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NASDAQ: WLDA

World Airways, Inc.

Price Target: \$5.07

Current Price: \$3.55

Debt Rating: NR

March 30, 2003

World Airways Buy Recommendation

Highlights

Fundamental Highlights:

- Improving supply and demand situation
- Sustainable capitalization structure
- Sustainable competitive advantage
- Military and cargo focus
- Well regarded management team

Valuation Highlights:

- Undervalued on a multiples basis
- 42.88% Undervalued in our DCF
- Catalysts for value realization present

Key Financial Information

Source: Company Filings and
Bloomberg.

Stock Price	\$3.55
Market Capitalization	\$40.46MM
Average daily volume	47,000
EPS	\$1.25
52 week high	\$5.10
52 week low	\$0.69
Beta	1.92
AEV/EBITDAR	6.61
2004 Forward P/E	10.14

Company Profile

Source: Company Filings and Multex
Investor.

World Airways, Inc. provides longer range charter cargo and passenger and ACMI wet lease transportation primarily “serving the United States Government, international passenger and cargo air carriers, tour operators, international freight forwarders and cruise ship companies”



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Company Description

World Airways, Inc. (Nasdaq: WLDA) provides longer range charter cargo and passenger and ACMI wet lease transportation primarily “serving the United States Government, international passenger and cargo air carriers, tour operators, international freight forwarders and cruise ship companies” (Multex Investor). 74.7% of the Company’s revenues are derived from charter passenger and cargo operations (Company Filings). Revenue is derived by charging customers a flat rate per block hour (defined as the elapsed time from the moment wheel blocks are removed from the aircraft at the point of origin to the time when the wheel blocks are again put in place at the aircraft’s destination) to charter the aircraft with the Company providing at its expense the plane, meals, and all other costs of flight operations excluding fuel. The remaining revenue block hours are derived from Aircraft, Crew, Maintenance, and Insurance (ACMI) wet leases (meaning the term of the lease is greater than one month). The Company enters a contract, which establishes a block hour rate that the lessee will pay for a minimum amount of block hours (i.e. a fixed payment up to a certain number of block hours), as well as an additional block hour rate for block hours flown above the minimum. The Company provides at its expense the Aircraft, crew, maintenance, and insurance, while the lessee provides fuel, landing/handling/storage fees, meals, and local taxes. The Company leases most of its aircraft directly from the manufacturer. World Airways is the only charter cargo or ACMI Company that is publicly traded.

Investment Highlights and Risks

Investment Highlights:

- Improving supply and demand situation – Charter airlines have been forced from financial pressures to reduce their fleets, since the September 11th terrorist attacks. However, cargo demand is expected to grow by 6.40% annually (Boeing) over the next 18 years based on consensus GDP growth and an increase in free trade. Therefore, we expect higher block hour prices in the industry benefiting World Airways versus consensus’ worries over near term pressure due to a decline in hostilities in Iraq.
- Sustainable capitalization structure – World Airways took advantage of the equity and equity-linked capital markets last year in order to solidify its balance sheet by issuing a warrants and a convertible bond. In conjunction with the issuance of warrants, the Company has obtained Air Transportation Stabilization Board (ATSB) guaranteed loans (loan guarantees like the Company’s have been issue to many airlines after the September 11th terrorist attacks and during the war in Iraq by this federal agency created to promote stability in the airline infrastructure of the United States). Therefore, the Company will not be forced into chapter 11 proceeding even if we experience another September 11th type shock to the system, while enjoying a cheap cost of debt capital.
- Sustainable competitive advantage – World Airways is positioned well to compete in terms of its ability to finance planes inexpensively (as only one of its competitors is publicly traded) and offer a depth of planes beyond its competitors.
- Cargo focus – The Company focuses on cargo services both in its ACMI and Charter offerings, which reduce the volatility of its earnings stream.
- Military focus – Although we always feel that having only a few customers does add risk to investing in the Company (see risk section below), we feel that the Company’s

officers' and directors' vast military experience and resultant relationships with key military decision makers should both help reduce the volatility of revenues and dampen trade credit risk.

- Well regarded management team – When discussing management with others in the industry, we were impressed by the praise for World Airways operations management.
- Cheap on a multiples basis – We feel the Company is extremely cheap compared to the market and “distant” comps due to small-cap inefficiencies.
- Cheap on a discounted cash flows basis – Our DCF indicates the Company is 42.88% undervalued.
- Value realization catalysts present – The pay down of the ATSB guaranteed facility should highlight the Company's free cash flow generation ability. Also, in the middle market universe with little use for a public currency, we wonder if management is considering going private. The Company is not covered by any Wall Street Analysts and shareholder apathy threatened the Company's new financing arrangement when its special meeting to approve the financing was adjourned due to a lack of quorum even though 90% of shareholders later approved the same proposal when it reconvened.

Risks:

- Employee relations – Despite the fact that the Company reached a tentative agreement with World Airway's cockpit crew members' union bargaining committee on January 16, 2004, on March 1, 2004 the Company announced that its cockpit crewmembers rejected a tentative agreement for contract extension. Management has indicated that both sides were caught off guard and are working to resolve the issue together. However, it should be noted that most of the disputed issues relate to cost-neutral work rule issues, and the Company believes that it can still achieve a cost-neutral contract. The flight attendants' contract is fixed through 2006 and the mechanics are not unionized.
- Lack of customer diversity – 74.7% of 2003 revenues was obtained from the United States Air Force. While the Company enjoys the benefits of low receivables risk, etc. by having the US government as a customer, the customer's share of revenues increases the risk of a dispute with the Air Force significantly impairing Company operations.
- Management changes – On February 19th, 2004 the Company announced succession plans effective April 1, 2004. Long-time Chairman and CEO Holland Harris will step down with General Ronald R. Fogleman becoming chairman of the board and Randy Martinez the EVP of Marketing will become the President and CEO. We remain confident in the future management team's ability to generate free cash flow due to their already heightened roles in the Company.

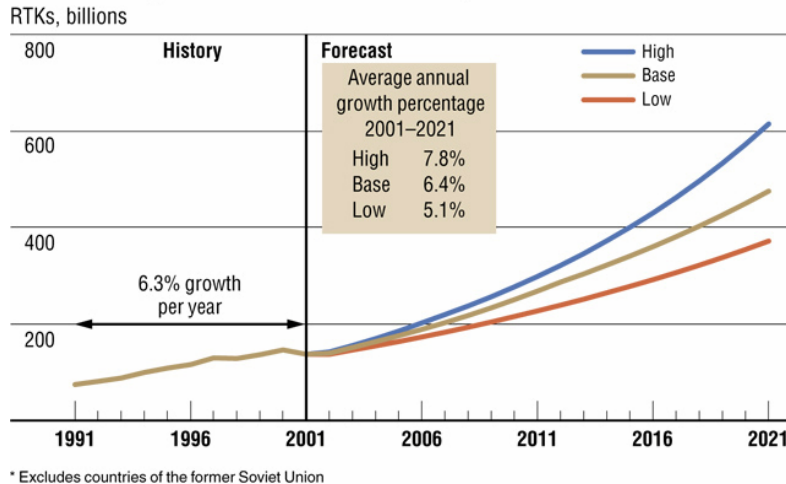
Market Overview

The Anne Rife Cox Endowment Fund should be exposed to the Charter Cargo Airline and ACMI industry.

