seat miles due to the 15% reduction in capacity and two days of grounding by the FAA in reaction to the September 11, 2001 attacks.

As part of National's Chapter 11 proceedings, with a few exceptions, National has not assumed or rejected any executory contracts, real property leases or aircraft leases. Therefore, for financial reporting purposes, National must record expenses based on National's contractual rates on an accrual basis, rather than upon the renegotiated contract rates National has completed or will complete as part of National's reorganization. As a result, CASM as reported exceeds CASM that National would expect to achieve over the same period immediately after emerging from Chapter 11.

Set forth below is selected financial information, with pro forma adjustments, and selected operating data for the monthly periods January 2001 through September 2001. Except where otherwise indicated, all dollar values below are in thousands (000).

	<u>Jan-01</u>	<u>Feb-01</u>	<u>Mar-01</u>	<u>Apr-01</u>	<u>May-01</u>	<u>Jun-01</u>	<u>Jul-01</u>	<u>Aug-01</u>	<u>Sep-01</u>	<u>Total</u>
Operating Revenue	\$20,612.4	\$20,247.3	\$25,916.3	\$26,394.9	\$26,313.5	\$27,461.3	\$27,239.9	\$29,499.4	\$15,309.3	\$218,994.3
Operating Expense	27,374.0	25,151.8	27,823.4	28,208.3	29,630.7	29,529.2	29,687.5	29,747.6	25,745.1	252,897.6
Operating Loss	(6,761.6)	(4,904.5)	(1,907.1)	(1,813.4)	(3,317.2)	(2,067.9)	(2,447.6)	(248.2)	(10,435.8)	(33,903.3)
Net Non-Operating (Expense) Income	(367.4)	(263.1)	(337.7)	(318.3)	(356.8)	(506.9)	(627.1)	(417.5)	10,312.2	7,117.3
Net Loss	<u>\$ (7,129.0)</u>	<u>\$ (5,167.6)</u>	<u>\$ (2,244.9)</u>	<u>\$ (2,131.7)</u>	<u>\$ (3,674.0)</u>	<u>\$ (2,574.8)</u>	<u>\$ (3,074.7)</u>	<u>\$ (665.7)</u>	<u>\$ (123.6)</u>	<u>\$ (26,786.0)</u>
Pro Forma Adjustments(1)										
Net Loss as Reported	<u>\$ (7,129.0)</u>	<u>\$ (5,167.6)</u>	<u>\$ (2,244.9)</u>	<u>\$ (2,131.7)</u>	<u>\$ (3,674.0)</u>	<u>\$ (2,574.8)</u>	<u>\$ (3,074.7)</u>	<u>\$ (665.7)</u>	<u>\$ (123.6)</u>	<u>\$ (26,786.0)</u>
Aircraft Rent	(2,034.0)	(2,034.0)	(2,034.0)	(2,365.5)	(2,116.5)	(2,116.5)	(2,116.5)	(2,116.5)	(1,909.6)	(18,843.1)
Reorganization Items	(310.0)	(301.6)	(337.7)	(300.0)	(300.0)	(413.8)	(474.4)	(268.9)	(561.5)	(3,267.9)
Fresh Start Reporting Items	(799.4)	(732.7)	(952.2)	(1,056.2)	(1,009.0)	(1,013.4)	(1,038.9)	(1,120.4)	(1,224.0)	(8,946.2)
Federal Grant	-	-	-	-	-	-	-	-	11,030.9	11,030.9
Executory Contracts	(333.3)	(333.3)	(333.3)	(333.3)	(333.3)	(333.3)	(333.2)	(333.3)	(333.3)	(2,999.6)
Adjusted Operating Profit (Loss)	<u>\$ (3,652.3)</u>	<u>\$ (1,766.0)</u>	<u>\$ 1,412.3</u>	<u>\$ 1,923.3</u>	<u>\$ 84.8</u>	<u>\$ 1,302.2</u>	<u>\$ 888.3</u>	<u>\$ 3,173.4</u>	<u>\$ (7,126.1)</u>	<u>\$ (3,760.1)</u>
Aircraft in Fleet	15	15	15	16	16	16	16	16	15	
Scheduled Aircraft	14.0	14.2	14.2	14.2	14.9	15.0	15.0	15.0	13	
Destinations Served	10	10	10	10	11	11	11	11	10	
Departures	1,725	1,570	1,769	1,771	1,932	1,877	1,946	1,943	1,481	16,014
Block Hours	5,417	5,096	5,591	5,632	6,153	5,950	6,097	6,127	4,459	50,522
Utilization (hrs/day)	12.48	12.82	12.70	13.22	13.32	13.22	13.11	13.18	11.43	12.91
ASMs (000)	387,223	359,593	396,994	397,694	439,122	425,189	440,875	441,055	319,967	3,607,712
RPMS (000)	216,048	211,814	281,323	290,488	291,654	310,937	320,222	345,530	185,891	2,435,907
Passengers Enplaned	163,151	156,256	205,486	211,326	216,052	232,357	235,236	249,679	139,422	1,808,965
Load Factors:										
Actual (%)	55.8	58.9	70.9	73.0	66.4	73.1	72.6	78.3	58.1	68.0
Break-even (%)	74.9	73.7	76.3	78.3	75.2	78.8	79.4	79.0	99.7	79.0
Pro Forma Break- even (%) (1)	65.9	64.3	66.8	67.5	66.0	69.3	69.7	69.2	85.9	69.0
Avg O/W Fare (\$)	121.10	124.95	121.29	120.32	116.71	114.46	111.26	113.88	104.61	116.44
Yield (cents)	9.14	9.22	8.86	8.75	8.65	8.55	8.17	8.23	7.85	8.58
Total RASM (cents)	5.32	5.63	6.53	6.64	5.99	6.46	6.18	6.69	4.78	6.07
CASM (cents)	7.07	6.99	7.01	7.09	6.75	6.94	6.73	6.74	8.05	7.01
CASM w/o Fuel (cents)	5.69	5.60	5.67	5.77	5.40	5.55	5.45	5.45	6.68	5.66

(1) The pro forma adjustments made above are the following:

Aircraft Rent – As part of National's aircraft lease renegotiations, we anticipate that aircraft rent in the aggregate will be reduced to current market rates, a rent savings of approximately \$2 million per month.

- Reorganization Items – This adjustment includes various professional and legal fees being incurred as a direct result of the Chapter 11 proceedings.
- Fresh Start Reporting Items – as part of the reorganization process, National will apply fresh start accounting principles where National will revalue its assets to market value, including aircraft leases. As part of this revaluation, the capitalized costs relating to aircraft leasehold improvements and capitalized maintenance will be written off eliminating monthly amortization of these items.
- Federal Grant – In September 2001, pursuant to the terms of the Air Transportation Safety and System Stabilization Act, National received a Federal Grant in the amount of approximately \$11 million. This adjustment removes the effect of this grant from our operating performance.
- Executory Contracts – As part of the reorganization process, National will review and renegotiate certain of its contracts. This adjustment reflects the reduction in monthly cost that National believes can be attained through this renegotiation process.

Effect of Filing on Bookings and Fares

As a result of National's filing for Chapter 11 protection on December 6, 2000, National saw a dramatic decrease in average daily bookings. For the period from December 7, 2000 through December 31, 2000, National averaged 2,841 bookings (net of cancellations) per day, as compared to nearly 6,200 average daily bookings for the three-month period immediately before National's filing. Since the end of 2000, net daily bookings have significantly increased as National progressed through the reorganization process. Set forth below are the average daily bookings net of cancellations during 2001. During this period, approximately 10,500 seats were available for travel each day.

<u>Month</u>	<u>Average Daily Bookings</u>
January	8,113
February	7,935
March	7,797
April	8,206
May	9,338
June	7,173
July	7,557
August	7,089
September 1-10	5,998
September 11-30	2,716
October	5,202

The reduced daily bookings from September 1 through September 10 were not unexpected as September is generally a seasonably slow period for the Las Vegas market. However, as a result of the terrorist attacks of September 11, 2001, National saw a dramatic drop-off in booking levels that will impact National's operations going forward. This drop-off occurred despite National's well received "Get America Flying" program implemented on September 19, 2001. While bookings did begin to rebound in October as compared to the last 20 days of September, this increase was largely attributable to our "Get America Flying" program at substantially discounted fares.

As a result of National's status in Chapter 11, certain of National's major competitors have applied pressure on National through maintaining fares at low levels. National believes that this has been a competitive response based upon their belief that National would be unable to sustain a fare war for an extended period of time. In responding to National's competition's lower fares, National's yield steadily declined during 2001. In September, National's yield also dropped significantly as a direct result of the September 11, 2001 attacks and the "Get America Flying" program. If National successfully reorganizes, the competitive fare pressure should dissipate and allow National's yields to increase. Any improvement in National's average yield after emerging from Chapter 11 will significantly improve National's operating results.

Fuel Related Expense

During 2001, National began to experience some relief from the historically high fuel prices it incurred during 2000. The average price per gallon of jet fuel for fiscal year 2000 was an unprecedented \$1.01 per gallon. Since then, fuel prices have significantly declined, however, by historical standards, fuel prices through September 30, 2001 remained high.

Set forth below is the average price per gallon of fuel paid by National during each month of 2001.

<u>Month</u>	<u>Average Price Per Gallon (cents)</u>
January	93.3
February	93.1
March	88.1
April	86.4
May	89.3
June	90.7
July	84.2
August	83.4
September	90.1
October	73.5 (est.)

Aircraft Lease Costs

National's average monthly contractual lease rate per aircraft in its fleet is approximately \$373,800. Most of the lease agreements for National's 15 Boeing 757 aircraft were entered in late 1998 and early 1999 when the market for the Boeing 757 aircraft was relatively strong. However, during the time National has been operating in Chapter 11, the market for leasing used Boeing 757 aircraft has softened significantly. Accordingly, National intends to renegotiate its rental rates down to current market rates with National's aircraft lessors as part of the reorganization. Prior to the Section 1110 stay period expiration in February 2001, National offered to pay its lessors an amount equal to what it believed was the then current market rental rate for those aircraft. On average, National believed that the market rate then was approximately 15% below its contractual rates.

However, at the time the Section 1110 stay period actually expired, National did not have the liquidity to pay its lessors the proposed revised rates. National then agreed with its lessors that during its Chapter 11 case, it would pay 50% of the proposed market rates during February 2001 and 75% (approximately \$245,200 on average), of the proposed rates per month until a plan became effective. Although the rates were revised, none of National's aircraft leases have actually assumed in the case. National believes that this provides it further opportunities to negotiate even further rental rate reductions as it emerges from Chapter 11.

With the passage of time, the current general economic conditions and the effects of September 11, 2001, National believes that the market for leasing used Boeing 757 aircraft has softened even further. Now, it appears that the rate National has been paying, on average 75% of the original reduced rates National proposed, appears to be higher than the current market rates available. Given National's fleet of 15 aircraft, a reduction of rental rates on a permanent basis to an average monthly rental rate of approximately \$210,000 per aircraft, would result in estimated annual cost savings of approximately \$30 million compared to National's existing contractual rental rates.

Impact of September 11, 2001 Terrorist Attacks

On September 11, 2001, four commercial aircraft were hijacked and destroyed in terrorist attacks on The World Trade Center in New York City, the Pentagon in northern Virginia and in Western Pennsylvania. In addition to the loss of all passengers and crew on board the aircraft, these attacks resulted in untold deaths and injuries to persons on the ground and massive property damage. In response to those terrorist attacks, the FAA issued a federal ground stop order on September 11, 2001, prohibiting all flights to, from, and within the United States. Airports did not reopen until September 13, 2001 (except for Washington Reagan National Airport, which was partially reopened on October 4, 2001). National operated only a portion of its scheduled flights for several days thereafter. When flights were permitted to resume passenger traffic and yields on National's flights were significantly lower than prior to the attacks. As a result, National announced that it would reduce its operating schedule to approximately 15% of the schedule it flew prior to September 11, 2001. Overall, scheduled service was reduced approximately 15%. As a result, National reduced its aircraft fleet from 16 to 15 aircraft and reduced its staffing level by approximately 260 full time equivalent employees through unpaid voluntary or involuntary leave and reduced hours. Those employees on leave retained their medical benefits (provided the employee continues to pay the same employee contribution to premiums), life insurance benefits, and flight benefits on National flights. National hopes that full service will be restored by mid-2002 and employees can be called back from leave. In addition, National temporarily reduced the salaries of officers by 10% and of our directors and managers by 5%. Also, National suspended its 401(k) company contribution matching program and annual raises. National's future schedule will vary as National reacts to continuing changes in demand and yields, as well as normal factors such as seasonality and fleet composition.

Immediately following these attacks, National experienced a significant decline in net bookings. During the first ten days of September, National had a daily average of 5,998 bookings. For the eight day period from September 11 to September 18, National actually experienced negative bookings (meaning cancellations exceeded new bookings) and over the 20 day period from September 11 to September 30, National averaged only 2,716 daily bookings net of cancellations, which was a drop of 54.7% compared to the first ten days of the month.

On September 19, 2001, National launched its "Get America Flying Again" promotion. The program was designed to accomplish several things, including getting passengers back in the air, introducing new customers to National and increase incremental revenue, and increase loads on off-peak flights. At least fifteen hotel/casinos in Las Vegas offered travelers a free-night's stay (subject to certain conditions such as arrival day and period of stay) and other value added offers if customers presented proof of their travel on National. In addition, local stores, tour companies and ground transportation companies also provided National's customer's benefits. In addition, resorts in Miami and San Francisco also provided National customer's benefits. In terms of generating bookings, this promotion was resoundingly successful with travelers, travel agents and businesses alike. National's "Get America Flying" initiative did stimulate additional traffic, but at deeply discounted fares. During October, as a result of the program, National achieved a load factor of 78.4% for the month, however, at an average yield estimated to be 6.24 cents compared to yields for July and August of 8.17 cents and 8.23 cents,

respectively. The difference between the 6.24 cent actual yield in October and a yield of 8.2 cents similar to those in July and August meant a reduction in revenue of \$5.1 million for October.

