

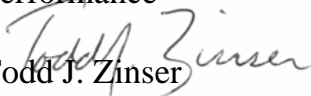


Memorandum

U.S. Department of
Transportation
Office of the Secretary
of Transportation
Office of Inspector General

Subject: INFORMATION: Aviation Industry
Performance

Date: August 4, 2006

From: 
Todd J. Zinser
Acting Inspector General

Reply to
Attn. of: JA-50

To: The Acting Secretary
Federal Aviation Administrator
The Acting Assistant Secretary for
Aviation and International Affairs

Attached is the eighth in a series of periodic updates to our aviation industry performance report. The performance metrics were developed in 2002 as a mechanism for monitoring aviation industry trends, including domestic demand and capacity, aviation system performance, airline finances, and air service in small communities.¹ The point of reference or base year for most of the metrics is 2000, when traffic and delays were at their peak.

This year we found that while fuel prices have increased 31 percent from 2005, the airlines are in a better financial condition in 2006 than 2005 as a result of seat capacity reductions (-5 percent) and increased fares (+12 percent). Because of the capacity reductions, load factors (percent of seats sold) increased from 74 percent in 2005 to 77 percent in 2006.

Capacity reductions have been more severe in the Midwest and South and have affected the smallest (non-hub) airports significantly more than large. Despite fewer flights, the percent of flights delayed in 2006 is about the same as 2000 at 23 percent, as are the delay lengths (53 minutes). However; some airports have experienced significant changes in the number of delays since 2000, with delays *decreasing* by 53 percent in Pittsburgh and *increasing* by 59 percent in Memphis.

Attached to this report are three exhibits: Exhibit A, Summary of Aviation Industry Metrics, which contains detailed textual and graphic presentations of

¹ The performance metrics are based on data collected and processed by the Department of Transportation's Office of Aviation Analysis, Bureau of Transportation Statistics (BTS), Office of Airline Information, and Federal Aviation Administration and by the Air Transport Association.

industry measures; Exhibit B, Scope and Methodology, which explains sources, analyses, and terms employed; and Exhibit C, which lists Office of Inspector General (OIG) contributors to the report.

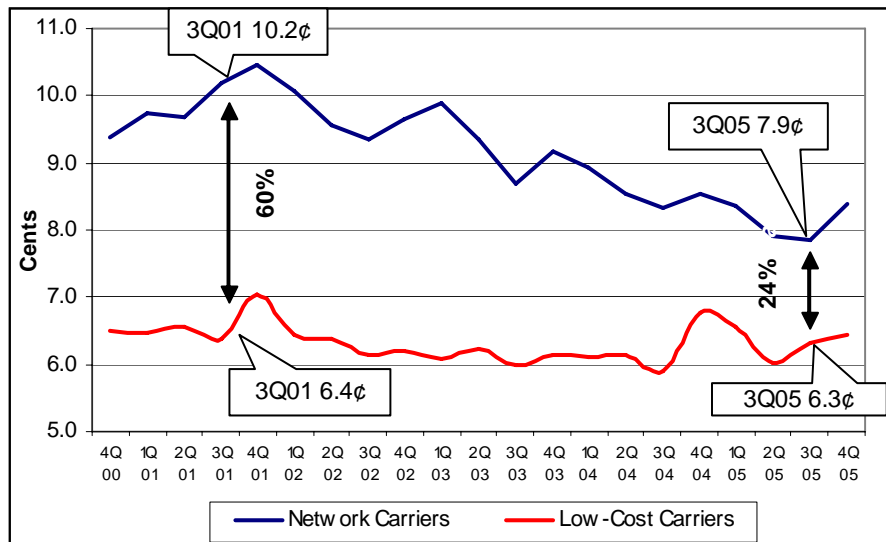
The following highlights the most significant trends that have emerged since we issued our last report in June 2005.²

Fuel Costs Continue To Escalate, Driving Up Operating Costs

The average cost per gallon of jet fuel in May 2006 (\$2.05) was 35 percent higher than May 2005 (\$1.52) and 193 percent higher than May 2002 (\$0.70). Total domestic fuel expense for the industry increased \$1.9 billion in the first 5 months of 2006 compared to a year earlier despite a 6 percent decline in flights. Increasing fuel costs helped drive up unit operating costs (cost per available seat mile or CASM) by 5 percent for network carriers and 9 percent for low-cost carriers between the first quarter of 2001 and the first quarter of 2006.³

The network carriers continue to whittle away at the low-cost carriers' cost advantage, with the gap in unit operating costs (CASM excluding fuel or CASMEF) declining from 60 percent in the third quarter of 2001 to 24 percent in the third quarter of 2005. Between these quarters, CASMEF for network carriers declined by 23 percent and CASMEF for low-cost carriers declined by 1 percent (see Figure I).