Demand spiked for charter airline services (especially from the military) last year as the United States liberated Iraq. This demand has continued into the fourth quarter of last year, but consensus expects this demand to taper off next year with a reduction in hostilities. However, we disagree with consensus' outlook and point the fact that news reports indicate that the

military is calling for 100,000 troops to remain in Iraq until at least 2006, and the military is building 14 permanent bases in the country to house these troops (Wall Street Journal). Further, we feel that even without the increased military presence in Iraq, cargo demand will increase heavily in the future. Below is Boeing's forecast of cargo demand through 2021. While we understand that Boeing's forecast might possess an upward bias, we feel that even their low case would be promising for World Airways. With that caveat, the base case scenario calls for 6.4% annual increases in cargo demand based on consensus GDP growth estimates and an increase in free trade. Much of this growth is expected from Asia.

World Air Cargo Will Grow at 6.4 Percent per Year*



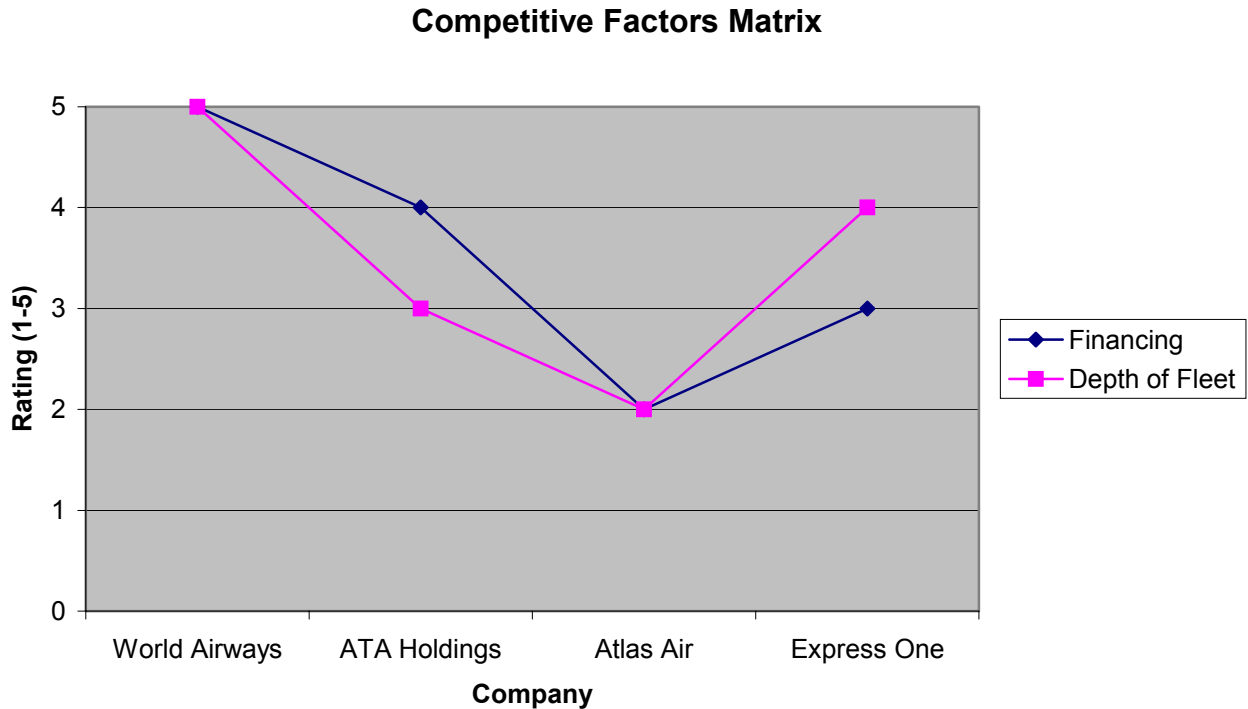
Despite this predicted growth in demand, the cargo industry will not be able to increase supply at these rates, resulting in higher prices in the industry. The cargo industry felt the shocks of the September 11th terrorist attacks, and like many of their scheduled passenger airline counterparts, filed for Chapter 11. Atlas Air is the largest of these companies that is currently in bankruptcy reorganization. Like many other small operators, Atlas is shedding its fleet and routes to become leaner. Likewise, even well-capitalized World Airways is reducing its fleet by 2 planes next year as a result of aged plane retirement. These supply reductions will cause price increases throughout the industry as demand continues to grow. Further, industry fragmentation has limited growth in the past, as most charter operations are one to two plane operators. Therefore, unlike consensus we are focusing on the long-term growth prospects for this industry, which are positive despite short-term dips in demand due to a decline in activity associated with the liberation of Iraq.

Financially, favorable equity market conditions are allowing airlines outside of Chapter 11 to improve their balance sheets by adding equity capital, which reduces near term liquidity concerns for the remaining charter and ACMI companies.

Competition

Competitive Factors:

Charter cargo and ACMI airlines compete primarily on their ability to finance planes and the depth of aircraft and crew they offer. Below is how we believe World Airways ranks in those categories versus its competitors.



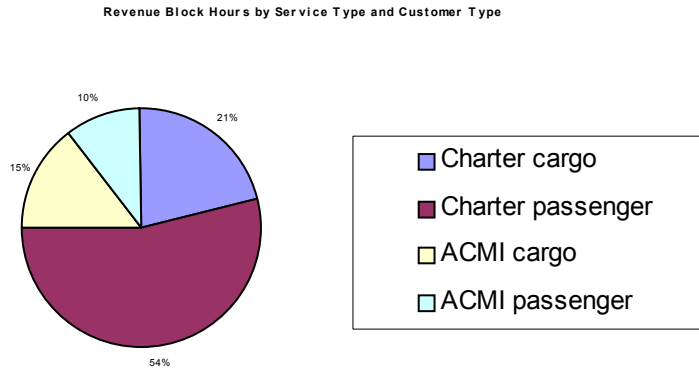
World Airways has not adopted a narrow fleet as its competitors have (Industrials Team). Greater depth in the Company's fleet allows it to penetrate customer accounts further by having a more flexible range and load capacity. Lastly, it can finance its planes at lower rates relative to all of its competitors. Therefore, we rank the industry's major players below.