The drop in bookings immediately following the attacks of September 11, 2001, combined with the significant number of cancelled bookings and resulting refunds, dramatically impacted cash receipts for September. In addition, while bookings have rebounded in number, the fare levels are lower. National believes that for the months of September and October, cash receipts from operations were approximately \$19.9 million less than had been projected before the terrorist attacks. The table below sets forth the total impact on ticket sale cash receipts in September and October as a result of the September 11 attacks.

	Month of		Total
	September	October	
Pre-September 11 Forecast Cash Receipts	\$ 27,508,336	\$ 29,421,770	\$ 59,930,106
Actual Cash Receipts	18,694,082	18,342,571	37,036,653
Impact to Cash Receipt	\$ (8,814,254)	\$ (11,079,199)	\$ (19,893,453)

National expects the negative cash receipt impact of the September 11 attacks to continue. For the period of September 11 through December 31, 2001, National expects the cash impact of those attacks to be approximately \$29.1 million, with some residual impact into 2002. The negative cash impact of the September 11 attacks was partially offset by the \$11 million cash grant received in September from the federal government as discussed below. An additional cash grant of approximately \$11 million is expected to be received in two installments -- approximately \$7.7 million in November 2001 and the remaining \$3.3 million in January 2002.

As a result of the September 11, 2001 attacks, aviation insurers have significantly reduced the maximum amount of insurance coverage available to commercial air carriers for liability to persons other than employees or passengers for claims resulting from acts of terrorism, war or similar events (war-risk coverage). Similarly, aviation insurers have significantly increased the premiums for such coverage as well as for aviation insurance in general. As described below, the Air Transportation Safety and System Stabilization Act has mitigated the immediate effects of changes in the aviation insurance market. Additionally, and pursuant to this Act, the United States government has issued additional war risk coverage to U.S. air carriers through January 11, 2002.

Among the additional adverse effects experienced by National from the September 11, 2001 terrorist attacks have been significant flight disruption costs caused by the FAA's imposed grounding of the U.S. airline industry's fleet, significantly increased security and other costs, significantly higher ticket refunds, significantly reduced load factors, and significantly reduced yields. Further terrorist attacks using commercial aircraft in flight could result in another grounding of National's fleet, and would likely result in additional reductions in load factor and yields, along with increased ticket refund, security and other costs. In addition, terrorist attacks not involving commercial aircraft, or the general increase in hostilities relating to reprisals against terrorist organizations or otherwise, could result in decreased load factors and yields for airlines, including National, and increased costs. The full impact of the terrorist attacks of September 11, 2001 and their aftermath on National and the sufficiency of National's and New National's financial resources to absorb that impact will depend on a number of factors, including:

- the magnitude and duration of the adverse impact of the terrorist attacks on the economy in general, and the airline industry in particular;
- National's ability to reduce its operating costs and conserve its financial resources, taking

into account the increased costs it will incur as a consequence of the attacks, including those referred to below;

- the higher costs associated with new airline security directives and any other increased regulation of air carriers;
- the significantly higher costs of aircraft insurance coverage for future claims caused by acts of war, terrorism, sabotage, hijacking and other similar perils, and the extent to which such insurance will continue to be available;
- National's and New National's ability to raise additional financing;
- the price and availability of jet fuel, and the availability to National of fuel hedging devices in light of current industry conditions;
- the number of crew members who may be called for duty in the reserve forces of the armed services and the resulting impact on National's ability to operate as planned;
- the extent of the benefits received by National under the Air Transportation Safety and System Stabilization Act (as discussed in more detail below), taking into account any challenges to and interpretations or amendments of this Act or regulations issued pursuant thereto; and
- National's ability to retain its management and other employees in light of current industry conditions and their impact on compensation and morale.
- At this point, due in part to the lack of predictability of future passenger traffic, business mix and yields, National is unable to fully estimate the impact on it of the events of September 11, 2001. However, given the magnitude of these unprecedented events and the possible subsequent effects, National expects that the adverse impact to National's financial condition, its operations and prospects will be highly material to National and New National.

Future Growth and Prospects

To date, National believes that it has executed the growth and development portion of its business plan and it has demonstrated that there is demand for additional Las Vegas air travel capacity. National believes that the effects of the September 11, 2001 attacks on air travel will eventually dissipate and that a well executed restructuring, featuring capital investment, a refined long-term business strategy and continued reviews of its cost levels, will enable it to return to sustained profitability.

National's current long-term cost reduction and revenue enhancement initiatives include the following: fuel hedging; full utilization of its new revenue management software; expanding relationships with Las Vegas hotel properties; implementing new pricing strategies; and improved corporate travel strategies. In addition, National believes that the effective implementation of the Plan and business plan will provide significantly improved results to those seen since its inception in a number of areas, including resources available for executing the plan, improved revenue generation and unit cost reductions.

Over the next five years, National intends to prudently increase its fleet from 15 Boeing 757 aircraft to 30 Boeing 757 aircraft and to add 20 150-seat aircraft; provided the competitive and economic

conditions justify that expansion. The 150-seat aircraft planned for the fleet will serve short and medium haul destinations.

During fiscal year 2001, National expects to incur an operating loss of approximately \$53.9 million on operating revenues of approximately \$267.7 million. In 2002, National estimates operating income of approximately \$2.5 million. Thereafter, National believes that operating income will begin to increase over the next four years as more aircraft are added to the fleet coupled with improving economic and competitive conditions.

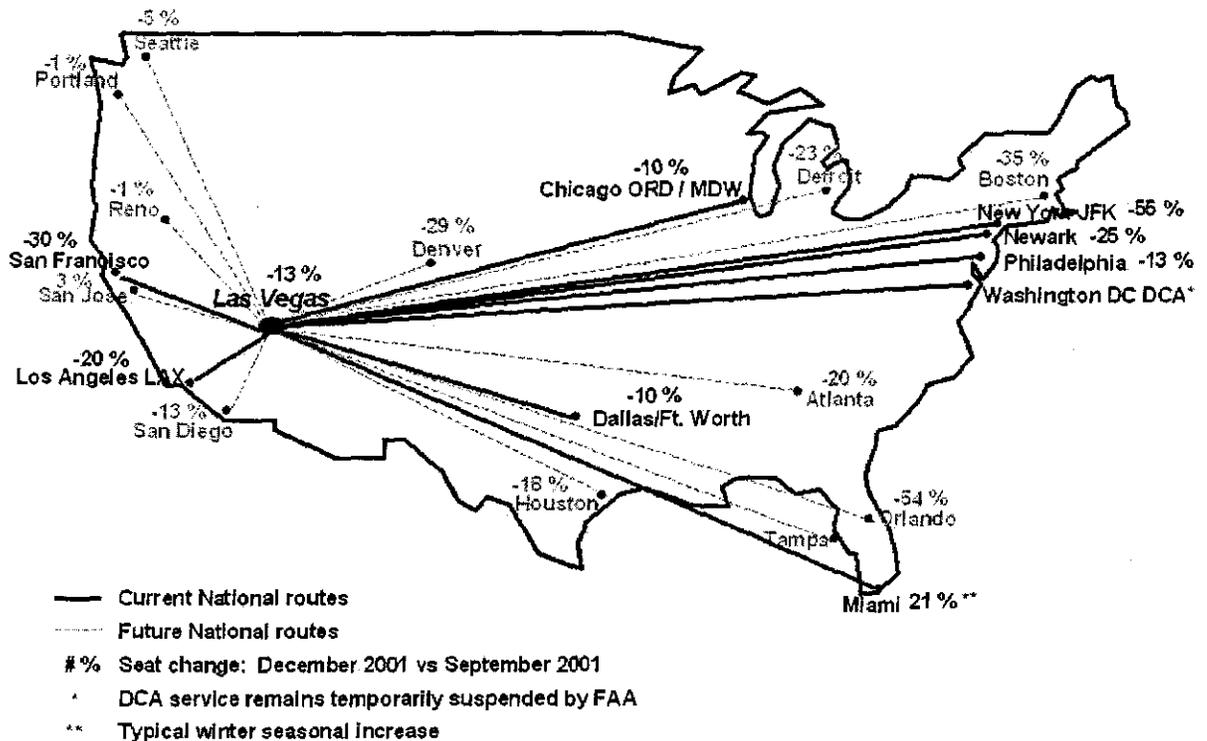
Upon emerging from Chapter 11 under Plan, National believes that its balance sheet will be significantly stronger with the conversion of pre-petition indebtedness into equity, a federally guaranteed loan, and possibly, new investment in common stock, convertible preferred stock and/or subordinated debentures. National believes that after this reorganization it will have the staying power in the event of adverse future events. In addition, the recapitalization will provide it more flexibility in its operations, such as the ability to enter fuel hedging agreements and to obtain improved terms and conditions in various other transactions that it may enter. This strengthened balance sheet also will provide National with the ability to grow on a prudent basis depending on the prevailing competitive and economic conditions. National believes that its recapitalization could cause competitors to behave more rationally in terms of pricing and capacity in the Las Vegas markets that it serves, as their pricing policies during our Chapter 11 proceeding have seem to be designed to put substantial pressure on our yields and revenues in an attempt to drive National from the long-haul markets that National serves or out of business altogether.

National also believes that its business plan provides several opportunities for improving revenue generation. Initially, the recapitalization will provide sufficient resources to expand prudently into new markets based on reduction in capacity by other airlines and economic conditions. The Las Vegas market is primarily leisure in nature and, as a result, fare levels are much lower than the domestic average. As a result, airlines with high operating costs are not expected to increase capacity to any significant degree in the Las Vegas market due to the combination of low fares and high costs. In fact, even prior to the September 11, 2001 attacks, major carriers began reducing flights in the Las Vegas market. Even greater capacity reductions were announced after the September 11, 2001 attacks. This reduction in service will provide National with the opportunity to replace carriers on those abandoned routes to the extent that the capacity reduction creates unfulfilled demand.

The map below shows the reduction of flights from markets that National serves or intends to serve by all carriers serving Las Vegas based upon announced and anticipated reductions. .

Current and Future National Airlines Routes

Capacity Changes by National's Competitors: December 2001 vs September 2001



After recapitalizing, National will also be in a better position to expand its marketing promotional and advertising programs. Ever since revenue operations began, National has been operating with minimal marketing and advertising programs due to liquidity concerns. Oncerecapitalized, National will have the ability to generate additional revenues through these means.

Further, prior to the Petition Date, National was a party to exclusive marketing agreements with its largest shareholder, Harrah's. These agreements limited National's ability to design and implement promotional programs with casinos and resorts in Las Vegas other than Harrah's and the Rio. Through the reorganization process, National will no longer be subject to these restrictions and National will be free to pursue programs with the other casino operators to generate incremental revenue.

These projected yield improvements are anticipated to result from a number of factors. First, National plans to add approximately twenty 150-seat aircraft to the fleet during 2002 and 18 more from 2003 to 2006. The addition of these smaller aircraft flying short and medium haul routes should contribute to yield improvements that more than offset unit cost increases caused from the introduction of those aircraft. National also believes yields will improve as fares increase to cover increasing costs as a result of the September 11, 2001 attacks, such as labor, security and insurance. In addition, if competition in National's markets continues to decrease as a result of capacity reductions to Las Vegas by other carriers, National will be able to increase fares. Finally, National believes that its restructuring will cause some of its competitors to relieve the pricing pressures National has been experiencing during the reorganization process.

In addition to improving yields, National also believes that its load factors will improve. The projected increases in load factors are based upon a number of factors. First, with the passage of time and increased marketing efforts, National will become more known in the market. Second, National will be able to develop promotional programs with all the hotel/casino properties in Las Vegas to provide transportation for its customers. Third, as other high cost carriers reduce capacity in National's markets, National will fill the void. Fourth, the planned increase in fleet size and expansion of the route network will significantly increase connecting traffic opportunities. Finally, National intends to expand its relationships with foreign carriers to provide transportation from US gateway cities to Las Vegas and throughout its route structure.

As part of the reorganization process, National will renegotiate its aircraft lease rates to reflect current market conditions. National believes that the market for leasing used Boeing 757 aircraft had softened significantly prior to September 11, 2001 and has continued to suffer even more since that time. Our average monthly contractual rate of rent per aircraft in the fleet is \$373,800. For most of the reorganization process, National had been paying an average monthly rate of \$245,200 per aircraft, and National believes that it can reduce that average rate to approximately \$210,000 per month. A monthly average rate of \$210,000 for the existing fleet of 15 aircraft will result in estimated annual savings of \$30 million compared to the existing contractual rental rates.

National also will renegotiate the terms of a number of important executory contracts through which it receives "back of the house" services. National believes an additional \$4 million in annual savings can be realized through these renegotiations.

Through applying fresh start reporting, National will write-down the value of assets to their existing market value. As a result, depreciation and amortization expense will decrease resulting in operating costs being reduced approximately \$1 million per month on a declining basis over 18 to 24 months.

Based upon National's projections through 2006, National believes it can increase its cost advantage over its major competitors. For the third quarter of 2001, Southwest and America West reported cost per available seat mile ("CASM") of 7.62 cents and 8.66 cents, respectively, compared to National's CASM of 7.09 cents.

OVERVIEW OF THE PLAN

A copy of the Plan accompanies this Disclosure Statement as Exhibit 1. The following summary of the material provisions of the Plan is qualified in its entirety by the specific provisions of the Plan, including the Plan's definitions of certain terms used below. The following is intended to provide a general description of the Plan, for more specific information, please refer to the attached Plan. Please note that the Debtor has attempted to minimize the use of defined terms in describing the Plan. However, any capitalized terms that are not defined in this section of the Disclosure Statement are defined in the Plan. It is recommended that one refer to those definitions when reading this document.