Figure I. Cost Per Available Seat Mile Excluding Fuel (CASMEF) 4Q00 through 4Q05



² OIG Report Number CC-2005-057, "Aviation Industry Performance: Trends in Demand and Capacity, Aviation System Performance, Airline Finances, and Service to Small Airports," June 30, 2005. OIG reports can be found on our website: www.oig.dot.gov.

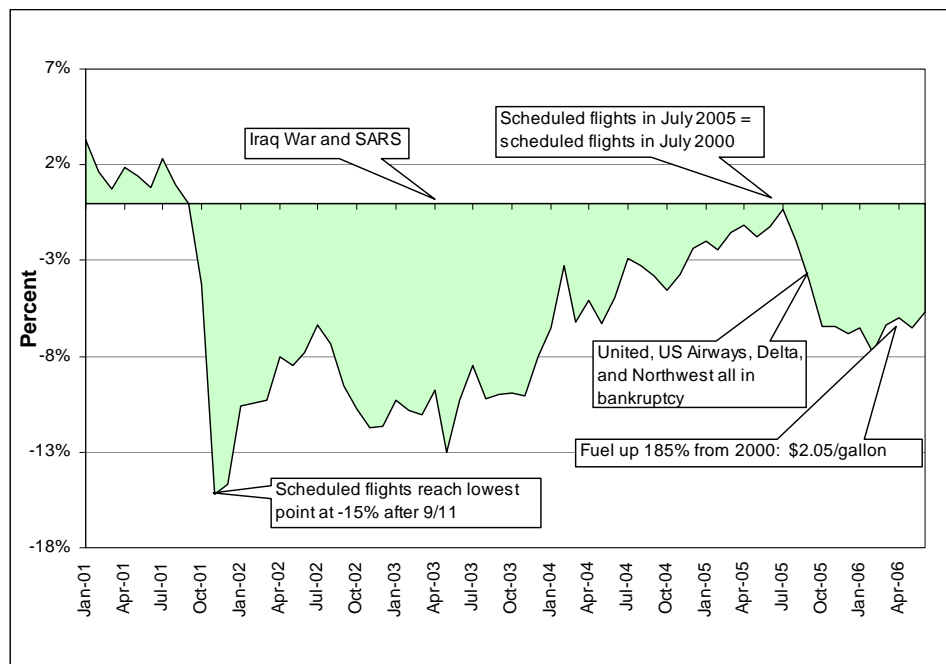
³ CASM has been adjusted to remove the effects of an accounting change requiring airlines to include the costs of affiliated regional airline operations within their total expenses.

Despite Fuel Costs, Major Passenger Carriers Improve Their Financial Condition by Reducing Capacity and Increasing Fares

In the first quarter of 2006, the major passenger airlines⁴ posted an operating loss of \$461 million—a significant loss but a major improvement over the \$1.5 billion loss posted in the first quarter of 2005. Nine of the 16 major passenger airlines posted profits in the first quarter of 2006.

The airlines improved their financial condition by taking advantage of strong passenger demand competing for fewer available seats, which enabled them to increase fares. Passenger demand, as measured by enplanements, was 6 percent higher in 2005 than in 2000. Despite this increased demand, the airlines began to reduce capacity in late 2005 in an effort to trim costs. In the first 5 months of 2006, the six largest network carriers combined scheduled 13 percent fewer domestic flights and 18 percent fewer seats than they scheduled in the first 5 months of 2000. Compared to the first 5 months of 2005, flights are down 6 percent and seats are down 9 percent (see Figure II).