Ranking Based on Competitive Factors:

- 1) World Airways
- 2) ATA Holdings
- 3) Atlas Air
- 4) Express One

Services

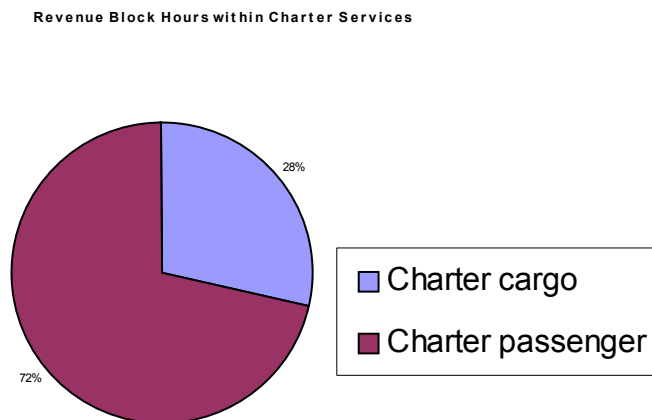
World Airways provides two major types of service: Charter Passenger and Cargo Services and ACMI services. The chart below breaks out the sources of revenue block hours by both contract type and between passenger and cargo.



This chart shows management's efforts to transition more revenue away from cargo revenue (although management is being helped by the war in Iraq and subsequent troop movement) to passenger revenue, and that charter accounts for the vast majority of revenue block hours.

Charter Passenger and Cargo Services:

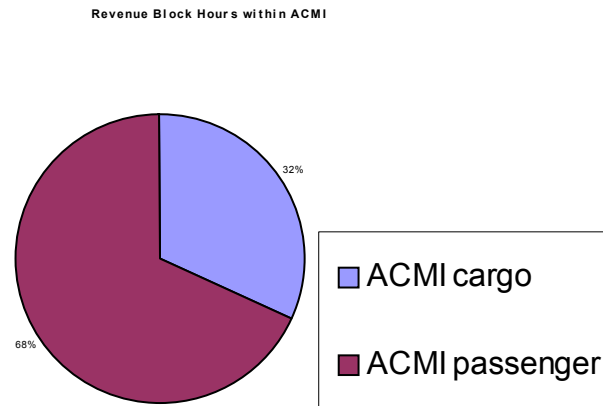
Charter service consists of short-term contracts offering to rent the planes on a block hour basis typically for less than one month.



In 2002, 81% of charter revenues were **cargo** revenues, whereas last year there is a more weight on passenger revenues within the charter segment. We view this development as temporary as it primarily relates to troop movements to Iraq.

ACMI services:

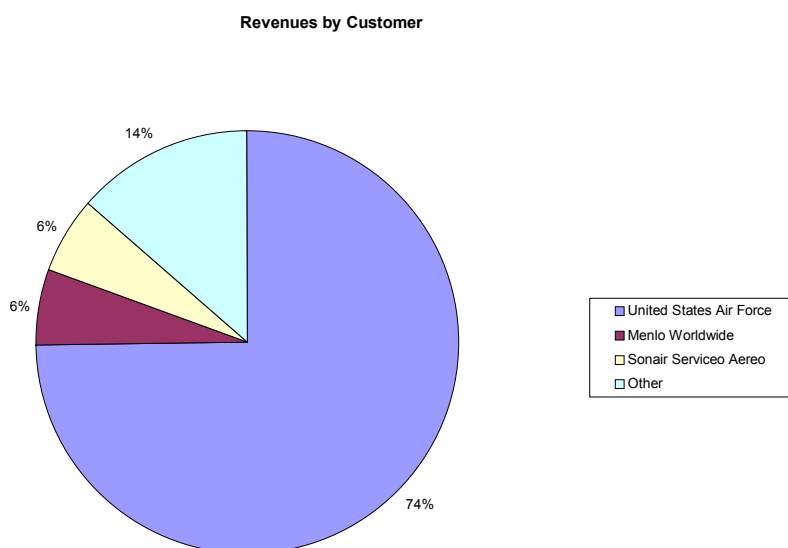
ACMI services consist of the Company acting as a lessor of aircraft, crew, maintenance, and insurance typically for one month to two years. The lessee provides fuel under this arrangement. Indeed, the customer in both types of services pays only 96% of all fuel costs in the aggregate.



As one can see, the Company has a well-diversified product mix, which should make it less sensitive to changes in the business cycle.

Customers

World Airways relies heavily upon the US Air Force for revenues. 74.7% of last year's revenues were attributable to the US Air Force. Furthermore, 85.6% of revenues can be attributed to three major customers (see chart below). This customer concentration has alarmed the street as it worries about the effect of reduced hostilities in Iraq. For the reasons sighted above (see the market overview section), we do not feel this risk is as large as the street does. Further, Air Force revenues are not a binary event. In fact, we expect World Airways to gain military market share as commercial airline planes are released from the Civil Air Reserve and resume scheduled passenger services.



Business Model Overview

Unlike most of World Airways' competitors, the Company provides more than one type of aircraft to its ACMI and charter customers. The Company currently possesses two different types of planes and its fleet plan calls for it to diversify further, and ultimately provide at least four different types of aircraft. This product diversity should help it penetrate its accounts further than its competitors. We believe that the competitors have made too much of single type fleet cost savings at the expense of revenues from further account penetration.

Furthermore, we prefer the Company's focus on charter operations due to its large scale (as it is the largest pure play in the industry). Due to the fact that the charter industry is so fragmented, we believe that a large charter carrier should easily be able to price itself competitively due to economies of scale.

Finally, we prefer the Company's focus on the US Military as a core customer. The current management team has superb military experience with its incoming Chairman of the Board,

General Ronald R. Fogleman, previously serving as a general in the Chief of Staff of the United States Air Force and as a member of the Joint Chiefs of Staff. We feel that their experience in this area should help establish relationships built on trust, which are critical for obtaining military contracts.

Due Dilligence Summary

Due to the Company's size, conversations with senior management have been obtained. Both Chief Operating Officer (COO) Jeff Mackinney and Chief Financial Officer (CFO) Gil Duarte are extremely accessible to the financial community, and Jeff Mackinney briefly discussed last year's results with our team. In particular, we discussed their financing strategy and their use of net operating losses carry forwards. Further, we contacted several sources within the industry including senior management of competitors and other buy-side analysts who also gave fond opinions of management and described the Company favorably. However, one buy-side analyst noted that he thought although the management team was great at managing operations, the financial team needed to communicate better with the street (i.e. give more accurate guidance). We feel this might be another reason we found a discount in performing our valuation.