Brief Explanation of Chapter 11 Reorganization

The Debtor is being reorganized under Chapter 11 of the Bankruptcy Code ("Chapter 11"). Chapter 11 is the principal reorganization chapter of the Bankruptcy Code. Under Chapter 11, a debtor is authorized to reorganize its business for the benefit of itself and its creditors and shareholders. Confirmation of a plan of reorganization is the principal objective of a Chapter 11 case.

In general, a Chapter 11 plan of reorganization (a) divides Claims and Equity Interests into separate Classes, (b) specifies the property that each Class is to receive under the plan, and (c) contains

other provisions necessary to the reorganization of the debtor. A Chapter 11 plan may provide that certain Classes of Claims or Equity Interests are either: (i) to be paid in full upon the effective date of the plan; (ii) reinstated; or (iii) their legal, equitable and contractual rights are to remain unchanged by the reorganization or liquidation effectuated by the plan. These Classes are referred to under the Bankruptcy Code as "unimpaired" and, because of such favorable treatment, are deemed to accept the plan. Accordingly, it is not necessary to solicit votes from the holders of Claims or Equity Interest in such unimpaired Classes. A Chapter 11 plan may also provide that certain Classes will not receive any distributions of property. Such Classes are deemed to reject the plan.

All other Classes of Claims and Equity Interests contain "impaired" Claims and Equity Interests which have the right to vote on the plan. An "impaired" Class is generally a Class which will receive something less than their Claim under the plan of reorganization. Before a plan can be confirmed by the Bankruptcy Court, Chapter 11 generally requires that each impaired Class of Claims or Equity Interests votes to accept a plan. Acceptances must be received (a) from the holders of Claims constituting at least two-thirds in dollar amount and more than one-half in number of the allowed Claims in each impaired Class of Claims that have voted to accept or reject the plan, and (b) from the holders of at least two-thirds in dollar amount of the allowed Equity Interests in each impaired Class of Equity Interests that have voted to accept or reject the plan. However, even if an "impaired" Class rejects the plan, the Bankruptcy Court may confirm the plan if certain minimum treatment standards are met with respect to such Class or Classes. This is discussed in this Disclosure Statement under "Confirmation Without Acceptance by All Impaired Classes" on page 73.

Chapter 11 does not require each holder of a Claim or Equity Interest to vote in favor of a plan of reorganization in order for the Bankruptcy Court to confirm the plan. However, the Bankruptcy Court must find that the plan of reorganization meets a number of tests (other than the voting requirements described in this section) before it may confirm, or approve, the plan of reorganization. Many of these tests are designed to protect the interests of holders of Claims or Equity Interests who do not vote to accept the plan of reorganization but who will nonetheless be bound by the plan's provisions if it is confirmed by the Bankruptcy Court.

Solicitation of Acceptances of the Plan

The Debtor is seeking acceptances of the Plan from holders of Allowed Claims classified in Classes 4, 5, 6, 7, 8 and 9 under the Plan, which are the only Classes entitled to vote under the Plan. Classes 1, 2 and 3 are deemed to accept the Plan, and Class 10 is deemed to reject the Plan. If the requisite acceptances are received, the Debtor will use the acceptances as evidenced by the Ballots solicited in accordance with this Disclosure Statement and the applicable order of the Bankruptcy Court to seek confirmation of the Plan under Chapter 11.

If any impaired Class is determined to have rejected the Plan in accordance with Section 1126 of the Bankruptcy Code, the Debtor may use the provisions of Section 1129(b) of the Bankruptcy Code to satisfy the requirements for confirmation of the Plan. See "Confirmation Without Acceptance by All Impaired Classes" on page 73.

The Debtor believes that this Disclosure Statement complies with applicable bankruptcy and non-bankruptcy law. This Disclosure Statement and the Plan are being transmitted to all known holders of impaired Claims and Equity Interests. The Debtor believes that this Disclosure Statement contains adequate information for all holders of impaired Claims to cast an informed vote to accept or reject the Plan. Furthermore, the Debtor believes that holders of impaired Claims will obtain a greater recovery under the Plan than they would otherwise obtain if the Debtor's assets were immediately liquidated under Chapter 7 of the Bankruptcy Code.

If the Plan is confirmed by the Bankruptcy Court, each holder of an impaired Claim will receive the same pro rata consideration as other holders of Claims in the same Class, whether or not such holder voted to accept the Plan. Moreover, upon Confirmation, the Plan will bind all Creditors and Equity Interest holders regardless of whether or not such Creditors and Equity Interest holders voted to accept the Plan.

Classification of Claims and Equity Interests

Section 1123 of the Bankruptcy Code provides that a plan of reorganization must classify Claims against a debtor. Under Section 1122 of the Bankruptcy Code, a plan must classify Claims and Equity Interests into Classes that contain substantially similar Claims and Equity Interests. The Plan divides the Claims of known Creditors and the Equity Interests into Classes and sets forth the treatment offered each Class. The Debtor believes it has classified all Claims and Equity Interests in compliance with the provisions of Section 1122 of the Bankruptcy Code, but it is possible that a Creditor or Equity Interest holder may challenge such classification of Claims and Equity Interests and that the Bankruptcy Court may find that a different classification is required for the Plan to be confirmed. If so, the Debtor intends, to the extent permitted by the Bankruptcy Code and the provisions of the Plan, to amend or revoke the Plan and file an amended or different Plan that would make modifications to the classification of Claims or Equity Interests required by the Bankruptcy Court for confirmation.

The Classes under the Plan take into account the differing nature and priority of Claims against the Debtor. Section 101(5) of the Bankruptcy Code defines "Claim" as a "right to payment, whether or not such right is reduced to judgment, liquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, or unsecured; or a "right to an equitable remedy for breach of performance if such breach gives rise to a right to payment whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured, or unsecured." A "Claim" against the Debtor also includes a Claim against the Debtor's property as provided in Section 102(2) of the Bankruptcy Code. An "interest" is an Equity Interest in a debtor.

For the holder of a Claim to participate in a reorganization plan and receive the treatment offered to the Class in which it is classified, its Claim must be Allowed. Under the Plan, an Allowed Claim is defined as a Claim: (a) proof of which, requests for payment of which, or application for allowance of which, was filed or deemed filed on or before the Bar Date, Administrative Claim Bar Date, or the Professional Fee Bar Date, as applicable, for filing proofs of claim or requests for payment for Claims of such type against the Debtor; (b) if no proof of claim is filed, which has been or is ever listed by the Debtor in the Schedules as liquidated in amount and not disputed or contingent; or (c) a Claim that is allowed in any contract, instrument, indenture, or other agreement entered into in connection with the Plan and, in the case of (a), (b) or (c), a Claim as to which no objection to its allowance has been interposed within the applicable period of limitation fixed by the Plan, the Bankruptcy Code, the Bankruptcy Rules, or the Bankruptcy Court.

Treatment of Aircraft Lessors

Under the Plan, National must elect to assume or reject each of the Aircraft Leases prior to the Confirmation Date. If National rejects an Aircraft Lease, the applicable lessor under the Aircraft Lease (the "Aircraft Lessor") will have a General Unsecured Claim against National and will receive New Common Stock in full satisfaction of such Claim or such other treatment as agreed to between National and the Aircraft Lessor. The Aircraft Lessor will also have an Aircraft Lease Administrative Claim and will receive New Common Stock or such other treatment as agreed to between National and the Aircraft Lessor. All proofs of Claim with respect to Aircraft Lease Rejection Claims shall be filed with the Bankruptcy Court by the Aircraft Lease Administrative Claim Bar Date.

If National assumes an Aircraft Lease, the applicable Aircraft Lessor and National will enter into a new Aircraft Lease with modified terms and conditions, and the Aircraft Lessor will receive New Common Stock on account of any "cure" amounts payable under Section 365 of the Bankruptcy Code.

Passenger Facility Charges ("PFCs")

Several airports have assessed PFCs against National before and after National filed for Chapter 11, and National has failed to pay some of the PFCs that it owes. National expects that it will distribute Cash, New Common Stock or make other arrangements with those airports in satisfaction of the PFCs that were assessed prior to the Petition Date. Any PFCs assessed after the Petition Date and before the Effective Date will be paid in full in Cash by National under the Plan. After the Effective Date of the Plan, National expects that it will continue to pay all PFCs in Cash in a timely manner in the ordinary course of its business.

Treatment of Claims and Equity Interests Under the Plan

The following describes the Plan's classification of Claims against the Debtor and Equity Interests in the Debtor and the treatment the holders of Allowed Claims and Allowed Equity Interests would receive under the Plan. The treatment of Claims set forth below is consistent with the requirements of Section 1129(a)(9)(A) of the Bankruptcy Code.

Unclassified Claims. In accordance with Section 1123(a)(1) of the Bankruptcy Code, the following Claims are designated as unclassified under Article 3 of the Plan.

Administrative Claims. Administrative Claims are generally any Claims that arise after the Petition Date in conjunction with the administration of the Chapter 11 Case and allowed under Section 503(b), Section 507(b) or Section 546(c)(2) of the Bankruptcy Code and entitled to priority under Section 507(a)(1) of the Bankruptcy Code, except that Administrative Claims do not include any Aircraft Lease Administrative Claims. To the extent that a Claim is Allowed as an Administrative Claim under Section 365(d)(3) of the Bankruptcy Code, such Claim will also be treated as an Administrative Claim under the Plan. Administrative Claims include, for example, quarterly fees to the U.S. Trustee payable under Section 1930 of Title 28 of the United States Code, Claims for the payment of Professional Fees, actual and necessary costs and expenses incurred in the ordinary course of the Debtor's business or of preserving the Debtor's Estate, and Preserved Ordinary Course Administrative Claims

Professional Fees. Claims for Professional Fees are Claims of professionals providing services to certain parties involved in the Chapter 11 Case.

Preserved Ordinary Course Administrative Claims. These are generally Claims for liabilities incurred by the Debtor in the ordinary course of business during the Chapter 11 Case relating to the purchase, lease, or use of goods and services, including services provided by the Debtor's employees.

DIP Lender Claims. These are Claims related to the outstanding obligations of the Debtor under any debtor-in-possession financing facility approved by the Bankruptcy Court.

Priority Tax Claims. These are Claims of a governmental entity for taxes entitled to priority under Section 507(a)(8) of the Bankruptcy Code.

Treatment.

Generally. To receive the treatment described above, all requests for payment of Administrative Claims (except for Professional Fees, Preserved Ordinary Course Administrative Claims

and DIP Lender Claims) must be filed by the Administrative Claim Bar Date or the holders thereof shall be forever barred from asserting such Administrative Claims against the Debtor, New National or the Trust. Each Allowed Administrative Claim, other than Preserved Ordinary Course Administrative Claims, Priority Tax Claims, Professional Fees and DIP Lender Claims, is to be paid in full in Cash by New National (or otherwise satisfied in accordance with the terms of the Plan or the terms agreed to by the Debtor or New National and the holder of such Claim) on the latest of: (a) the Effective Date, or as soon thereafter as practicable; (b) such date as may be fixed by the Bankruptcy Court, or as soon thereafter as practicable; (c) the tenth Business Day after such Claim is Allowed, or as soon thereafter as practicable; and (d) such date as the holder of such Claim and New National may agree.

Preserved Ordinary Course Administrative Claims. Each Allowed Preserved Ordinary Course Administrative Claim is to be paid by New National in accordance with either: (a) the terms and conditions under which such Claim arose; (b) in the ordinary course of New National's business; or (c) the terms and conditions of any agreement reached between New National and the holder of such Claim. Such payments are to be made by New National without further action by the holder of such Claim.

Priority Tax Claims. Any Allowed Priority Tax Claim is to be paid by New National in full in Cash on the Effective Date; *provided, however,* that New National may elect to pay such Claims through deferred Cash payments over a period not exceeding six (6) years after the date of assessment of such Claim, of a value as of the Effective Date, equal to the Allowed amount of such Claim. In that event, such payments are to be made in equal annual installments of principal, plus interest accruing from the Effective Date at the rate on the unpaid portion of the Allowed Priority Tax Claim set forth in the Sections 6621 and 6622 of the Internal Revenue Code of 1986, as amended. The first such payment is payable on the latest of: (a) the Effective Date, or as soon thereafter as practicable; (b) such date as may be fixed by the Bankruptcy Court, or as soon thereafter as practicable; (c) the tenth Business Day after such Claim is Allowed, or as soon thereafter as practicable; and (d) such date as the holder of such Claim and New National may agree; *provided, however,* that New National retains the right to prepay any such Allowed Priority Tax Claim, or any remaining balance of such Claim, in full or in part, at any time on or after the Effective Date without premium or penalty.

Claims for Professional Fees. Each Person seeking an award by the Bankruptcy Court of Professional Fees: (a) must file its final application for allowance of compensation for services rendered and reimbursement of expenses incurred through the Confirmation Date on or before the Professional Fee Bar Date; and (b) if the Bankruptcy Court grants such an award, each such Professional must be paid (i) in full in Cash by New National in such amounts as are allowed by the Bankruptcy Court as soon thereafter as practicable or (ii) in accordance with the agreement of such Professional and National. All Professional Fees for services rendered in connection with the Chapter 11 Case and the Plan after the Confirmation Date are to be paid by New National upon receipt of an invoice for such services, or on such other terms to which New National and the applicable Professional may agree, without the need for further Bankruptcy Court authorization or entry of a Final Order. New National shall have ten days after the receipt of any such invoice to notify the applicable Professional of any objection to any item contained in such Professional's invoice. If New National and any Professional cannot agree on the amount of post-Effective Date fees and expenses to be paid to such Professional within ten days after New National objects to any item contained in such invoice, such dispute shall be adjudicated by the Bankruptcy Court. In the event the Debtor or New National, as applicable, objects to any post-Confirmation Date fees and expenses payable to any Professional, the Debtor or New National, as applicable, shall pay such Professional the amount of the undisputed fees and expenses, but may withhold the disputed fees and expenses until such dispute is resolved as set forth above.

