

Air Transportation Stabilization Board

August 14, 2002

Mr. Michael J. Conway
President
National Airlines, Inc.
6020 Spencer Street
Las Vegas, NV 89119

Dear Mr. Conway:

In accordance with the Air Transportation Safety and System Stabilization Act (“Act”) and implementing regulations promulgated by the Office of Management and Budget (“Regulations”), the Air Transportation Stabilization Board (“Board”) has considered the revised application of National Airlines, Inc. (“National”) dated May 2, 2002, as amended, for a Federal loan guarantee of \$50.5 million on a loan of \$60.0 million. The Board’s consideration included a review and analysis of your initial loan guarantee application that was submitted to the Board on February 20, 2002, a revised application that was submitted on May 2, 2002, as well as information subsequently furnished to the Board (“Application”). The review and analysis was conducted by the Board’s staff and the Board’s financial and industry consultants under the standards set out in the Act and the Regulations.

During the process of reviewing National’s original and revised applications, the Board staff held numerous telephone calls with you and your advisors and communicated additional requests for information. The Board staff met with you and your advisors on March 25, April 2, and July 17, 2002. Representatives of each Board member attended the meetings on May 15, 2002 and July 17, 2002. Since that time, there were numerous conversations between National and Board staff regarding matters related to the Application. Following these meetings and communications, the Board staff and representatives of each Board member fully briefed the Board members on the Application.

The Board has concluded its review based on the standards of the Act and the Regulations. The Board determined that National’s application does not meet the applicable standards, and, accordingly, the Board unanimously voted to deny National’s application. The Board determined that National’s proposal does not provide a reasonable assurance that National will be able to repay the loan, one of the factors the Board is required to consider under the Regulations. Notably, the Board concluded that National’s proposed business plan poses an unacceptable risk to the Federal government. The Board also concluded that National’s proposed amount and form of equity and related initiatives are insufficient. Additionally, the Board was unable to determine that extension of the proposed loan guarantee to National is a

necessary part of maintaining a safe, efficient and viable commercial aviation system in the United States because of extensive low-fare competition in markets served by National.

If you have any questions regarding this matter, please do not hesitate to contact me.

Sincerely,

Daniel G. Montgomery

Cc: Edward Gramlich
Kirk Van Tine
Peter Fisher