Valuation

Summary and Methodology:

In order to value World Airways, we performed comparable companies analysis and a discounted equity free cash flow analysis. **Both analyses indicated that World Airways is undervalued.**

Summary Comparable Company Analysis:

While no other publicly traded Chartered Cargo/Passenger or ACMI airlines exists, we felt that presenting a few "distant" comps, which have similar drivers of cash flow or are in related industries might be appropriate. As cargo operations traditionally dominate World Airways revenue stream and no publicly traded charter passenger or ACMI companies exists, we have chosen to compare World Airways to chartered and scheduled cargo companies. ATA Holdings is the only Company analyzed below that provides charter service (they provide this service to the military, too), but scheduled passenger service represents the vast majority of total revenues (i.e. the Company is in the low cost carrier airline industry).

Industrials - Cargo Airlines (Dollars in Millions)							
Company Name Ticker	World Airways (WLDA)	ATA Holdings (ATAH)	FedEx (FDX)	High	Low	Mean	Median
<i>(Stock Data):</i> Stock Price As Of: March 30, 2004							
Market Capitalization (MV of Equity)	\$40.5	\$98.7	\$22,290.5	\$22,290.5	\$40.5	\$7,476.5	\$98.7
Total Mkt. Capitalization (Tot. Net Debt+MV of Equity)	\$97.9	\$593.4	\$26,226.5	\$26,226.5	\$97.9	\$8,972.6	\$593.4
<i>(Financial Ratios excl. debt ratios-see Risk Section)</i>							
LFY EBITDAR Margin	25.90%	18.03%	13.18%	25.90%	13.18%	19.04%	18.03%
LFY EBITDA Margin	7.09%	5.51%	11.96%	11.96%	5.51%	8.19%	7.09%
LTM ROA	12.79%	2.35%	4.52%	12.79%	2.35%	6.55%	4.52%
<i>(Risk):</i>							
Beta	1.92	2.53	0.63	2.53	0.63	1.69	1.92
LT Debt / Market Capitalization (MV of Equity)	141.87%	501.31%	17.66%	501.31%	17.66%	220.28%	141.87%
<i>(Valuation):</i>							
LTM Price / EPS Ratio ("P/E")	2.85	5.19	27.23	27.23	2.85	11.76	5.19
CFY Price / EPS Ratio ("P/E")	10.14	n/a	21.88	21.88	10.14	16.01	16.01
NFY Price / EPS Ratio ("P/E")	8.19	9.85	18.24	18.24	8.19	12.10	9.85
EV/EBITDA	2.91	7.09	9.75	9.75	2.91	6.58	7.09
EV/Sales	0.21	0.39	1.17	1.17	0.21	0.59	0.39
AEV/EBITDAR	6.61	39.49	12.94	39.49	6.61	19.68	12.94

While we see these comps as removed from many of the key business drivers at World Airways (especially World Airways' military exposure), we do note that in all multiples except NFY P/E the Company trades below comps. It is also interesting to note that the Company trades at lower multiples despite having higher EBITDAR Margins and ROA, and also is less levered than the average of the distant comps, which should result in higher multiples.

Discounted Cash Flow Analysis and Financial Model:

Our discounted cash flow analysis suggests that the stock is 42.88% undervalued. We believe that this discount has resulted from several factors, which we have listed below.

- The Company is not followed by any sell-side analysts
- The Company is in the small cap market and has relatively little liquidity
- The market is worried about the labor risks discussed above
- The market is placing too much emphasis on predicted revenue and EPS declines due to a decrease in hostilities in Iraq, and therefore is missing the long-term attractiveness of the industry
- The negative signal sent by issuing large amounts of equity in 2003
- No guidance on management's use of free cash flow generation

Below are our operational drivers and assumptions of future cash flows.

Operational/Financial Statement Assumptions/Drivers							
	2002	2003	2004E	2005E	2006E	2007E	2008E
Operational Assumptions:							
Revenue block hours	38,049	44,072	38,049	40,427	42,805	45,183	47,561
Revenue per revenue block hour	\$10.05	\$10.71	\$10.71	\$10.71	\$11.03	\$11.36	\$11.70
Other revenue to flight operations revenue	0.52%	0.64%	0.52%	0.52%	0.52%	0.52%	0.52%
Planes	16	18	16	17	18	19	20
Block hours per plane	2,378	2,448	2,378	2,378	2,378	2,378	2,378
Flight cost per block hour	3.05	3.26	3.26	3.36	3.46	3.56	3.67
Maintenance cost per block hour	1.57	1.71	1.71	1.76	1.82	1.87	1.93
Aircraft costs cost per block hour	2.28	1.94	1.94	2.00	2.06	2.12	2.18
Fuel cost per block hour	1.52	1.74	1.74	1.79	1.84	1.90	1.95
Flights subcontracted to other carriers cost per block hour	0.05	0.06	0.06	0.06	0.06	0.06	0.06
Commissions cost per block hour	0.42	0.40	0.42	0.42	0.42	0.42	0.42
D&A per plane	282.81	291.06	291.06	291.06	291.06	291.06	291.06
Financing Assumptions:							
LIBOR			1.30%	1.55%	1.80%	1.80%	1.80%
ATSB Tranche A premium to LIBOR			5.10%	6.10%	7.10%	7.10%	7.10%
ATSB Tranche A interest rate			6.40%	7.65%	8.90%	8.90%	8.90%
ATSB Tranche B premium to LIBOR			4.00%	4.00%	4.00%	4.00%	4.00%
ATSB Tranche B interest rate			5.30%	5.55%	5.80%	5.80%	5.80%
ATSB Term			5				
Convertible interest rate			8.00%	8.00%	8.00%	8.00%	8.00%
Convertible term			6				
Portion of convertible to be amortized			1,357				
Letters of credit not drawn upon			3,300	3,300	3,300	3,300	3,300
Fee on letter of credit			0.75%	1.00%	1.30%	1.30%	1.30%
Interest income as a % of cash on hand	2.67%	0.69%	0.69%	0.94%	1.25%	1.25%	1.25%
Tax rate			41.00%	41.00%	41.00%	41.00%	41.00%
Capital Expenditures Assumptions:							
Cost of major overhauls of MD-11 due 2005			577				
Number of MD-11s in fleet			9				
Cost of major overhauls of DC-10-30 due 2005			129				
Number of DC-10-30s in the fleet			3				
Cost of major overhauls of DC-10-30 due 2006				500			
Number of DC-10-30s in the fleet				2			
Other capital expenditures			3,000	3,000	3,000	3,000	3,000
Working Capital Assumptions:							
Accounts receivable as a % of sales	7.38%	6.62%	6.62%	6.62%	6.62%	6.62%	6.62%
Pre-paid expenses as a % of sales	1.45%	1.63%	1.63%	1.63%	1.63%	1.63%	1.63%
Accounts payable as a % of operating expenses	8.12%	6.31%	6.31%	6.31%	6.31%	6.31%	6.31%
Accrued maintenance per plan	136	155	136	155	155	155	155
Accrued salaries and wages as a % of flight expense	8.62%	11.81%	8.62%	8.62%	8.62%	8.62%	8.62%
Deferred rent per plane	889	889	889	889	889	889	889

We would like to highlight several key assumptions and validate their reasonableness. We projected revenue block hours using management's fleet plan released on February 6th, 2004 and updated in the March 29, 2004 10-K to arrive at the number of planes, and used the 2002 block hours per plane. However, we believe this assumption is very conservative due to the fact that the 5-year historical average revenue block hours per plane is 2,546 versus our projected 2,378 (see chart below).