Figure II. Change in Scheduled Flights, 2001-2006 (Base Year 2000)



By reducing capacity in an environment of higher demand, the airlines have been more successful in raising and maintaining higher fares. These higher fares have resulted in higher yields (passenger revenue per revenue passenger-mile). June 2006 yields of 13.4 cents (\$134 for a 1,000 mile trip) were 12 percent higher

⁴ BTS defines “major” airlines as the 17 passenger airlines with annual revenues greater than \$1 billion.

than June 2005, although still 8 percent below June 2000. In addition to raising airfares, the airlines improved their yields in early 2006 by beginning to phase out some of the lower-priced, less restricted business fares they had introduced in prior years to recapture what was then a deflated business travel market.

Flights are More Crowded

Capacity reductions begun in late 2005 have resulted in 4.2 million fewer seats scheduled in July 2006 than in July 2005. Combined with recent increased enplanements, the load factor for major passenger airlines (the percent of seats filled by a paying passenger) had increased to 77 percent in the fourth quarter of 2005, compared to 73 percent in the fourth quarter of 2004 and 69 percent in the fourth quarter of 2000.

The Midwest and Northeast Lost the Most Air Service Since 2000

Since 2000, all regions lost service, but the Midwest and Northeast were most affected. Nationwide, scheduled seats on domestic flights in July 2006 were 9 percent lower than in July 2000. In the Midwest, scheduled seats were 22 percent lower, which was primarily a result of network carriers restructuring operations during bankruptcy. Delta reduced operations in Cincinnati, and Northwest reduced operations in Detroit and Minneapolis. In the Northeast, scheduled seats decreased by 13 percent during this same period.

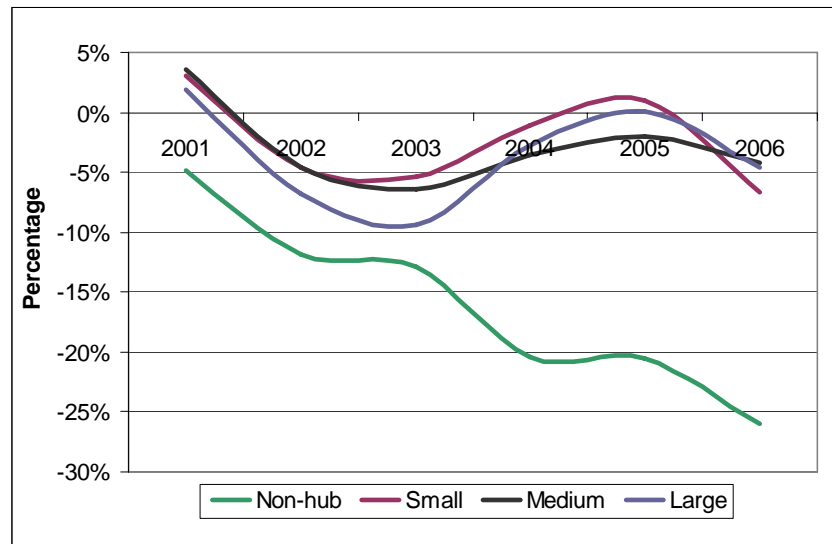
More recently, the South experienced reductions in capacity primarily in communities served by Delta through its Atlanta hub. Service in the South was also affected by US Airways' capacity reductions in Charlotte, which it did while emerging from bankruptcy in September 2005. The close of Independence Air in January 2006 further eliminated capacity in the region.

Capacity Reductions Were Most Prominent in Small Communities

The capacity reductions have primarily affected service in the smallest (non-hub) communities, where scheduled flights for July 2006 are 26 percent, and scheduled seats are 18 percent, below July 2000 levels. About 40 percent of the reduction in scheduled seats since 2000 occurred in the last year alone. Particularly hard hit are very small communities in the Midwest and Northeast, where scheduled seats in July 2006 are down 33 percent from July 2000 (see Figure III).

Figure III. Departure by Airport Type

Percent Change in Scheduled Domestic Flights;
July 2001 through July 2006 (Base Year 2000)



Aviation Delay Rates Have Not Declined Despite a Reduction in Flights

The percent of flights delayed at the 55 airports tracked by the Federal Aviation Administration remained relatively unchanged at about 23 percent between the first 5 months of 2000 and the first 5 months of 2006, despite a 5 percent reduction in traffic. The absolute number of delays has declined by 7 percent since 2000. The average delay in the first 5 months of 2000 was 50 minutes; the current average delay is 53 minutes.