DIP Lender Claims. Simultaneously with the closing of the Exit Financing Facility, all DIP Lender Claims shall be fully and finally satisfied in accordance with the terms of the applicable DIP Financing Order. Absent the consent of Mercury, on the Effective Date, New National shall pay Mercury in Cash an amount equal to the outstanding amount owing to Mercury, other than the amounts which represent the Secured Claim of RPA which shall be treated as a Miscellaneous Secured Claim.

Classified Claims. As additionally described below, the treatment of classified Claims and the provisions governing distributions on account of Allowed Claims set forth in the Plan. You should refer to the Plan itself for the complete provisions governing the treatment of your particular Claim.

Class 1 – Priority Claims. Class 1 is unimpaired by the Plan; consequently, all holders of Allowed Claims in Class 1 are deemed to have accepted the Plan and are not entitled to vote on the Plan. Each holder of an Allowed Priority Claim shall be paid in full in Cash by New National upon the latest of: (a) the Effective Date, or as soon thereafter as practicable; (b) such date as may be fixed by the Bankruptcy Court, or as soon thereafter as practicable; (c) the tenth Business Day after such Claim is Allowed, or as soon thereafter as practicable; and (d) such date as the holder of such Claim and New National may agree.

Class 2 – Secured Tax Claims. Class 2 is unimpaired by the Plan; consequently, all holders of Allowed Claims in Class 2 are deemed to have accepted the Plan and are not entitled to vote on the Plan. Each Allowed Secured Tax Claim shall be paid in full in Cash by New National upon the latest of: (a) the Effective Date, or as soon thereafter as practicable; (b) such date as may be fixed by the Bankruptcy Court, or as soon thereafter as practicable; (c) the tenth Business Day after such Claim is Allowed, or as soon thereafter as practicable; and (d) such date as the holder of such Claim and New National may agree.

Class 3 – JFK/IAT Claims. Class 3 is unimpaired by the Plan; consequently, JFK/IAT is not entitled to vote on the Plan. In full and final satisfaction of the JFK/IAT Claims, New National shall abide by the “Stipulation and Agreed Order Regarding Assumption of that Certain Common Use Agreement as between the Debtor and JFK International Air Terminal, L.L.C.” as modified by any subsequent agreement of the Debtor and JFK/IAT, and the note issued in connection with such stipulation shall be subordinate in payment priority to the Exit Financing Facility.

Class 4 – GC Claims. Class 4 is impaired by the Plan; consequently GC is entitled to vote on the Plan. The GC Claims are all Claims of Goodrich Corporation against the Debtor. In full and final satisfaction of the GC Claims, New National shall: (i) issue to GC its Pro Rata share of the New Common Stock based on the amounts outstanding under the 10% Deferred Note B dated May 10, 2001 as of the Effective Date; (ii) extinguish the Series A Note; and (iii) issue the GC Note with a principal balance equal to the aggregate amount currently outstanding under the Series A Note. The GC Note shall bear interest at the same interest rate specified in the Series A Note, and principal payments under the GC Note shall be made monthly based on a ten-year amortization schedule. The unpaid principal balance of the GC Note, together with all accrued but unpaid interest, shall be due and payable on the fifth anniversary of the Effective Date. The GC Note shall be subordinate in payment priority to the Exit Financing Facility.

In addition, New National shall enter into a long-term maintenance contract with GC (which shall supersede all prior agreements between GC and New National with respect to the subject matter of such contract) on terms and conditions acceptable to GC and New National. Such maintenance contract shall be filed with the Bankruptcy Court as part of the Plan Supplement.

On the Effective Date, GC's Liens on the aircraft leased under the Aircraft Leases assumed by the Debtor under Section 365 of the Bankruptcy Code will automatically terminate without any further action by the Debtor or New National. GC shall release its Liens on the aircraft leased under the Aircraft Leases rejected by the Debtor under Section 365 of the Bankruptcy Code at the request of New National.

Class 5 – GECC Claims. Class 5 is impaired by the Plan; consequently GECC is entitled to vote on the Plan. In full and final satisfaction of the GECC Claims, GECC shall receive the GECC Note which shall be secured pursuant to the GECC Security Agreement. In full and final satisfaction of the GECC Claims, GECC shall receive the GECC Note which shall be secured pursuant to the GECC Security Agreement. The GECC Note shall have a principal amount equal to the amount of the Allowed Secured Claim of GECC. The GECC Note shall bear interest at the rate of 8% per annum and shall be payable in 60 equal monthly principal installments of \$[58,333.33]. The GECC Note shall be subordinate in payment priority to the Exit Financing Facility. The GECC Note shall be secured by the liens and security interests that GECC had in the Debtor's property immediately prior to the Effective Date.

In lieu of the treatment specified above, GECC at its option, may choose to receive cash in the amount of \$2,500,000 on the Effective Date or as soon thereafter as is practicable. If GECC wishes to elect this treatment, GECC shall notify the Debtor in writing no later than ten Business Days following the approval by the Bankruptcy Court of the Disclosure Statement.

Class 6 – Harrah's Claims. Class 6 is impaired by the Plan; consequently Harrah's is entitled to vote on the Plan. The Harrah's Claims consist of any Claims that Harrah's Operating Company, Inc., and any of its subsidiaries or Affiliates, may have against the Debtor.

In full and final satisfaction of the Harrah's Claims relating to the letters of credit which Harrah's caused to be issued in favor of U.S. Bank, Harrah's and New National shall enter into the Restated Harrah's LOC Agreement which shall provide that:

(a) If the principal balance of the LOC is less than \$14,000,000 on the Effective Date, Harrah's shall cause the principal amount of the LOC to be increased to \$14,000,000 on the Effective Date.

(b) Harrah's shall cause the expiration date of the LOC to be extended from the Effective Date through the eighteen-month anniversary of the Effective Date.

(c) During the term of the LOC, New National shall pay to Harrah's the Monthly LOC Fee on the first Business Day of each month.

(d) During the term of the LOC, New National shall effect the Monthly Exposure Reduction on the first Business Day of each month. New National may at any time reduce Harrah's exposure on the LOC by an amount greater than the Monthly Exposure Reduction and any such reduction in excess of the Monthly Exposure Reduction then due shall be applied to any Monthly Exposure Reductions payable for the next succeeding subsequent monthly periods.

(e) Upon the expiration of the LOC, Harrah's shall remit to National an amount equal to (i) \$1,608,727.77, if such amount has not been paid to New National in accordance with clause (f) below, plus (ii) the aggregate of the cash payments made by the Debtor or New National to Harrah's with respect to the LOC, including, without limitation, any portion of the Monthly Exposure Reductions which were cash payments, plus (iii) interest at 5% per annum from the Effective Date on the aggregate outstanding balance of cash transferred by New National to Harrah's in connection with the LOC (other than any Monthly LOC Fee), including

the \$1,608,727.77 held by Harrah's, minus (iv) the aggregate amount of draws by U.S. Bank on the LOC from the Effective Date through the expiration date of the LOC to the extent not otherwise previously reimbursed or otherwise satisfied by New National. Harrah's shall not be obligated to remit to New National any Monthly LOC Fees paid by the Debtor or New National to Harrah's in respect of the LOC.

(f) On the Effective Date, New National may choose to reduce the principal amount of the LOC by \$1,608,727.77, and upon providing notice to Harrah's of the same, Harrah's shall transfer to New National \$1,608,727.77 in immediately available funds.

In full and final satisfaction of the remainder of the Harrah's Claims not related to the letters of credit issued to U.S. Bank, New National and Harrah's shall enter into the Harrah's Ticket Program Agreement on the Effective Date which agreement shall be on terms and conditions mutually agreeable to New National and Harrah's.

Class 7 – Miscellaneous Secured Claims. Class 7 is impaired by the Plan; consequently holders of Allowed Miscellaneous Claims are entitled to vote on the Plan. Miscellaneous Secured Claims are those Claims which are secured by a lien on any property of the Debtor. On or before five Business Days following approval by the Bankruptcy Court of the Disclosure Statement, the Debtor will elect one of the following alternative treatments for each holder of an Allowed Miscellaneous Secured Claim: (a) abandon or surrender the collateral securing such Claim, (b) pay to the holder of such Claim on the Effective Date Cash in an amount equal to such Claim; (c) treat the holder of such Claim in accordance with the terms and conditions of all instruments or documents evidencing such Claim; (d) cure any default under any instrument or document evidencing such Claim; or (e) treat the holder of such Claim in accordance with the terms and conditions of any agreement entered into by the Debtor and the holder of such Claim with respect to such Claim.

Class 8 – Convenience Claims. Class 8 is impaired by the Plan; consequently holders of Allowed Convenience Claims are entitled to vote on the Plan. Convenience Claims include those Allowed General Unsecured Claims which are in an amount of \$2,500 or less or any General Unsecured Claim that is reduced to \$2,500 by election of the holder thereof on the Ballot or as otherwise provided in the Plan. Any holder of an Allowed General Unsecured Claim that voluntarily reduces the amount of its Claim in order to be treated in Class 8 shall be deemed to accept the Plan.

Under the Plan, each holder of an Allowed Convenience Claim will be paid in Cash by New National the lesser of: (a) the amount of such Allowed Claim or (b) such holder's Pro Rata share of \$500,000. Fifty percent (50%) of the amount payable to each holder of an Allowed Claim in Class 8 shall be paid by New National as soon as practicable after the Effective Date, and the remainder of such amount shall be payable on or before the nine-month anniversary of the Effective Date.

Class 9 – General Unsecured Claims. Class 9 is impaired by the Plan, consequently holders of General Unsecured Claims are entitled to vote on the Plan. General Unsecured Claims are those Claims which are not secured by any of the Debtor's property and which are not classified in any other Class. General Unsecured Claims include, without limitation, Claims which arise from the rejection of an executory contract or non-residential real property lease pursuant to Section 365 of the Bankruptcy Code.

Under the Plan, each holder of an Allowed General Unsecured Claim will receive on the Effective Date its Pro Rata share an uncertificated beneficial interest in a trust established by New National (the "Trust"). New National will contribute to the Trust shares of New Common Stock which will be based on the ratio of the Allowed amount of all General Unsecured Claims to the Allowed amount of all Claims entitled to receive New Common Stock under the Plan.

The costs and expenses of the Trust will be paid by New National in accordance with the terms and conditions of the Trust. The Trust will also be bound by a voting agreement pursuant to which the shares of New Common Stock held by the Trust will be voted in the same proportion as the shares of New Common Stock held by other parties. The Trust will distribute the New Common Stock held by it upon the earliest to occur of (i) the fifth anniversary of the Effective Date, (ii) the date on which New National becomes a reporting company under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and (iii) the date on which New National consummates a public offering of common stock which is registered under the Securities Act of 1933, as amended.

Certain actions will be taken to ensure that the Trust will not be required to register under the Exchange Act. Such actions include, without limitation, the following: (i) the beneficial interests in the Trust will be uncertificated; (ii) the beneficial interests in the Trust will be non-transferable, and (iii) the sole purpose of the Trust will be to hold the New Common Stock in trust for the General Unsecured Creditors in Class 9 and to liquidate and/or distribute the same.

Class 10 – Equity Interests and Equity Related Claims. Class 10 is impaired by the Plan and is deemed to reject the Plan. Holders of Allowed Equity Interests and Equity Related Claims shall not receive or retain any rights, property or Distributions under the Plan. As of the Effective Date, all Equity Interests shall be cancelled and terminated.

IMPLEMENTATION OF THE PLAN

Exit Financing Facility

New National intends to finance its working capital needs and certain of the amounts to be paid in accordance with the Plan through a loan facility or facilities, in an aggregate principal amount of not less than \$45,000,000 provided by a lender or lenders selected by the Debtor (the "Exit Financing Facility"). It is intended that the Exit Financing Facility will become available to New National simultaneously with the effectiveness of the Plan. A portion of the Exit Financing Facility is expected to be guaranteed by the federal government in accordance with the Air Transportation Safety and System Stabilization Act, Public Law 107-42, which authorized the federal government to guarantee certain loans to air carriers under the Air Carrier Guarantee Loan Program (the "Loan Program"). National intends to submit its application for such guarantee to the Air Transportation Stabilization Board promptly following Bankruptcy Court approval of the Disclosure Statement.

In accordance with the criteria set forth in the regulations implementing the Loan Program, the Plan contains several provisions which will increase the likelihood that the federal government will issue a guarantee to National under the Loan Program. The Plan specifies that: (i) the other indebtedness of New National under the Plan will be subordinate in payment priority to the Exit Financing Facility; (ii) the maturity date of the Exit Financing Facility will occur on or prior to the seventh anniversary of the Effective Date; (iii) the loan documentation will contain a limitation on the incurrence of indebtedness by New National for so long as the Exit Financing Facility is outstanding; (iv) the loan documentation will contain a limitation on the payment of dividends by New National and on the payments by New National to its Affiliates so long as the Exit Financing Facility is outstanding; and (v) the loan documentation will contain a restriction on future capital expenditures to be made by New National so long as the Exit Financing Facility is outstanding. It is also expected that New National will issue warrants to the federal government to purchase New Common Stock in connection with the Exit Financing Facility.

The terms and conditions of the Exit Financing Facility and the material documents related to such Facility will be approved by the Bankruptcy Court as part of the process of the confirmation of the Plan.