Historic and Projected Block Hours

	2000	2001	2002	2003	2004E	2005E	2006E	Average of '00 - '03
Block hours	31,309	33,378	38,049	44,072	38,049	40,427	42,805	36,702
% Growth		6.61%	13.99%	15.83%	-13.67%	6.25%	5.88%	13.59%
Number of planes	10	15	16	18	16	17	18	14.75
Block hours per plane	3,131	2,225	2,378	2,448	2,378	2,378	2,378	2,546

Source: Company filings.

We assumed revenue per revenue block hour will remain steady into the future until 2006 when it will begin growth at 3% as a result of inflationary pressure in the industry. Again, we believe that this assumption is conservative due to industry supply (contraction) and demand (expansion) dynamics discussed above, which may cause price increases in the short-term as well.

Management has stated that most of its year over year flight cost increase is due to increased training and crew costs associated with recent increased flights due to hostilities in Iraq. However, we modeled flat flight costs in 2004, because we are worried about the effects of decreased scale due to a reduction of aircraft. We believe that beginning in 2005 costs will begin to rise as more planes are added into the fleet due to integration issues, and thus have modeled cost increases of 3% each year.

Maintenance costs should decrease on a per unit basis to an average of 2002 & 2003 levels as two very old DC-10-30s are retired this year, however we again worry about scale issues and thus have left costs flat. Further, we modeled a 3% inflation rate beginning in 2005.

Aircraft costs per block hour will decrease slightly as the Company retires its most costly planes of their most costly planes, but we have modeled them flat, because of scale issues. Further, we modeled a 3% inflation rate beginning in 2005.

Fuel costs per block hour will remain constant. However, we note that increases in oil prices could increase this cost on a per unit and aggregate basis, but bear the Company is only exposed to fuel price fluctuations on 4% of revenues. Further, we modeled a 3% inflation rate beginning in 2005 to reflect moderate fuel cost growth.

Since the Company has used all of its Net Operating Losses (NOLs), we believe the Company will become a full tax-payer next year. Based on the previously disclosed federal statutory rate of 35% and the Georgia state tax rate of 6%, we believe that the Company will begin paying 41% of pre-tax income as taxes.

Our model accurately captures planned increases in interest rates on the ATSB loan. We also attempt to model the variable nature of the loan by increasing LIBOR by 25 bps every year consistent with our economic outlook.

Our model uses management guidance of overhaul cap-ex and other cap-ex to achieve its cap-ex numbers through 2006.

Over the past year, the Company has been able to turn assets better, and we anticipate they will be able to do so in the future as they eliminate less efficient planes with more efficient ones. Therefore, we have model steady Working Capital/Sales ratios. One exception to this assumption is regarding accrued salaries and wages. We modeled this to reflect management's disclosure that a \$6.6M cash outflow will occur in the first half of 2004 to pay accrued profit sharing. However we believe this will be partially offset in the year by additional profit sharing accruals.

We anticipate accrued maintenance per plane will decrease to 2002 levels due to the retirement of 2 DC-10-30s.

Based on these assumptions, we have forecasted the following Income Statements, Balance Sheet, and Statement of Cash Flows.

World Airways
Income Statement
(in 000s)

	2002	2003	2004E	2005E	2006E	2007E	2008E
Operating Revenues:							
Flight operations	\$382,509	\$471,824	\$407,343	\$432,802	\$472,009	\$513,179	\$556,394
All other	1,980	3,026	2,109	2,240	2,443	2,656	2,880
Total operating revenues	384,489	474,850	409,452	435,043	474,452	515,835	559,274
% Growth		24%	-13.77%	6.25%	9.06%	8.72%	8.42%
Operating Expenses:							
Flight	116,012	143,640	124,010	135,713	148,007	160,917	174,468
Maintenance	59,628	75,513	65,193	71,346	77,809	84,596	91,719
Aircraft costs	86,834	85,487	73,804	80,769	88,086	95,769	103,834
Fuel	57,864	76,488	66,035	72,267	78,814	85,688	92,904
Flights subcontracted to other carriers	2,087	2,454	2,119	2,319	2,529	2,749	2,981
Commissions	15,834	17,433	15,834	16,824	17,813	18,803	19,793
Depreciation and amortization	4,525	5,239	4,657	4,948	5,239	5,530	5,821
SG&A	32,631	40,168	40,168	40,168	40,168	40,168	40,168
Airline stabilization act grant	-	-	-	-	-	-	-
Total operating expenses	375,415	446,422	391,820	424,353	458,465	494,219	531,687
EBIT	9,074	28,428	17,632	10,689	15,988	21,616	27,587
% Growth		213%	-38%	-39%	50%	35%	28%
% Margin	2.36%	5.99%	4.31%	2.46%	3.37%	4.19%	4.93%
Other Income (expense):							
Interest expense	-4,690	-5,223	-4,182	-4,076	-3,822	-3,288	-2,313
Interest income	575	370	233	333	514	641	748
Debt issuance cost amortization	-	-	-1,418	-1,418	-1,418	-1,418	-1,418
Other, net	-966	348	-	-	-	-	-
Total other income (expense)	-5,081	-4,505	-5,367	-5,161	-4,726	-4,065	-2,983
EBT	3,993	23,923	12,265	5,528	11,262	17,550	24,604
% Growth		499%	-49%	-55%	104%	56%	40%
% Margin	1.04%	5.04%	3.00%	1.27%	2.37%	3.40%	4.40%
Disclosed tax breaks			943	600	600	601	602
Income tax	-	3,802	4,086	1,666	4,017	6,595	9,486
Net Earnings (loss)	\$3,993	\$20,121	\$8,179	\$3,861	\$7,244	\$10,956	\$15,118
% Growth		404%	-59%	-53%	88%	51%	38%
% Margin	1.04%	4.24%	2.00%	0.89%	1.53%	2.12%	2.70%
Weighted average shares outstanding	11,073	11,224	11,398	11,398	11,398	11,398	11,398
Basic EPS	\$0.36	\$1.79	\$0.72	\$0.34	\$0.64	\$0.96	\$1.33
Weighted average shares outstanding (diluted)	11,073	17,783	23,356	23,356	23,356	23,356	23,356
Convertible interest saved if converted		2,044	2,044	2,044	2,044	2,044	2,044
Diluted EPS	\$0.36	\$1.25	\$0.35	\$0.17	\$0.31	\$0.47	\$0.65

Source: Company filings.