There are some noteworthy airports that have seen significant changes in their congestion status—both increasing and decreasing. The greatest reductions were at airports where major carriers either de-hubbed or significantly reduced their service between 2000 and 2006. The increased delays reflect a growing number of flights in Salt Lake City and Houston (Bush). The delays in Houston were exacerbated by runway construction work. In Memphis, the increase in the number of delays was due to a decline in on-time performance by Federal Express' operations (see Table 1).

**Table I. Changes in Traffic and Delays; and Current Delay Rates
at Select Airports,
Jan-May 2000 v. Jan-May 2006**

Airport	Change in Arrivals	Change in Delays	Delay Rate Jan-May 06
Reduced Delays			
Cincinnati	-23%	-52%	14%
Saint Louis	-58%	-53%	18%
Pittsburgh	-40%	-53%	19%
Increased Delays			
Salt Lake City	20%	25%	20%
Houston (Bush)	30%	56%	23%
Memphis	12%	59%	24%

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TABLE OF CONTENTS

AIR SERVICE DEMAND AND CAPACITY

Figure 1: Domestic Passenger Enplanements 2000 - 2005.....	9
Figure 2: Domestic Revenue Passenger-Miles and Available Seat-Miles.....	9
Figure 3: Domestic and International Revenue Passenger-Miles.....	9
Figure 4: International Passenger Traffic	10
Figure 5: Nine Major Airlines Reported Arrivals.....	10
Figure 6: Regional Differences in Capacity at All Airports	10
Figure 7: Change in Capacity at Large Airports.....	11
Figure 8: Length of Domestic Flights.....	12
Figure 9: Short Haul Flights: Seats by Type of Airline.....	12
Figure 10: Domestic and International Air Cargo Traffic	12
Figure 11: Domestic Market Share by Seller Carrier Group.....	13
Figure 12: Market Share of Low-Cost Carrier Service.....	13
Figure 13: Share of Low-Cost Carrier Service Growth.....	13
Figure 14: Market Share by Aircraft Type	13

AVIATION SYSTEM PERFORMANCE

Figure 15: Actual Flight Operations.	14
Figure 16: Number of Flights With Delayed Arrivals.....	14
Figure 17: Cancellations	14
Figure 18: Percent of Flights Arriving Late.....	15
Figure 19: Length of Arrival Delays.....	15
Figure 20: Most Significant Changes in Arrival Delays by Airport.....	15

AIRLINE FINANCES

Figure 21: Revenues versus Expenses	16
Figure 22: Selected Network and Low-Cost Carriers Operating Profit or Loss.....	16
Figure 23: Accumulated Net Losses and Gains.....	17
Figure 24: Domestic Cost Per Available Seat-Mile (CASM).....	17

Figure 25: Domestic Yield for Seven Major Airlines.....	18
Figure 26: Average; Short-, Medium-, and Long-Haul Fares for Fourth Quarters 2000-2005.....	18
Figure 27: Use of Business Fares.....	18
Figure 28: Passenger Load Factors.....	19
Figure 29: Actual Airline Load Factors.....	19
Figure 30: Debt-to-Investment Ratio	19
Figure 31: Debt-to-Investment Ratio by Airline.....	19
Figure 32: Cost Per Gallon Domestic Jet Fuel.....	20
Figure 33: Airport and Airway Trust Fund.....	20
 <i>AIR SERVICE AT SMALL AIRPORTS</i>	
Figure 34: Changes in Service by Airport Size	21
Figure 35: Access to Large Airports.....	21
Figure 36: Regional Differences in Service at Non-Hubs	21
Figure 37: Essential Air Service	22

EXHIBIT A. SUMMARY OF AIRLINE INDUSTRY METRICS

I. Air Service Demand and Capacity

AIR TRAFFIC DEMAND. System passenger enplanements on U.S. airlines in 2005 totaled 738.6 million, which was 5 percent greater than 2004 and 5.7 percent greater than 2000.⁵ [Figure 1]