New Common Stock

As stated above, holders of certain Claims, and other parties will be entitled to receive New Common Stock on the Effective Date. The Amended and Restated Certificate of Incorporation of National (the "Restated Certificate") will authorize the issuance of the New Common Stock, par value \$.001 per share. The New Common Stock will have such rights with respect to dividends, liquidation, voting and other matters as are set forth in the Restated Certificate and as provided under applicable law, including without limitation, the right to one vote per share. The Restated Certificate will be filed as part of the Plan Supplement.

Preferred Stock

The Plan authorizes the issuance of Preferred Stock in connection with the Plan or to third-party investors. The Preferred Stock issued on or about the Effective Date, if any, will have the rights, preferences and privileges as authorized by the Board of Directors of New National. The Restated Certificate also sets forth the general rights of the holders of the Preferred Stock.

Equity Incentive Program

On the Effective Date, New National will issue options to Senior Management (the "Incentive Options"), and such Incentive Options will be allocated as set forth in the Plan Supplement. The Incentive Options will be seven year options to purchase up to ___% of the New Common Stock on a Fully Diluted basis. The options will be exercisable at a price equal to: (i) the per share price paid by any third party who invests in New Common Stock of New National on the Effective Date as determined by the Debtor's financial advisors; or (ii) if no such third party purchases New Common Stock, the value of such shares as determined by the Debtor's financial advisors based on the value assigned to the New Common Stock distributed to holders of Claims under the Plan. The Incentive Options will vest in the following manner: (i) ___% will vest immediately on the Effective Date and (ii) the remainder in equal portions annually over a four year period. The form of the Incentive Options will be filed with the Bankruptcy Court as part of the Plan Supplement.

The issuance of New Common Stock upon exercise of the Incentive Options will equally and ratably dilute the percentage ownership of all holders of New Common Stock. The Board of Directors of New National may adopt an equity incentive program for the employees of New National, other than the members of Senior Management, with terms and conditions determined by the Board of Directors of New National.

In addition, on the Effective Date, the Senior Management of New National will receive ___% of the New Common Stock on a Fully Diluted basis. The New Common Stock will be allocated to Senior Management as set forth in the Plan Supplement.

Directors and Officers

The existing officers of the Debtor immediately prior to the Effective Date will be deemed terminated without cause as of the Effective Date and offered employment as the officers of New National pursuant to the Executive Employment Agreements. Each officer of the Debtor who is employed by New National pursuant to an Executive Employment Agreement will waive all Claims that such Person may have against the Debtor.

The existing directors of the Debtor immediately prior to the Effective Date will be deemed removed as of the Effective Date. The Board of Directors of New National will be comprised of at least

three, but not more than eleven members. The initial Board of Directors will be comprised of the Chief Executive Officer of New National, one director designated by the Chief Executive Officer of New National, the Trustee (or one director designated by the Trustee) and up to two individuals selected by the lessors under the Aircraft Leases which are assumed by New National. Additional directors may also be appointed by the holders of any series of Preferred Stock issued by New National if authorized by the terms and conditions of such series of Preferred Stock.

The following table identifies the proposed officers and directors of New National as of the Effective Date:

[TO COME]

Executive Employment Agreements

On the Effective Date, some of the officers of New National will enter into Executive Employment Agreements. The Executive Employment Agreements will be filed as part of the Plan Supplement. Below is a summary description of the terms and conditions of the Executive Employment Agreements.

[TO COME]

Description of Other Provisions of the Plan

Disbursements of Funds. Payments of Cash required to be made under the Plan shall be made by check drawn on a domestic bank or by wire transfer from a domestic bank at the election of the Person making such payment. Whenever any payment or Distribution to be made under the Plan is due on a day other than a Business Day, such payment or Distribution may instead be made, without interest, on the immediately following Business Day.

Payments of fractions of dollars shall be made, but payments of fractions of cents shall not be made. Whenever any payment of a fraction of a cent under this Plan would otherwise be called for, the actual payment made shall reflect a rounding of such fraction to the nearest cent (up or down), with half a cent being rounded down.

Executory Contracts and Unexpired Leases; Bar Date. All executory contracts set forth on the schedule of assumed executory contracts filed with the Bankruptcy Court by separate motion filed prior to the commencement of the Confirmation Hearing, other than the Aircraft Leases, shall be deemed assumed by New National, as of the Effective Date, except for any executory contract: (i) that has been rejected pursuant to an order of the Bankruptcy Court entered prior to the Effective Date or (ii) as to which a motion for approval of the rejection of such executory contract, if applicable, has been filed with the Bankruptcy Court prior to the Effective Date.

All unexpired leases set forth on the schedule of assumed unexpired leases filed with the Bankruptcy Court by separate motion filed prior to the commencement of the Confirmation Hearing shall be deemed assumed by New National, as of the Effective Date, except for any unexpired lease: (i) that has been rejected pursuant to an order of the Bankruptcy Court entered prior to the Effective Date; or (ii) as to which a motion for approval of the rejection of such unexpired lease, if applicable, has been filed with the Bankruptcy Court prior to the Effective Date.

All executory contracts and unexpired leases not specified on the schedule of assumed executory contracts and unexpired leases filed with the Bankruptcy Court by separate motion prior to the Effective Date shall be deemed rejected as of the Effective Date, except for any executory contract or unexpired

lease: (a) that has been assumed pursuant to a Final Order entered on or before the Effective Date, or (b) that is the subject of a pending motion to assume or an order relating to assumption that has not yet become a Final Order as of the Effective Date.

Entry of the Confirmation Order shall constitute: (i) the approval, pursuant to Section 365(a) of the Bankruptcy Code, of the assumption of the executory contracts and unexpired leases assumed pursuant to the Plan or otherwise during the Chapter 11 Case; and (ii) the approval, pursuant to Section 365(a) of the Bankruptcy Code, of the rejection of the executory contracts and unexpired leases rejected pursuant to the Plan or otherwise during the Chapter 11 Case. Notwithstanding anything contained herein to the contrary, the Debtor shall have the right to add or delete any executory contract or unexpired lease that is initially an assumed executory contract or an assumed unexpired lease on the schedules filed with the Bankruptcy Court by separate motion on or before the Effective Date.

On the Effective Date or as soon thereafter as is practicable, New National, shall Cure any defaults under any executory contract or unexpired lease assumed pursuant to this Plan in accordance with Section 365(b)(1) of the Bankruptcy Code.

Executory contracts and unexpired leases entered into and other obligations incurred after the Petition Date by the Debtor shall be performed by the Debtor or New National, as applicable, in the ordinary course of their business.

All proofs of Claim with respect to Claims arising from the rejection of any executory contract or unexpired lease shall be filed with the Bankruptcy Court no later than 30 days after the Effective Date. Any such Claim not so filed by that date shall be forever barred.

Indemnification Obligations. Any obligations of the Debtor to indemnify any Person serving as a fiduciary of any employee benefit plan or employee benefit program of the Debtor, under charter, by-laws, contract, or applicable state law shall be deemed to be, and shall be treated as, an executory contract and assumed by New National on the Confirmation Date. Any obligation of the Debtor to indemnify, reimburse, or limit the liability of any Person, including but not limited to any officer or director of the Debtor, or any agent, professional, financial advisor, or underwriter of any securities issued by the Debtor, relating to any acts or omissions occurring before the Petition Date, whether arising pursuant to charter, by-laws, contract or applicable state law, shall be deemed to be, and shall be treated as, an executory contract and shall be deemed to be assumed by New National on the Confirmation Date. In addition, nothing contained in the Plan impacts, impairs or prejudices the rights of any Person covered by any applicable D&O Policy with respect to such policy or policies. Moreover, New National shall maintain in force for a period of 2 years following the Effective Date appropriate D&O Policies covering pre-Effective Date directors and officers of the Debtor and containing substantially the same provisions and limits of coverage as the policies that were in force on the Petition Date.

Injunction. Except as provided in the Plan or the Confirmation Order, as of the Confirmation Date, all entities that have held, currently hold or may hold a Claim or other debt or liability that is discharged or an Equity Interest, Equity Related Claim, or other right of an equity security holder that is terminated under the Plan are permanently enjoined from taking any of the following actions on account of any such discharged Claims, debts, liabilities, or terminated Equity Interests or rights: (a) commencing or continuing in any manner any action or other proceeding against the Debtor, the Trust or New National (including any officer or director acting as a representative of the Debtor or New National) or any of their respective Professionals to the extent that such action or proceeding arises from any act or omission of such party in connection with, relating to, or arising out of the Chapter 11 Case, the negotiation and pursuit of Confirmation of the Plan or the consummation of the Plan except for such party's acts or omissions constituting gross negligence or willful misconduct as finally determined by a court of

competent jurisdiction; (b) enforcing, attaching, collecting or recovering in any manner any judgment, award, decree, or order against the Debtor, the Trust, New National, or their respective property; (c) creating, perfecting, or enforcing any lien or encumbrance against the Debtor, the Trust, New National, or their respective property; (d) asserting a setoff, right of subrogation or recoupment of any kind against any debt, liability, or obligation due to the Debtor, the Trust, New National, or their respective property; and (e) commencing or continuing any action, in any manner, in any place, that does not comply with or is inconsistent with the provisions of the Plan or the Bankruptcy Code.

Exculpation. None of the Debtor, New National, the Trust, the Trustee, the Committee, or any of their respective members, officers, directors, employees or Professionals have or may incur any liability to any holder of a Claim or Equity Interest, including the holder of any Equity Related Claim, or any other party in interest, or any of their respective members or former members, agents, employees, representatives, financial advisors, attorneys or affiliates, or any of their successors or assigns, for any act or omission in connection with, relating to or arising out of the Chapter 11 Case, the negotiation and pursuit of confirmation of the Plan, the consummation of the Plan or the administration of the Plan (the "Chapter 11 Activities") *except for* their acts or omissions constituting willful misconduct or gross negligence, as finally determined by a court of competent jurisdiction, and in all respects are entitled to reasonably rely upon the advice of counsel with respect to their duties and responsibilities in connection with the Chapter 11 Activities. No holder of a Claim, Equity Interest or Equity Related Claim or any other party in interest, including their respective agents, employees, representatives, financial advisors, attorneys or affiliates, have any right of action against the Debtor, the Trust, the Trustee, the Committee or New National or any of their respective officers, directors, employees or Professionals for any act or omission in connection with the Chapter 11 Activities, *except for* their acts or omissions constituting willful misconduct or gross negligence as finally determined by a court of competent jurisdiction. As of the Effective Date, the Debtor shall be deemed to have released its current and prior directors and officers from any claims or causes of action the Debtor may have against such parties, unless such claims or causes of action arise out of acts or omissions by such parties constituting willful misconduct or gross negligence. Nothing set forth above shall preclude or otherwise impair the rights of the SEC to administer and enforce the United States federal securities laws.

Conditions to Confirmation and Effective Date.

Conditions To Confirmation. The following are conditions precedent to confirmation of the Plan:

- The Bankruptcy Court shall have entered Final Order approving this Disclosure Statement;
- The Confirmation Order has been entered in form and substance reasonably acceptable to the Debtor; and
- The Confirmation Order:
 - contains only provisions that are nonseverable and mutually dependent;
 - provides that all executory contracts or unexpired leases assumed by New National during the Chapter 11 Case or under this Plan shall remain in full force and effect for the benefit of New National notwithstanding any provision in such contract or lease (including those described in Sections 365(b)(2) and (f) of the Bankruptcy Code) that prohibits such assignment or transfer or that enables, permits or requires termination of such contract or lease;

- except as expressly provided in this Plan, discharges the Debtor as of the Confirmation Date from all Claims and any "debt" (as that term is defined in Section 101(12) of the Bankruptcy Code) that arose on or before the Confirmation Date, and the Debtor's liability in respect of such Claims and debts shall be extinguished completely, whether reduced to judgment or not, liquidated or unliquidated, contingent or noncontingent, asserted or unasserted, fixed or unfixed, matured or unmatured, disputed or undisputed, legal or equitable, or known or unknown, or that arose from any agreement of the Debtor that has either been assumed or rejected in the Chapter 11 Case or under this Plan, or obligation of the Debtor incurred before the Confirmation Date, or from the Debtor's conduct before the Confirmation Date, or that otherwise arose before the Confirmation Date including, without limitation, all interest, if any, on any such debts, whether such interest accrued before or after the Petition Date;
- does not provide for the liquidation of all or substantially all of the Debtor's property and Confirmation must not likely be followed by the liquidation of New National or the need for further financial reorganizations; and,
- approves the Trust Agreement and specifically appoints the Trustee in accordance with the Plan.

Conditions To Effectiveness. The following are conditions precedent to the occurrence of the Effective Date:

- The Confirmation Date has occurred;
- The Confirmation Order is a Final Order, except that the Debtor reserves the right to cause the Effective Date to occur notwithstanding the pendency of an appeal of the Confirmation Order, under circumstances that would moot such appeal;
- No request for revocation of the Confirmation Order under Section 1144 of the Bankruptcy Code has been made, or, if made, remains pending;
- The Bankruptcy Court in the Confirmation Order has approved the retention of jurisdiction provisions set forth in the Plan;
- All documents necessary to implement the transactions contemplated by this Plan are made in form and substance reasonably acceptable to the Debtor and the Committee;
- New National retains sufficient Cash on the Effective Date to make required Distributions in accordance with the Plan to holders of Allowed Claims on the Effective Date;
- New National shall have entered into the Executive Employment Agreements;
- New National receives all regulatory approvals including, if applicable, Federal Aviation Administration approval and Department of Transportation approval, which have become final and nonappealable or any period of objection by regulatory authorities has expired, as applicable, and all other material approvals, permits, authorization, consents, licenses, and agreements from other third parties necessary or appropriate to permit the transactions contemplated by the Plan and any related

agreements and to permit New National to carry on its business after the Effective Date in a manner consistent in all material respects with the manner in which it was carried on before the Effective Date (collectively, the "Approvals"). The Approvals must not contain any condition or restriction that materially impairs New National's ability to carry on its business in a manner consistent in all respects with the manner as proposed to be carried on by New National under the Plan;

- New National has obtained Bankruptcy Court approval for the Exit Financing Facility and received authorization under the documents executed in connection with the Exit Financing Facility to borrow funds under the Exit Financing Facility;
- The Bankruptcy Court has approved the appointment of the Trustee; and
- Any Allowed Aircraft Lease Rejection Claim shall have been resolved on terms acceptable to the Debtor in its sole and absolute discretion.