Note: Excludes unusual items and one-time charges.

World Airways
Balance Sheet
(in 000s)

	2002	2003	2004E	2005E	2006E	2007E	2008E
Assets							
<u>Current Assets:</u>							
Cash and cash equivalents	\$21,504	\$53,825	\$33,884	\$35,504	\$41,124	\$51,254	\$59,832
Accounts receivable, net	28,391	31,446	27,115	28,810	31,420	34,160	37,037
Prepaid expense and other current assets	5,569	7,721	6,658	7,074	7,715	8,387	9,094
Total current assets	55,464	92,992	67,657	71,387	80,259	93,802	105,962
Fixed assets, net	41,856	38,964	42,887	41,939	39,700	37,170	34,349
Long-term operating deposits	18,513	17,664	17,664	17,664	17,664	17,664	17,664
Other assets and deferred charges, net	1,429	7,681	6,263	4,844	3,426	2,007	589
Total Assets	\$117,262	\$157,301	\$134,470	\$135,835	\$141,048	\$150,643	\$158,564
Liabilities and Stockholders' Equity (Deficiency)							
<u>Current liabilities:</u>							
Notes payable	17,096	-	-	-	-	-	-
Current maturities of convertible debentures	-	18,000	-	-	-	-	-
Accounts payable	30,497	28,167	24,722	26,775	28,927	31,183	33,547
Accrued rent	17,993	9,881	9,881	9,881	9,881	9,881	9,881
Unearned revenue	976	3,546	3,546	3,546	3,546	3,546	3,546
Accrued maintenance	2,178	2,791	2,178	2,636	2,791	2,946	3,101
Accrued salaries and wages	10,000	16,957	10,689	11,698	12,758	13,871	15,039
Accrued taxes	2,663	2,581	2,581	2,581	2,581	2,581	2,581
Other accrued liabilities	2,820	2,506	2,506	2,506	2,506	2,506	2,506
Total current liabilities	84,223	84,429	56,103	59,623	62,990	66,514	70,201
ATSB Tranche A Loan	-	-	27,000	21,000	15,000	9,000	-
ATSB Tranche B Loan	-	-	3,000	3,000	3,000	3,000	-
Convertible Bond	-	-	25,545	25,545	25,545	25,545	25,545
Long-term obligations, net of current maturities	40,545	57,177	1,858	2,084	2,311	2,537	2,763
Deferred gain from sale-leaseback transactions, net	3,909	2,777	1,645	513	-	-	-
Accrued post-retirement benefits	3,235	3,583	3,583	3,583	3,583	3,583	3,583
Deferred rent	14,217	16,008	14,229	15,119	16,008	16,897	17,787
Total liabilities	146,129	163,974	132,964	130,467	128,436	127,076	119,878
<u>Stockholders' deficiency:</u>							
Preferred stock	-	-	-	-	-	-	-
Common stock	12	13	13	13	13	13	13
APIC	24,361	31,233	31,233	31,233	31,233	31,233	31,233
Accumulated deficit	-40,383	-25,062	-16,883	-13,021	-5,777	5,179	20,297
Treasury stock, at cost	-12,857	-12,857	-12,857	-12,857	-12,857	-12,857	-12,857
Total stockholders' deficiency	-28,867	-6,673	1,506	5,368	12,612	23,568	38,686
Total liabilities and stockholders' deficiency	\$117,262	\$157,301	\$134,470	\$135,835	\$141,048	\$150,643	\$158,564

Source: Company filings.

Please note that all capitalization assumptions are derived through the Company's disclosure of mandatory pay downs and planned actions with regards to its current financing.

World Airways
Statement of Cash Flows
(in 000s)

	2002	2003	2004E	2005E	2006E	2007E	2008E
Cash flows from operating activities:							
Net earnings (loss)	\$2,041	\$15,321	\$8,179	\$3,861	\$7,244	\$10,956	\$15,118
Depreciation and amortization	4,525	5,239	4,657	4,948	5,239	5,530	5,821
Deferred gain recognition	(2,187)	(1,132)	(1,132)	(1,132)	(513)	-	-
Loss on sale of property	-	2,989	-	-	-	-	-
Other	-	(414)	-	-	-	-	-
Amortization of convertible	-	-	226	226	226	226	226
Provision for doubtful accounts	(695)	(59)	-	-	-	-	-
Deferred compensation and other	447	-	-	-	-	-	-
Change in accounts receivable	(2,477)	(2,996)	4,331	-1,695	-2,610	-2,740	-2,877
Change in deposits, prepaid expenses, and other assets	336	729	2,482	1,002	778	746	712
Change in accounts payable, accrued expenses and other liabilities	4,878	7,289	(10,326)	3,519	3,367	3,524	3,687
Change in Unearned revenue	(2,424)	2,570	-	-	-	-	-
Net cash provided by operating activities	4,444	29,536	8,417	10,731	13,731	18,241	22,688
Cash flows from investing activities:							
Purchases of equipment and property	-5,184	-2,773	-8,580	-4,000	-3,000	-3,000	-3,000
Proceeds from disposals of equipment and property	164	18	-	-	-	-	-
Maturities of marketable investments, net	-	-	-	-	-	-	-
Net cash used by investing activities	-5,020	-2,755	-8,580	-4,000	-3,000	-3,000	-3,000
Cash flows from financing activities:							
(Decrease) increase in notes payable and current maturities	-	(17,096)	(18,000)	-	-	-	-
Deferral of aircraft rent obligations, net of repayments	-	(8,418)	(1,779)	889	889	889	889
Issuance of debt	33,000	-	-	226	226	226	226
Repayment of debt	(2,245)	-	-	(6,226)	(6,226)	(6,226)	-12,226
Proceeds from sale/leaseback transactions	-	-	-	-	-	-	-
Acquisition of common stock, at cost	-	-	-	-	-	-	-
Proceeds from exercise of stock options	-	299	-	-	-	-	-
Net cash provided by financing activities	-	-	(19,779)	(5,111)	(5,111)	(5,111)	(11,111)
Free cash flow to equity holders	-	32,022	(1,941)	1,620	5,621	10,130	8,577
Beginning cash balance	19,540	21,504	53,825	33,884	35,504	41,124	51,254
Change in cash	1,964	26,781	(19,941)	1,620	5,621	10,130	8,577
Ending Cash balance	\$21,504	\$53,825	\$33,884	\$35,504	\$41,124	\$51,254	\$59,832

Source: Company filings.