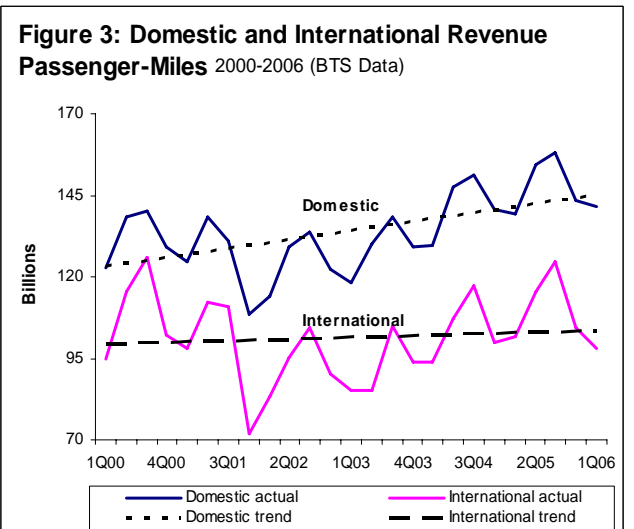
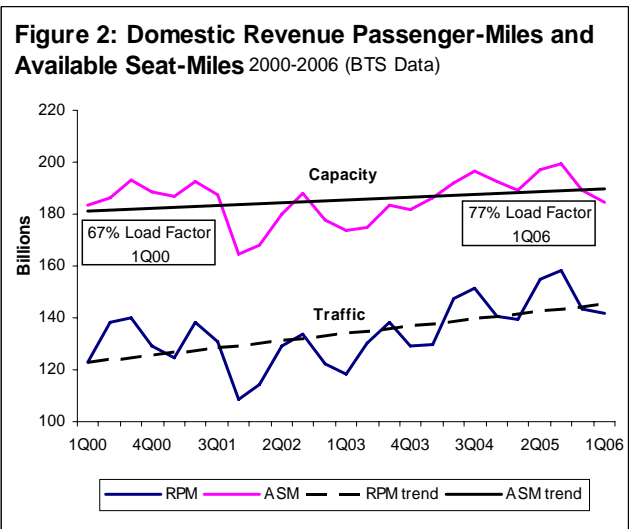
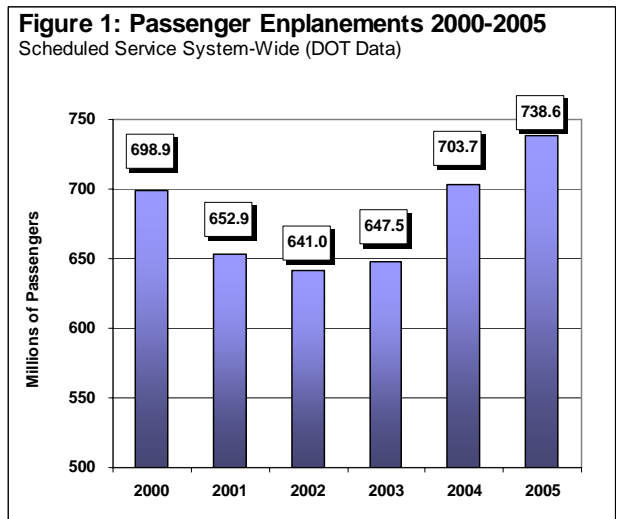
DOMESTIC TRAFFIC AND CAPACITY. Between the first quarter of 2000 and the first quarter of 2006, passenger traffic, as measured by Revenue Passenger-Miles (RPMs) grew 15 percent while capacity, as measured by Available Seat-Miles (ASMs) remained comparatively flat (up only 0.6 percent). As traffic increases faster than capacity, the percent of available seats sold, or load factor, increases. This indicates that capacity is more closely matching demand. The load factor in the first quarter of 2000 was 67 percent; in the first quarter of 2006, the load factor increased 10 percentage points to 77 percent. Compared to the first quarter of 2005, RPMs increased approximately 1.6 percent while ASMs decreased by 2.4 percent. [Figure 2]

DOMESTIC AND INTERNATIONAL TRAFFIC.⁶ Domestic RPMs in the 12 months ending March 2006 were 598 billion, 12 percent higher than in the 12 months ending March 2001. Over the same period, the trend of international passenger traffic was flat, with RPMs for the 12 months ended March 2006 at 443 billion. In the 12 months ending March 2006, both domestic and international RPMs exceeded RPMs in the prior 12-month period. Domestic RPMs were up 3.3 percent and international RPMs up 3.9 percent. [Figure 3]

INTERNATIONAL PASSENGER GROWTH BY REGION. Atlantic traffic, the largest of the United States' international air service markets, averages 210 billion RPMs annually. Traffic in this region declined slightly (2.9 percent) between the year ended March

⁵ We use 2000 as the base year in many of our metrics due to its high level of flight delays and traffic congestion.