Waiver Of Conditions. Certain of the conditions to Confirmation and the Effective Date, as specified in the Plan, may be waived in whole or in part by the Debtor at any time without notice, an order of the Bankruptcy Court, or any further action other than proceeding to Confirmation and consummation of the Plan.

Retention of Jurisdiction. Notwithstanding the entry of the Confirmation Order and the occurrence of the Effective Date, the Bankruptcy Court retains such jurisdiction over the Chapter 11 Case after the Effective Date as is legally permissible. As specified further in the Plan, the Bankruptcy Court shall retain jurisdiction to:

- Allow, disallow, determine, liquidate, classify, estimate, or establish the priority or secured or unsecured status of any Claim, including the resolution of any request for payment of any Administrative Claim and the resolution of any and all objections to the allowance or priority of Claims;
- Resolve any matters related to the assumption, assumption and assignment, or rejection of any executory contract or unexpired lease to which the Debtor are parties and to hear, determine and, if necessary, liquidate, any Claims arising from, or cure amounts related to, such assumption or rejection;
- Decide or resolve any motions, adversary proceedings, contested or litigated matters, and any other matters and grant or deny any applications or motions involving the Debtor that may be pending on the Effective Date;
- Enter such orders as may be necessary or appropriate to implement or consummate the provisions of the Plan and all contracts, instruments, releases, and other agreements or documents created in connection with the Plan or the Disclosure Statement, except as otherwise provided in the Plan;
- Resolve any cases, controversies, suits or disputes that may arise in connection with the consummation, interpretation or enforcement of the Plan or any Person's obligations incurred in connection with the Plan;
- Modify the Plan before or after the Effective Date under Section 1127 of the Bankruptcy Code or modify the Disclosure Statement or any contract, instrument, release, or other

agreement or document created in connection with the Plan or the Disclosure Statement; or remedy any defect or omission or reconcile any inconsistency in any Bankruptcy Court order, the Plan, the Disclosure Statement, or any contract, instrument, release, or other agreement or document created in connection with the Plan or the Disclosure Statement, in such manner as may be necessary or appropriate to consummate the Plan, to the extent authorized by the Bankruptcy Code; and

- Resolve any disputes between New National and any governmental entity regarding any taxes assessed against the Debtor or against New National in connection with the Plan.

Amendment of the Plan; Modification of Plan Supplement. At any time before the Confirmation Date, the Debtor may alter, amend, or modify the Plan under Section 1127(a) of the Bankruptcy Code *provided* that such alteration, amendment, or modification does not materially and adversely affect the treatment and rights of holders of Claims under the Plan. After the Confirmation Date and before substantial consummation of the Plan as defined in Section 1101(2) of the Bankruptcy Code, the Debtor may, under Section 1127(b) of the Bankruptcy Code, institute proceedings in the Bankruptcy Court to remedy any defect or omission or reconcile any inconsistencies in the Plan, the Disclosure Statement, or the Confirmation Order, and such matters as may be necessary to carry out the purposes and effects of the Plan so long as such proceedings do not materially and adversely affect the treatment of holders of Claims under the Plan; *provided, however*, that prior notice of such proceedings shall be served in accordance with the Bankruptcy Rules or applicable order of the Bankruptcy Court. The forms of the documents set forth in the Plan Supplement shall be substantially similar, in form and substance, to the final, execution copies of such documents, and the parties thereto may make any modifications thereto which do not affect the material terms of such documents without Bankruptcy Court approval.

Revocation or Withdrawal of the Plan. The Debtor reserves the right to revoke or withdraw this Plan at any time before the Confirmation Date. If the Plan is withdrawn or revoked, then the Plan shall be deemed null and void and nothing contained in the Plan shall be deemed a waiver of any Claims by or against the Debtor or any other Person in any further proceedings involving the Debtor or an admission of any sort, and this Plan and any transaction contemplated by this Plan shall not be admitted into evidence in any proceeding.

ACCEPTANCE AND CONFIRMATION OF THE PLAN

The following is a brief summary of the provisions of the Bankruptcy Code relevant to acceptance and confirmation of a plan of reorganization. Holders of Claims and Equity Interests are encouraged to review the relevant provisions of the Bankruptcy Code with their own attorneys.

Acceptance of the Plan

This Disclosure Statement is provided in connection with the solicitation of acceptances of the Plan. The Bankruptcy Code defines acceptance of a plan of reorganization by a Class of Claims as acceptance by holders of at least two-thirds in dollar amount, and more than one-half in number, of the Allowed Claims of that Class that have actually voted or are deemed to have voted to accept or reject a plan. The Bankruptcy Code defines acceptance of a plan of reorganization by a Class of interests as acceptance by at least two-thirds in amount of the allowed interests of that Class that have actually voted or are deemed to have voted to accept or reject a plan.

If one or more impaired Classes rejects the Plan, the Debtor may, in its discretion, nevertheless seek confirmation of the Plan if the Debtor believes that the requirements of Section 1129(b) of the

Bankruptcy Code for Confirmation of the Plan (which are summarized below) will be met, despite the lack of acceptance by all Impaired Classes.

Confirmation

Confirmation Hearing. Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a hearing on confirmation of a plan. Notice of the Confirmation Hearing regarding the Plan has been provided to all known holders of Claims and Equity Interests or their respective representatives along with this Disclosure Statement. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for an announcement of the adjourned date made at the Confirmation Hearing or any subsequent adjourned Confirmation Hearing.

Section 1128(b) of the Bankruptcy Code provides that any party in interest may object to confirmation of a plan. Any objection to Confirmation of the Plan must be in writing, must conform with the Bankruptcy Rules and the Local Rules of the Bankruptcy Court, must set forth the name of the objecting party, the nature and amount of Claims or Equity Interests held or asserted by that party against the Debtor's Estates or property, and the specific basis for the objection. Such objection must be filed with the Bankruptcy Court, with a copy forwarded directly to the chambers of the Honorable Linda B. Riegle, together with a proof of service, and served on all parties and by the date set forth on the notice of the Confirmation Hearing.

Statutory Requirements for Confirmation of the Plan. At the Confirmation Hearing, the Debtor will request that the Bankruptcy Court determine that the Plan satisfies the requirements of Section 1129 of the Bankruptcy Code. If the Bankruptcy Court so determines, the Bankruptcy Court will enter an order confirming the Plan. The applicable requirements of Section 1129 of the Bankruptcy Code are as follows:

- The Plan must comply with the applicable provisions of the Bankruptcy Code;
- The Debtor must have complied with the applicable provisions of the Bankruptcy Code;
- The Plan must have been proposed in good faith and not by any means forbidden by law;
- Any payment made or promised to be made by the Debtor under the Plan for services or for costs and expenses in, or in connection with, the Chapter 11 Case, or in connection with the Plan, must have been disclosed to the Bankruptcy Court, and any such payment made before Confirmation of the Plan must be reasonable, or if such payment is to be fixed after Confirmation of the Plan, such payment must be subject to the approval of the Bankruptcy Court as reasonable;
- The Debtor must have disclosed the identity and affiliates of any individual proposed to serve, after Confirmation of the Plan, as a director, officer, or voting trustee of New National under the Plan. Moreover, the appointment to, or continuance in, such office of such individual, must be consistent with the interests of holders of Claims and Equity Interests and with public policy, and the Debtor must have disclosed the identity of any insider that New National will employ or retain, and the nature of any compensation for such insider;

- **Best Interests of Creditors Test:** With respect to each Class of Impaired Claims or Equity Interests, either each holder of a Claim or Equity Interest of such Class must have accepted the Plan, or must receive or retain under the Plan on account of such Claim or Equity Interest, property of a value, as of the Effective Date of the Plan, that is not less than the amount that such holder would receive or retain if the Debtor was liquidated on such date under Chapter 7 of the Bankruptcy Code. In a Chapter 7 liquidation, creditors and interest holders of a debtor are paid from available assets generally in the following order, with no lower Class receiving any payments until all amounts due to senior Classes have either been paid in full or payment in full is provided for: (i) first to secured creditors (to the extent of the value of their collateral), (ii) next to priority creditors, (iii) next to unsecured creditors, (iv) next to debt expressly subordinated by its terms or by order of the Bankruptcy Court, and (v) last to holders of Equity Interests. Attached as Exhibit 3 to this Disclosure Statement is a liquidation analysis prepared by the Debtor, which indicates that, in light of the foregoing priority scheme, if the Chapter 11 Case was converted to a Chapter 7 liquidation, holders of Allowed Claims and Equity Interests would receive less than they will receive under the Plan;
- Each Class of Claims or Equity Interests must have either accepted the Plan or not be Impaired under the Plan;
- Except to the extent that the holder of a particular Claim has agreed to a different treatment of such Claim, the Plan provides that Allowed Administrative and Priority Claims (other than Allowed Priority Tax Claims) will be paid in full on the Effective Date and that Allowed Priority Tax Claims will receive on account of such Claims deferred Cash payment, over a period not exceeding six years after the date of assessment of such Claim, of a value, as of the Effective Date, equal to the Allowed amount of such Claim;
- At least one impaired Class of Claim must have accepted the Plan, determined without including any acceptance of the Plan by any insider holding a Claim of such Class; and
- **Feasibility:** Confirmation of the Plan must not be likely followed by the liquidation, or the need for further financial reorganization of the Debtor or any successor to the Debtor under the Plan unless specifically provided for under the Plan. Attached as Exhibit 4 to this Disclosure Statement are projections for approximately five years following Confirmation and a *pro forma* balance sheet as of the Effective Date that demonstrates that, given estimated expenses and income, and taking into account cash reserves, New National will be able to satisfy its obligations under the Plan, as well as its obligations arising in connection with its ongoing business operations.

Confirmation Without Acceptance by All Impaired Classes. Section 1129(b) of the Bankruptcy Code allows a Bankruptcy Court to confirm a plan, even if such plan has not been accepted by all impaired Classes entitled to vote on such plan, provided that such plan has been accepted by at least one impaired Class. If any impaired Classes reject or are deemed to have rejected the Plan, the Debtor reserves their right to seek the application of the requirements set forth in Section 1129(b) of the Bankruptcy Code for Confirmation of the Plan despite the lack of acceptance by all impaired Classes.

Section 1129(b) of the Bankruptcy Code provides that notwithstanding the failure of an impaired Class to accept a plan or reorganization, the plan must be confirmed, on request of the plan proponent, in a procedure commonly known as "cramdown," so long as the plan does not "discriminate unfairly" and is "fair and equitable" with respect to each Class of impaired Claims or Interests that has not accepted the plan.

The condition that a plan be "fair and equitable" with respect to a rejecting Class of secured Claims includes the requirements that (a) the holders of such secured Claims retain the liens securing such Claims to the extent of the allowed amount of the Claims, whether the property subject to the liens is retained by the debtor or transferred to another entity under the plan, and (b) each holder of a secured Claim in the Class receives deferred cash payments totaling at least the allowed amount of such Claim with a present value, as of the effective date of the plan, at least equivalent to the value of the secured claimant's interest in the Debtor's property subject to the liens.

The condition that a plan be "fair and equitable" with respect to a rejecting Class of unsecured Claims includes the requirement that either (a) such Class receive or retain under the plan property of a value as of the effective date of the plan equal to the allowed amount of such Claim or (b) if the Class does not receive such amount, no Class junior to the non-accepting Class will receive a distribution under the plan.

The condition that a plan be "fair and equitable" with respect to a rejecting Class of Equity Interests includes the requirements that either (a) the plan provides that each holder of an Equity Interest in such Class receive or retain under the plan, on account of such Equity Interest, property of a value, as of the effective date of the plan, equal to the greater of (i) the allowed amount of any fixed liquidation preference to which such holder is entitled, (ii) any fixed redemption price to which such holder is entitled, or (iii) the value of such Equity Interest, or (b) if the Class does not receive such amount, no Class of Equity Interests junior to the rejecting Class will receive a distribution under the plan.

VALUATION AND FEASIBILITY

Section 1129(a)(11) of the Bankruptcy Code requires that, in order for the Court to confirm a plan of reorganization, the Court must determine that the plan is feasible – that is, that confirmation of the plan is not likely to be followed by liquidation or by the need for further financial structuring, unless such is specifically provided for in the plan. For purposes of determining whether the Plan meets this requirement, the Debtor and its financial advisors have analyzed New National's future prospects and its ability to meet its obligations under the Plan.

Included as part of Exhibit 4 to this Disclosure Statement are: (a) a projected balance sheet as of the Effective Date of the Plan (assumed to be _____, 2002) (Exhibit 4-A); (b) a valuation analysis (Exhibit 4-B); and (c) a projected cash flow and EBITDA statement (Exhibit 4-C). These projections were prepared by National and include projections of the expected results of operations of New National.

Based on the projected results of operations, cash flows, and income, National believes that the Plan complies with the financial feasibility standards for confirmation of the Plan set forth in Section 1129(a)(11) of the Bankruptcy Code. National believes that the assumptions set forth in the various projections are reasonable, that the projections are attainable by New National on an operational basis, and that New National will have sufficient funds available to meet its obligations under the Plan.