Adjustment to free cash flow to equity holders for cash already paid (sunk debt payment):
Old convertible retirement (paid in February)

18,000

Based on these projected financial statements, we have calculated the value of the stock by discounting the future free cash flow to equity holders by the equity discount rate as projected by the CAPM. Our discount rate assumptions can be found below.

Equity Discount Rate and Terminal Value Assumptions

Risk free rate	2.50%
Market risk premium	6.00%
Observed beta	1.92
Market beta	1.00
Weight on observed beta	50%
Weight on market beta	50%
Beta	1.46
CAPM	11.26%
Terminal growth rate	3.00%

Please note that our model assumes 3% terminal growth. We think this is highly conservative as the cargo industry is expected to grow at 6.4% through 2021 as discussed above.

Finally, our projected equity value and share count assumptions can be found below.

World Airways

Discounted Equity Cash Flows

	2004E	2005E	2006E	2007E	2008E	Terminal
Free cash flow to equity	-\$1,941	\$1,620	\$5,621	\$10,130	\$8,577	\$259,415
Discounted free cash flow	-1,745	1,309	4,081	6,611	5,031	169,293
Total DCF	184,580					
<u>Equity capitalization summary:</u>						
Current shares outstanding	11,398					
Net diluted shares	11,958					
Total diluted shares	23,356					
Current share price	\$3.55					
Intrinsic value per diluted share	\$7.90					
High transaction cost discount	-2.82%					
Lack of marketability discount	-33.00%					
Adjusted intrinsic value per share	\$5.07					
% Undervalued/(overvalued)	42.88%					

To determine the net diluted shares, we have assume that all inflows resulting from the exercise of warrants and employee stock options will be used to purchase stock at today's stock price. A chart reflecting these assumptions can be found below.

World Airways

Dilution Summary

Dilutive Instrument	Underlying shares	Strike Price	Expiration (yrs.)	Cash	Shares Bought	Net Dilution
Old convertible debenture	2,022,473	\$8.90	0.42	-	-	-
New convertible debenture	7,982,813	\$3.20	4.75	-	-	7,982,813
Employee stock options	3,956,000	\$1.54	4.55	6,092,240	1,716,124	2,239,876
ATSB warrants	1,269,022	\$0.78	4.75	989,837	278,827	990,195
	111,111	\$2.50	0.95	277,778	78,247	32,864
	111,111	\$2.50	0.45	277,778	78,247	32,864
	886,979	\$3.20	5.75	2,838,333	799,530	87,449
Warrants to Lessor	1,000,000	\$2.50	0.42	2,500,000	704,225	295,775
	1,000,000	\$2.50	12.00	2,500,000	704,225	295,775
Total				15,475,965	4,359,427	11,957,609

In addition to the DCF analysis, we have discounted the intrinsic value to reflect high transaction costs on stocks below \$5.00 based on a \$.05 per share commission and a 33% discount for a relative lack of marketability based on numerous restricted stock and pre-IPO studies. In this analysis, we value the Company \$5.07 per diluted share, and thus arrive at our price target for the stock.

Catalysts for Value Realization:

ATSB Loan Pay Down

Based on current cash flow projections, the Company could pay down its current ATSB guaranteed loan by 2006. Furthermore, the convertible bonds should be exercised as the stock continues to rise. Therefore, by the end of 2006 the Company will likely be all equity. This

rapid change in capital structure will highlight World Airways cash flow generation capabilities to the market and increase its competitiveness.

Leveraged Buy-Out (LBO)

While we view an LBO as a distant possibility, we do believe that due to the Company's ability to generate free cash flow, its mature business model, and its potential all equity structure might make it a takeover candidate for a financial sponsor. Furthermore, a financial sponsor might be able to more effectively allocate FCF as our due diligence has discovered as a barrier to some investors entering the stock.

Furthermore, the Company has a few activist shareholders that might put further pressure on the Company to execute an LBO or return of cash to shareholders through a dividend or share repurchases. In particular, Lonestar Partners is a Dallas based private equity firm, which purchases distressed securities and has a reputation as an activist shareholder. We believe Lonestar with its 3.64% equity interest (see ownership structure below) will help ensure the proper management of future free cash flows. However, we note that a more passive (but still institutional) investor, Zazove Associates, owns the convertible debenture, and therefore owns much of the Company on a diluted basis. Management is also a significant shareholder (the current chairman owns 4.27% of the Company), which means a management buy-out could also be possible.

World Airways

Fully Diluted Ownership Structure

Investor	Shares Held	
Zazove Associates LLC (Incline Village)	6,293,452	21.16%
Worldcorp, Inc.	2,483,861	8.35%
Harris, Hollis (former Chairman & CEO)	1,269,715	4.27%
Berhad, Naluri	1,217,000	4.09%
Lonestar Partners, LP	1,081,133	3.64%
Barclays Global Investors, Intl	705,014	2.37%
Total	13,050,175	43.88%
Float	16,687,333	56.12%
Total Diluted Shares	29,737,508	100.00%

Source: www.cnbc.com

Lastly, while we certainly recognize that being a public Company will probably help World Airways achieve better lease rates, we question its need to be a publicly traded Company. Due to some individual shareholder apathy, the special stockholder meeting called to approve the issuance of the convertible debenture and ATSB loan meeting had to be adjourned due to a lack of quorum. Future shareholder apathy may result in more disadvantages to the Company than advantages, which might lead management to pursue an LBO. Furthermore, many small companies are reporting high costs of complying with Sarbanes Oxley.

In order to assist in assessing the feasibility of a LBO, we have modeled a LBO occurring this year. We assumed that management would participate in a buyout lead by Lonestar acting as a

financial sponsor. We feel this transaction makes sense for both the Company and Lonestar on a financial basis as presented below.

First we made the below assumptions regarding the LBO.

LBO Assumptions	
Minimum cash/working capital cash	\$25,000
Exit AEV/EBITDAR multiple	4.00x
High Yield Coupon Rate	11.85%
Term	10
% equity to Management	29.41%
% equity to Sponsor	70.59%

Minimum cash was determined by analyzing previous fiscal year cash balances.

Exit AEV/EBITDAR multiple is a historically conservative multiple for airlines, and is lower than the current purchase price multiple assumed below.

The % equity assumptions are based upon insiders being part of the deal with their existing holdings, and the sponsor contributing both its existing shares and additional equity capital necessary to achieve an issuance of high yield notes.

Below is a summary of the transaction, including the premium paid to existing stockholders.

Transaction Summary

Current stock price	\$3.55
Purchase price per share	\$4.62
Buyout premium	30%
Current shares outstanding	11,398
Net diluted shares	12,964
Total diluted shares outstanding	24,362
Equity value	\$112,429
2004E AEV/EBITDAR	5.56
2005E AEV/EBITDAR	6.52

World Airways

Dilution Summary

Dilutive Instrument	Underlying shares	Strike Price	Expiration (yrs.)	Cash	Shares Bought	Dilution
Old convertible debenture	2,022,473	\$8.90	0.42	-	-	-
New convertible debenture	7,982,813	\$3.20	4.75	-	-	7,982,813
Employee stock options	3,956,000	\$1.54	4.55	6,092,240	1,320,095	2,635,905
ATSB warrants	1,269,022	\$0.78	4.75	989,837	214,483	1,054,539
	111,111	\$2.50	0.95	277,778	60,190	50,921
	111,111	\$2.50	0.45	277,778	60,190	50,921
	886,979	\$3.20	5.75	2,838,333	615,023	271,956
Warrants to Lessor	1,000,000	\$2.50	0.42	2,500,000	541,712	458,288
	1,000,000	\$2.50	12.00	2,500,000	541,712	458,288
Total	18,339,508			15,475,965	3,353,405	12,963,630

The high yield coupon rate is based on the credit statistics below, which places a World Airways LBO High Yield Bond as a BB transportation credit given the proposed capitalization structure (see Sources and Uses of Funds) and projected income statement, balance sheet and statement of cash flows presented below. Operating income is assumed to be the same as projected above in our base case analysis.

Summary Credit Statistics

	2004E	2005E	2006E	2007E	2008E	Median	BBB	BB	B
Free operating cash flow/total debt	2.13%	4.06%	7.41%	11.53%	15.33%	7.41%	8.50%	2.60%	-3.20%
Total debt to total capital	38.59%	40.14%	39.85%	38.92%	37.46%	38.92%	48.20%	62.60%	74.80%
EBITDA/Cash Interest	1.88	1.32	1.79	2.29	2.82	1.88	5.80	3.40	1.80

Source: Standard and Poors and Internal Projections.

Sources and Uses of Funds

Sources:			Uses:		
	Amount	% of total		Amount	% of total
High Yield Debt	\$100,000	51.02%	Equity purchase price	\$112,429	57.36%
Cash	\$18,000	9.18%	Refinance debt	\$75,177	38.36%
Existing equity holdings	\$27,929	14.25%	Financing fees	\$3,000	1.53%
Sponsor Equity	\$50,067	25.55%	Advisory fees	\$5,390	2.75%
Total Sources	\$195,996	100.00%	Total Uses	\$195,996	100.00%

Excess Purchase Price Summary

Equity purchase price	112,429
Less book value	-6,673
Plus advisory fees	5,390
Excess purchase price	124,492

World Airways LBO Analysis

Income Statement Summary

	2004E	2005E	2006E	2007E	2008E
EBIT	\$17,632	\$10,689	\$15,988	\$21,616	\$27,587
<u>Net Interest Expense:</u>					
High Yield Debt interest expense	11,850	11,850	11,850	11,850	11,850
Financing fee amortization	300	300	300	300	300
Net interest expense	12,150	12,150	12,150	12,150	12,150
Pre-tax income	5,482	-1,461	3,838	9,466	15,437
Income taxes	2,248	-	1,573	3,881	6,329
Net Income	\$3,235	-\$1,461	\$2,264	\$5,585	\$9,108

World Airways LBO Analysis
Balance Sheet Summary

	2003	Adjust.	2003PF	2004E	2005E	2006E	2007E	2008E
Cash and equivalents	\$53,825	-\$18,000	\$35,825	\$27,594	\$28,547	\$33,843	\$43,258	\$56,480
Working capital assets	39,167	-	39,167	33,773	35,884	39,134	42,548	46,131
Total current assets	92,992	-18,000	74,992	61,367	64,431	72,977	85,805	102,611
Fixed assets, net	38,964	-	38,964	42,887	41,939	39,700	37,170	34,349
Long-term operating deposits	17,664	-	17,664	17,664	17,664	17,664	17,664	17,664
Goodwill	-	124,492	124,492	124,492	124,492	124,492	124,492	124,492
Deferred charges	7,681	-4,681	3,000	\$2,700	\$2,400	\$2,100	\$1,800	\$1,500
Total Assets	\$157,301	\$101,811	\$259,112	\$249,110	\$250,926	\$256,933	\$266,931	\$280,615
Working capital liabilities	\$66,429	-	\$66,429	\$56,103	\$59,623	\$62,990	\$66,514	\$70,201
Existing debt	75,177	-75,177	-	-	-	-	-	-
High Yield Debt	-	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Deferred gain from sale-leaseback transactions, net	2,777	-	2,777	1,645	513	0	0	0
Accrued post-retirement benefits	3,583	-	3,583	3,583	3,583	3,583	3,583	3,583
Deferred rent	16,008	-	16,008	14,229	15,119	16,008	16,897	17,787
Total liabilities	163,974	24,823	188,797	175,561	178,837	182,581	186,994	191,570
Stockholders' equity	-6,673	\$76,988	70,315	73,549	72,088	74,353	79,937	89,045
Total liabilities and stockholders' equity	\$157,301	\$101,811	\$259,112	\$249,110	\$250,926	\$256,933	\$266,931	\$280,615

World Airways LBO Analysis
Statement of Cash Flows Summary

	2004E	2005E	2006E	2007E	2008E
<u>Operational Activities:</u>					
Net Income	3,235	-1,461	2,264	5,585	9,108
Deferred gain recognition	-1,132	-1,132	-513	-	-
Depreciation and Amortization	4,957	5,248	5,539	5,830	6,121
Changes in working capital	-4,932	1,409	116	110	104
Cash flow from operations	2,128	4,064	7,407	11,525	15,333
<u>Investing Activities:</u>					
Cap-Ex	-8,580	-4,000	-3,000	-3,000	-3,000
<u>Financing activities:</u>					
Deferral of aircraft rent obligations, net of repayments	-1,779	889	889	889	889
Beginning cash	35,825	27,594	28,547	33,843	43,258
Change in cash	-8,231	953	5,296	9,415	13,222
Ending cash	27,594	28,547	33,843	43,258	56,480

As one can see, the transaction can support a \$100M High Yield issuance, which is needed to take the Company private.

World Airways LBO Analysis

Equity Value at Exit

2008E EBITDAR	\$118,472
Exit multiple	4.00x
Implied enterprise value	473,888
Less debt	100,000
Plus excess cash	31,480
Implied equity value	\$405,368

Return to Management

Initial investment	\$22,939
2008 Equity Value	\$119,222
Return to Management	54.79%

Return to Sponsor Group

Initial investment	\$55,057
2008 Equity Value	\$286,146
Return to Sponsor	54.79%

Furthermore, the sponsor and management will realize huge gains as a result of a levered transaction, as show above.

Therefore, we believe that even before the Company improves its capital structure in the next 2 years, the current capital structure will permit an LBO with a 30% gain to shareholders.