THE PROJECTIONS AND ANALYSES CONTAINED IN THIS DISCLOSURE STATEMENT SHOULD NOT BE REGARDED AS A REPRESENTATION OR WARRANTY BY NATIONAL, NEW NATIONAL, OR ANY OTHER PERSON, INCLUDING ANY PROFESSIONAL EMPLOYED BY, OR ANY OFFICERS, DIRECTORS, EMPLOYEES, OR OTHER REPRESENTATIVES OF, SUCH PARTIES, THAT ANY PROJECTED RESULTS OF OPERATIONS OR RECOVERIES WILL BE REALIZED. ACTUAL RESULTS ACHIEVED BY NEW NATIONAL MAY VARY MATERIALLY FROM THE PROJECTED RESULTS. HOLDERS OF CLAIMS AND EQUITY INTERESTS MUST MAKE THEIR OWN DETERMINATION AS TO THE REASONABLENESS OF THE ASSUMPTIONS UNDERLYING THE PROJECTIONS IN REACHING THEIR DECISIONS TO ACCEPT OR REJECT THE PLAN.

Key Assumptions Underlying the Projections

The projections set forth in Exhibit 4 to this Disclosure Statement assume: (a) an Effective Date of the Plan of _____, 2001; (b) the Exit Financing Facility will have been obtained; and (c) from and after the Effective Date, New National will operate its businesses in substantially the same manner as immediately before the Effective Date and as further described in this Disclosure Statement. Any other assumptions underlying particular projections are set forth in Exhibit 4 to this Disclosure Statement.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

[TO COME]

RISK FACTORS

The restructuring of National involves a degree of risk, and this Disclosure Statement and certain of its Exhibits contain forward-looking statements that involve risks and uncertainty. New National's actual results could differ materially from those anticipated in such forward-looking statements as a result of a variety of factors, including those set forth in the following risk factors and elsewhere in this Disclosure Statement. **HOLDERS OF CLAIMS AND EQUITY INTERESTS SHOULD CONSIDER CAREFULLY THE FOLLOWING FACTORS, IN ADDITION TO THE OTHER INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT, BEFORE SUBMITTING A VOTE TO ACCEPT OR REJECT THE PLAN.**

New National Will Remain Highly Leveraged and Will Have Significant Financing Needs.

Although New National will have less debt as a result of the restructuring contemplated by the Plan, New National will remain highly leveraged after the contemplated restructuring. New National's contemplated restructuring involves entering into multiple exit financing arrangements, including, without limitation, the Exit Financing Facility, term loans owing to JFK/IAT, GC and GECC and a letter of credit arrangement with Harrah's and U.S. Bank. New National will have to continue to make very substantial monthly lease payments with respect to its fleet of aircraft and other equipment used in its business operations. Consequently, New National will use a portion of its revenue to service both its short term and long term debt obligations, and, accordingly, may be less able than some or all of its competitors to withstand a prolonged recession in the airline industry or respond as flexibly to changing economic and competitive conditions.

New National believes that it must acquire additional aircraft and additional equipment and parts for its operating fleet in order to grow its business and to generate sufficient revenue to become profitable. Although New National intends to purchase and/or lease additional aircraft and equipment through its exit financing arrangements, such financing arrangements may not be sufficient to meet New National's capital needs. Additional debt or equity financing may be needed and such financing may not be available to New National at all or on terms acceptable to New National.

National Has Incurred Substantial Losses and New National May Never Achieve Profitability.

National has incurred substantial losses since its inception. National has experienced significant losses and negative cash flows from operations for the years ended 2000 and 1999 which have resulted in a deficiency in working capital of approximately \$9.6 million and \$22.7 million, respectively, and an accumulated deficit of approximately \$36.8 million as of December 31, 2000. For the partial year ended September 30, 2001, National recognized approximate revenue and expenses of \$219 million and \$245.8 million, respectively, resulting in a net loss of approximately \$26.8 million.

Although New National believes that it will improve its operating results as a result of the restructuring transactions contemplated by the Plan, New National will likely continue to incur operating losses in the near and short term future. New National's ability to achieve and sustain profitability will be dependent upon a myriad of factors, including, without limitation, its ability to execute its business plan, its ability to respond to competitive and industry conditions, the demand for domestic airline services, the general state of the domestic and international economy, and the short term and long term impact of the events of September 11, 2001. Given the number of factors impacting New National's ability to achieve and sustain profitability, New National cannot predict or provide any assurances that it will achieve or sustain profitability on a quarterly or annual basis in the future.

New National Will Likely Incur Significant Costs With Respect to Aircraft Fuel.

Fuel costs constituted a large portion of National's operating expenses prior to the restructuring transactions contemplated by the Plan. For the fiscal year ended 2000 and the nine-month period ended September 30, 2001, fuel costs constituted approximately 20.9% and 19.2% of total operating expenses, respectively. Fuel prices and supplies are influenced significantly by international political and economic conditions. New National hopes to enter into petroleum swap contracts, petroleum call option contracts and/or jet fuel purchase commitments to provide some short-term protection against sharp increases in fuel prices. New National's hedging strategy could result in New National not fully realizing the benefits of a decline in fuel prices. Alternatively, if a fuel shortage arises from OPEC production curtailments, a disruption of oil imports or otherwise, higher fuel prices would likely result. A significant and/or unanticipated increase in fuel prices could have a material adverse effect on the business operations and financial condition of New National.

New National is Highly Dependent Upon Key Personnel and May Incur Significant Labor and Related Costs in Attracting and Retaining Key Personnel.

Labor and related costs constituted a large portion of National's operating expenses prior to the restructuring contemplated by the Plan. For the fiscal year ended 2000 and the nine-month period ended September 30, 2001, labor and related costs constituted approximately 14.5% and 15.6% of total operating expenses, respectively. Unlike many other airlines, none of National's employees are unionized. Although New National believes there are many advantages to having a non-unionized workforce, New National will have to compete with its competitors that have a unionized workforce to attract and retain pilots, flight attendants and other key personnel. New National may not be able to offer to its employees and key personnel salaries and benefits that are as lucrative as other airlines' salary and

benefits packages. New National's labor costs may increase compared to historical levels in order to remain competitive with other airlines in attracting and retaining key personnel. New National's failure to attract additional key personnel or to retain the services of key personnel could have a material adverse effect on the business operations and financial condition of New National.

New National Will Compete in the Domestic Airline Industry, Which is Highly Competitive.

The domestic airline industry is highly competitive and susceptible to price discounting. Carriers have used discount fares to stimulate traffic during periods of low demand to generate cash flow and to increase market share. Many of National's competitors have substantially greater financial resources and/or lower cost structures. Airline profits levels are highly sensitive to changes in fuel costs, fare levels and passenger demand. Passenger demand and fare levels have historically been influenced by, among other things, the general state of the economy, international events, airline capacity and pricing actions taken by carriers. Larger airlines with greater financial resources may be able to offer more competitive pricing than New National and may be able to absorb financial losses in periods of low demand for airline services such as the current market for domestic airfare as a result of the events of September 11, 2001. If New National fails to stay competitive, it will likely have a material adverse effect on the market share, business operations and financial condition of New National.

The September 11, 2001 Terrorist Attacks Have Had a Material Adverse Effect on the Business Operations and Financial Condition of Domestic Airlines, including National.

The September 11, 2001 terrorist attacks have had a profound impact on the operations of all domestic airlines, including National. Among the effects experienced by National resulting from the September 11, 2001 terrorist attacks have been significant flight disruptions, costs caused by the Federal Aviation Administration's grounding of the domestic airline industry's fleet, significantly increased security, regulatory and compliance costs, significantly higher ticket refunds, significantly reduced load factors, and significantly reduced yields. The terrorist attacks also have resulted in increased insurance premiums for aviation insurance and a significant reduction in the amount of insurance coverage offered by such policies. Further terrorist attacks involving commercial aircraft could result in the grounding of National or New National's fleet, and would likely result in additional reductions in load factor and yields, along with increased ticket refunds, security, insurance and other costs. Domestic and international events, responses and reactions to the recent and/or future terrorist attacks may also have a material adverse effect on the business operations and financial condition of New National.

At this point, due in part to the lack of predictability of future passenger traffic, business mix and yields, National is unable to fully estimate the impact on it of the events of September 11, 2001. However, given the magnitude of these unprecedented events and the possible subsequent effects, National expects that the adverse impact to National's financial condition, its operations and prospects will be highly material to National and New National.

The Domestic Airline Industry Is Highly Regulated And Will Likely Face Additional Regulatory Costs Resulting From Regulations Implemented In Response To The September 11, 2001 Terrorist Attacks.

Domestic airlines are subject to extensive regulatory and legal compliance requirements that engender significant costs. In the last several years, the FAA has issued a number of directives and other regulations relating to the maintenance and operation of aircraft that have required significant expenditures. These requirements, include, among other things, retirement of older aircraft, security measures, collision avoidance systems, airborne windshear avoidance systems, noise abatement, commuter aircraft safety and increased inspections and maintenance procedures to be conducted on older

aircraft. Additional laws, regulations and taxes and airport rates and charges have been proposed by Congress, the FAA and other governmental agencies from time to time that could significantly increase the cost of airline operations or reduce revenues. For example, "passenger bill of rights" legislation has been introduced in Congress that would, among other things, require the payment of compensation to passengers as a result of certain delays, and limit the ability of carriers to prohibit or restrict usage of certain tickets in manners currently prohibited or restricted.

As a result of the September 11, 2001 terrorist attacks, Congress and the FAA are likely to pass new laws and regulations dealing with airline security and safety. Although Congress and/or the FAA have provided some economic relief to domestic airlines through the Act, New National expects that its compliance and regulatory costs will increase substantially as compared to compliance and regulatory costs prior to September 11, 2001. Any increase in such costs will likely have a material adverse effect on the business operations and financial condition of New National.

There are Uncertainties Regarding the Market for National's Services

In formulating and executing National's business plan to this point, National has relied principally on the judgment of its management and available market information published by third parties, including the Department of Transportation and the Las Vegas Visitor and Convention Bureau. No material external market studies have been conducted concerning the demand for the services offered by National on any particular route that National currently operates, plans to operate or is considering. While National's management has extensive operating experience in commercial aviation, National itself has limited operating experience and no basis other than management's experience and the information obtained in its brief operating history, on which to project the volume of traffic and the amount of revenues its operations will generate or the operating and other expenses to be incurred.

National Currently Relies Heavily on the Las Vegas Market

National currently relies heavily on passenger traffic terminating or originating in Las Vegas. While National intends to reduce this reliance through expansion of service and marketing efforts to make Las Vegas an effective hub operation for through and connecting traffic, there can be no assurance that National can reduce reliance on Las Vegas terminating and originating traffic quickly or at all. National is exposed to risks that could cause a reduction of travel to Las Vegas, including without limitation economic recession and the expansion of gaming outside of Nevada.

National Operates a Limited Number of Aircraft

National currently operates a fleet of 15 Boeing 757 aircraft. There is a risk that any interruption of service as a result of maintenance requirements or the loss of aircraft could materially and adversely affect National's service and reputation. The limited number of aircraft and routes that National currently operates increases certain financial risks over those of larger carriers, as each of National's flights and each of aircraft is a greater percentage of National's total flights and total aircraft than for larger carriers. The removal from service of one of National's aircraft could have a proportionately greater economic impact on National as compared to a carrier with a larger fleet of aircraft.

National may be Denied Airport and Gate Access

Any condition which would deny, limit or delay National's access to the airports where it intends to expand service, or which diminishes the desire or ability of potential customers to travel between any of National's destinations, may have a material adverse effect on National's business.

National may be Exposed to Liability Resulting from Aircraft Accidents and Terrorist Attacks

National is exposed to potential catastrophic losses in the event of aircraft accidents or terrorist incidents. Consistent with industry standards, National maintains vigorous safety, training and maintenance programs, as well as insurance against such losses. However, any aircraft accident, even if fully insured, could cause a negative public perception of National with adverse financial consequences.

All or a Portion of National Workforce may become Unionized , which may have a Material Adverse Effect on National

There is pervasive involvement of labor unions in the airline industry. These organizations have, and National expects them to continue, to engage in organizing efforts with National's employees. National intends to vigorously contest union representation. However, there can be no assurance that National will be able to effectively avoid a union campaign or union representation of one or more of our employee groups.

In late June 2000, the International Association of Machinists and Aerospace Workers (IAM) filed an Application for Investigation of Representation Dispute with the National Mediation Board seeking to be recognized as the collective bargaining representative for National's fleet service personnel in Las Vegas. An election was conducted by the National Mediation Board, and National Airlines fleet service workers voted against union representation. In October 2001, National received notice from the National Mediation Board that the IAM has again filed an Application for Investigation of Representation Dispute. An election will be held in December 2001.

Also, the International Brotherhood of Teamsters also has filed an Application for Investigation of Representation Dispute with the National Mediation Board seeking to be recognized as the collective bargaining representative for National's maintenance and related personnel. An election was held in January 2001 and National maintenance and related personnel voted against union representation. Under the Railway Labor Act, a union may again seek to represent this bargaining unit in January 2002.

Other than the IAM's present campaign to represent National's fleet service workers, National cannot predict which, if any, other employee groups may seek union representation, the outcome any election or the terms of any future collective bargaining agreement. Therefore the effect, if any, on National's financial condition and results of operations from any organizational effort are not known. If a group of employees effectively organizes and negotiations with unions over collective bargaining agreements prove to be unsuccessful, following specified "cooling off" periods, the unions may initiate a work action, including a strike, which could have a material adverse effect on National's financial condition and results of operations.

There is No Public Market for the New Common Stock and Other Securities that will be Issued pursuant to the Plan

The shares of New Common Stock that will be issued pursuant to the Plan as well as the uncertificated beneficial interests in the Trust are exempt from state and federal securities laws pursuant to Section 1145 of the Bankruptcy Code. New National also may issue other securities such as the Preferred Stock, Warrants, and the Incentive Options in connection with the Plan. The issuance of these securities will not be exempt from the federal and state registration requirements and New National plans to issue these securities pursuant to available federal and state securities law exemptions. These unregistered securities, however, will be subject to substantial restrictions on transfer. Holders of such securities may transfer these securities only under available exemptions from federal and state securities laws. Notwithstanding the ability to transfer any securities of New National pursuant to any available

exemption, there is no public market for the New Common Stock, the uncertificated, beneficial interests in the Trust or any other securities of New National, and there is no assurance that any public market will develop. As a result, holders of these securities may not be able to liquidate their investment in the event of an emergency or for any other reason, and these securities may not be accepted as collateral for a loan. Consequently, an investment in the New Common Stock, the uncertificated beneficial interests of the Trust or any other securities of New National should be considered as an illiquid long-term investment.

Holders of New Common Stock will likely Incur Substantial Dilution and have Junior Dividend, Liquidation and Other Rights to Holders of Preferred Stock

Holders of New Common Stock will likely incur substantial dilution with respect to the per share value of their shares of New Common Stock. The Plan contemplates the authorization of Preferred Stock, the issuance of Incentive Options and New Common Stock to Senior Management. The Board of Directors of New National also may implement an equity incentive program for the employees of New National, other than members of Senior Management. The issuance of Preferred Stock, New Common Stock upon the exercise of the Incentive Options or otherwise will equally and ratably dilute the percentage ownership of all holders of New Common Stock. The Board of Directors of New National has the right to set the rights and preferences of any series of Preferred Stock. If shares of Preferred Stock are issued by New National, the Shares of Preferred Stock will likely have superior dividend, liquidation, antidilution and other rights and preferences as compared to shares of New Common Stock. If holders of Preferred Stock exercise any of these superior rights, it will likely have an adverse effect on the holders of New Common Stock.

Reorganization Factors

As with any plan of reorganization or other financial transaction, there are certain risk factors that must be considered. All risk factors cannot be anticipated, some events will develop in ways that were not foreseen, and many or all of the assumptions that have been used in connection with this Disclosure Statement and the Plan will not be realized exactly as assumed. Some or all of such variations may be material. While efforts have been made to be reasonable in this regard, there can be no assurance that subsequent events will bear out the analyses set forth in this Disclosure Statement. Holders of Claims and Equity Interests should be aware of some of the principal risks associated with the contemplated reorganized:

- There is a risk that one or more of the required conditions (including the closing of the Exit Financing Facility) or obligations under the Plan will not occur, be satisfied or waived, as the case may be, resulting in the inability to confirm the Plan.
- The total amount of all Claims filed in the Chapter 11 Case may be materially in excess of the estimated amounts of Allowed Claims assumed in the development of the Plan and in the valuation estimates provided above. The actual amount of all Allowed Claims in any Class may differ significantly from the estimates provided in this Disclosure Statement. Accordingly, the amount and timing of the distributions that will ultimately be received by any particular holder of an Allowed Claim in any Class may be materially and adversely affected should the estimates be exceeded as to any Class.
- A number of other uncertainties may adversely impact New National's future operations including, without limitation, economic recession, increased competition, adverse regulatory agency actions, acts of God, or similar circumstances. Many of these factors will be substantially beyond New National's control, and a change in any factor or

combination of factors could have a material adverse effect on New National's financial condition, cash flows, and results of operations.

- There can be no assurance that New National will be able to continue to generate sufficient funds to meet its obligations and necessary capital expenditures, notwithstanding the significant improvements in New National's operations and financial condition. Although New National's financial projections assume that New National will generate sufficient funds to meet its working capital needs for the foreseeable future on a stand-alone basis, its ability to gain access to additional capital, if needed, cannot be assured, particularly in view of possible competitive factors and industry conditions.

Certain Bankruptcy-Related Considerations

Risk of Non-Confirmation of the Plan. Although the Debtor believes that the Plan will satisfy all requirements necessary for Confirmation by the Bankruptcy Court, there can be no assurance that the Bankruptcy Court will reach the same conclusion. There can also be no assurance that modifications of the Plan will not be required for Confirmation, that such negotiations would not adversely affect the holders of Allowed Claims and Equity Interests, or that such modifications would not necessitate the re-solicitation of votes.

Nonconsensual Confirmation. If any impaired class of claims or equity interests does not accept a plan of reorganization, a bankruptcy court may nevertheless confirm such a plan of reorganization at the proponent's request if at least one impaired class has accepted the plan of reorganization (without including the acceptance of any "insider" in such class) and, as to each impaired class that has not accepted the plan of reorganization, the bankruptcy court determines that the plan of reorganization "does not discriminate unfairly" and is "fair and equitable" with respect to rejecting impaired classes. If any Impaired Class of Claims or Equity Interests fails to accept the Plan in accordance with Section 1129(a)(8) of the Bankruptcy Code, the Debtor reserves the right to request nonconsensual Confirmation of the Plan in accordance with Section 1129(b) of the Bankruptcy Code.

EXEMPTION FROM SECURITIES ACT REGISTRATION

Under the Plan, certain holders of Allowed Claims will receive securities (the uncertificated, beneficial interests in the Trust or New Common Stock) in exchange for some or all of their Claims against the Debtor. In many cases, when securities are issued by an entity, they must be registered with the Securities and Exchange Commission and state securities commissions. However, Section 1145 of the Bankruptcy Code creates certain exemptions from the registration and licensing requirements of federal and state securities laws with respect to the issuance and distribution of securities by a debtor under a plan or reorganization to holders of claims or interests wholly or principally in exchange for those claims or interests. In addition, National may issue other securities, such as the Preferred Stock, Warrants and the Incentive Options. The issuance of these securities will not be exempt pursuant to Section 1145 of the Bankruptcy Code, but the Debtor intends to issue these securities pursuant to another exemption to the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") and state securities laws.

Issuance of New Securities Under the Plan

In issuing the uncertificated, beneficial interests in the Trust and the New Common Stock to certain holders of Allowed Claims, the Debtor will rely on the exemption from the registration requirements of the Securities Act (and the equivalent state statutes commonly referred to as "blue sky" laws) provided by Section 1145(a)(1) of the Bankruptcy Code.

The specific reasons that the Debtor will not be required to register the securities is that Section 1145(a)(1) of the Bankruptcy Code exempts the issuance of securities from the requirements of the Securities Act of 1933, as amended (the "Securities Act"), and the "blue sky" laws if the following conditions are satisfied:

- the securities are issued by a debtor, an affiliate participating in a joint plan of reorganization with the debtor, or a successor of the debtor under a plan of reorganization;
- the recipients of the securities hold a claim against, an interest in, or a claim for an administrative expense against, the debtor; and
- the securities are issued entirely in exchange for the recipient's claim against or interest in the debtor, or are issued "principally" in such exchange and "partly" for cash or property.

The Debtor believes that the issuance of uncertificated, beneficial interests in the Trust and the New Common Stock in accordance with the Plan will satisfy these requirements and therefore, the issuance of such securities is exempt from the registration requirements of federal and state securities laws.

Any New Common Stock, Preferred Stock, Warrants, Incentive Options or other securities issued under the Plan which are not issued in exchange for a Claim against National will be sold in reliance on exemptions from the registration requirements of the Securities Act and any state or local law requiring registration for the offer or sale of a security or registration or licensing of an issuer of, underwriter of, or broker dealer in such securities.

Subsequent Transfer of Securities Issued Under the Plan

The beneficial interests in the Trust issued pursuant to the Plan may not be transferred or sold by the holders of such beneficial interests other than by operation of law, gift or upon death. The beneficial interests will be held in book-entry form meaning that the Trust and Registrar will place each holder's name in a register with a notation indicating the fractional interest that each holder owns in the Trust. No holder of a beneficial interest will receive a certificate representing their interest unless the Trust determines that such beneficial interests should be represented by certificates.

Any New Common Stock, Preferred Stock, Warrants, Incentive Options or other securities issued under the Plan which are not issued in exchange for a Claim against National will be sold in reliance on exemptions from the registration requirements of the Securities Act and any state or local law requiring registration for the offer or sale of a security or registration or licensing of an issuer of, underwriter of, or broker dealer in such securities. Such New Common Stock, Preferred Stock, Warrants and Incentive Options will be subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws pursuant to registration or exemption therefrom.

The New Common Stock issued in exchange for Claims pursuant to the Plan may be resold by the holders of such securities without restriction unless, as more fully described below, any such holder is deemed to be an "underwriter" with respect to such securities, as defined in Section 1145(b)(1) of the Bankruptcy Code. Generally, Section 1145(b)(1) of the Bankruptcy Code defines an "underwriter" as any person who (a) purchases a claim against, or interest in, a bankruptcy case, with a view towards the distribution of any security to be received in exchange for such claim or interest, (b) offers to sell

securities issued under a bankruptcy plan on behalf of the holders of such securities, (c) offers to buy securities issued under a bankruptcy plan from persons receiving such securities, if the offer to buy is made with a view towards distribution of such securities, or (d) is an issuer as contemplated by Section 2(11) of the Securities Act. Although the definition of the term "issuer" appears in Section 2(4) of the Securities Act, the reference contained in Section 1145(b)(1) of the Bankruptcy Code to Section 2(11) of the Securities Act purports to include as "underwriters" all persons who, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with, an issuer of securities. "Control" (as such term is defined in Rule 405 of Regulation C under the Securities Act) means the possession, direct or indirect, of the power to direct or cause the direction of the policies of a person, whether through the ownership of voting securities, by contract or otherwise. Accordingly, an officer or director of a reorganized debtor (or its successor) under a plan of reorganization may be deemed to be a "control person," particularly if such management position is coupled with the ownership of a significant percentage of the debtor's (or successor's) voting securities. Moreover, the legislative history of Section 1145 of the Bankruptcy Code suggests that a creditor who owns at least 10% of the voting securities of a reorganized debtor may be presumed to be a "control person."

The foregoing summary discussion is general in nature and has been included in this Disclosure Statement solely for informational purposes. National makes no representations concerning, and does not provide any opinion or advice with respect to, the securities law and bankruptcy law matters described above. In light of the complex and subjectively interpretive nature of whether a particular recipient or securities under the Plan may be deemed to be an "underwriter" within the meaning of Section 1145(b)(1) of the Bankruptcy Code or an "affiliate" or "control person" under applicable federal and state securities laws and, consequently, the uncertainty concerning the availability of exemptions from the registration requirements of the Securities Act and equivalent state securities and "blue sky" laws, National encourages potential recipients of New Common Stock to consider carefully and consult with its own attorneys with respect to these (and related) matters.

ALTERNATIVES TO THE PLAN AND CONSEQUENCES OF REJECTION

If the Plan is not timely confirmed or if substantive consolidation is not approved, the most likely alternative is a Chapter 7 liquidation proceeding. In a Chapter 7 liquidation proceeding, a liquidation trustee would be appointed by the Bankruptcy Court to oversee the liquidation of the Debtor's assets. Such trustee would be entitled to retain a new set of professionals, including lawyers and accountants, to review and analyze all of the Claims and the Debtor's assets. In addition, the liquidation trustee would be entitled to request a fee equal to approximately 3% of all distributions made to the Debtor's creditors. The Debtor believes that the conversion to a Chapter 7 liquidation proceeding and the appointment of a new trustee and new estate professionals would increase professional fees and result in further delays and a reduction in distributions to the creditors.

In addition, another alternative plan could be pursued by another party-in-interest to the extent that it is allowed by the Bankruptcy Court and the Bankruptcy Code. These plans could be pursued with permission of the Bankruptcy Court or after the Debtor has failed to gain acceptance of the Plan. Pursuit of multiple plans would be expensive, since the professionals would need to evaluate the competing plans and file objections to the plans. This would incur a substantial amount of professional fees which would ultimately reduce the funds available to repay the Creditors of the Debtor.

The Debtor and its professional advisors have explored various alternative scenarios, including the scenarios described above, and believe that the Plan enables the holders of Claims and Equity Interests to realize the maximum recovery under the circumstances. The Debtor believes that the Plan is the best plan that can be proposed and served the best interests of the Debtor and other parties in interest.

Attached to this Disclosure Statement as Exhibit 3 is a liquidation analysis prepared by the Debtor with the assistance of, and in consultation with, its financial advisors. The estimated recoveries set forth on Exhibit 4 are based upon, among other things, historical costs and recoveries in conjunction with prior liquidations of airline companies

In addition, attached to this Disclosure Statement as Exhibit 4 is a going concern valuation prepared by the Debtor with the assistance of, and in consultation with, its financial advisors. The valuation is based upon, among other things, financial projections of the Debtor.

RECOMMENDATION AND CONCLUSION

The Debtor and its professional advisors have analyzed different scenarios and believe that the Plan will provide for a greater distribution to holders of Claims and Equity Interests than would otherwise result if an alternative restructuring plan were proposed or the Debtor's assets were liquidated. In addition, any alternative other than Confirmation of the Plan could result in extensive delays and increased administrative expenses resulting in potentially smaller distributions to the holders of Claims and Equity Interests. Accordingly, the Debtor recommends confirmation of the Plan and urges all holders of Impaired Claims and Equity Interests to vote to accept the Plan and to indicate acceptance by returning their Ballots so as to be received by no later than the Voting Deadline.

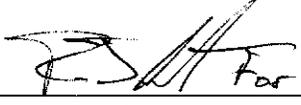
Dated: Las Vegas, Nevada
November 9, 2001

Respectfully submitted,

NATIONAL AIRLINES, INC.

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EXHIBIT 1

PLAN OF REORGANIZATION

[SEE ATTACHED]