⁶ International includes all international operations of U.S. airlines and all service to and from the U.S. by foreign airlines.



2001 and the year ended March 2006. Traffic in the Atlantic region fluctuates regularly due to highly seasonal vacation traffic. The Pacific region (average 128 billion annual RPMs), while remaining relatively flat over this period, experienced a substantial 30 percent downturn in mid-2003 when the Severe Acute Respiratory Syndrome epidemic stifled travel to and from the region. Passenger traffic in the Latin American region increased 9.4 percent from 71 billion RPMs in the year ended March 2001 to 77 billion RPMs in the year ended March 2006. Traffic in all three regions grew in the last year—Atlantic up 3.2 percent, Latin American up 4.6 percent and Pacific up 4.8 percent. [Figure 4]

FLIGHT ARRIVALS. Between May 2000 and May 2006, three airlines reported increased domestic flight arrivals at the 55 large airports tracked by FAA; Southwest Airlines (21 percent), Alaska Airlines (14 percent), and America West (1 percent). Six airlines reported declines in arrivals ranging from 16 percent (Northwest) to 52 percent (US Airways). US Airways significantly reduced flights into the Pittsburgh and Charlotte airports. [Figure 5]

REGIONAL DIFFERENCES IN DOMESTIC SERVICE. Scheduled seats nationwide totaled 78.3 million in July 2006, 9 percent fewer than July 2000 levels. Seats declined in the Midwest (-22 percent), Northeast (-13 percent), South (-6 percent), and West (-2 percent). On an absolute basis, the greatest seat loss was in the Midwest region, where monthly available seats declined from 18.6 million in July 2000 to 14.6 million in July 2006. This loss represented about half of the Nation's reduction. A large portion of the past year's decline in the Midwest reflects Delta's reduced hub and spoke operations in Cincinnati and Northwest's reduced operations in Detroit and Minneapolis, both of which followed their bankruptcy filings. Seats in the South declined in the past year as Delta reduced operations in Atlanta and US Airways eliminated some service in Charlotte. Independence Air, which had a hub at Washington-Dulles, ceased operations and also greatly affected this region. [Figure 6]

Figure 4: International Passenger Traffic
Quarterly Revenue Passenger-Miles 1Qtr 2000-1Qtr 2006 (BTS Data)

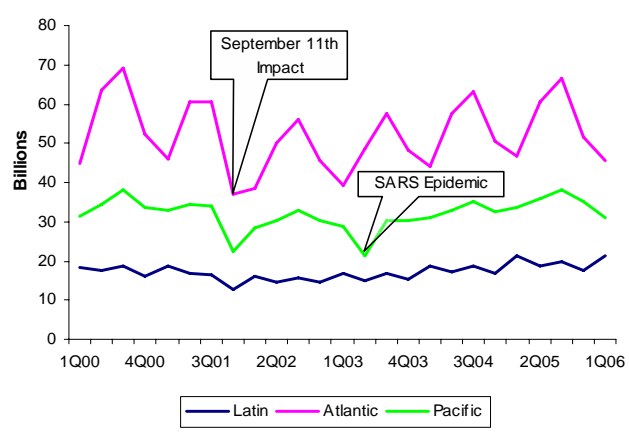


Figure 5: Nine Major Airlines Reported Arrivals
Percent Change in Actual Arrivals by Airline May 2006 vs. May 2000 (BTS Data)

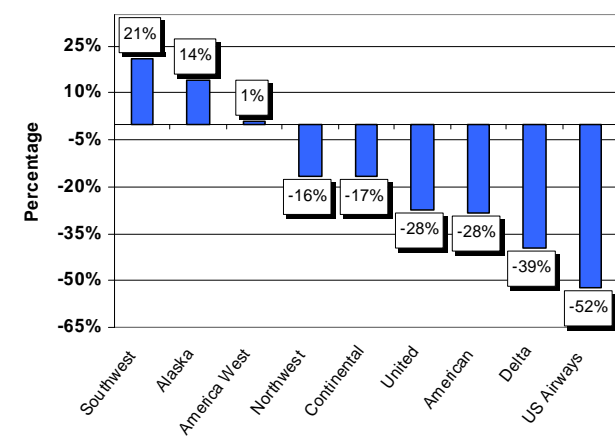
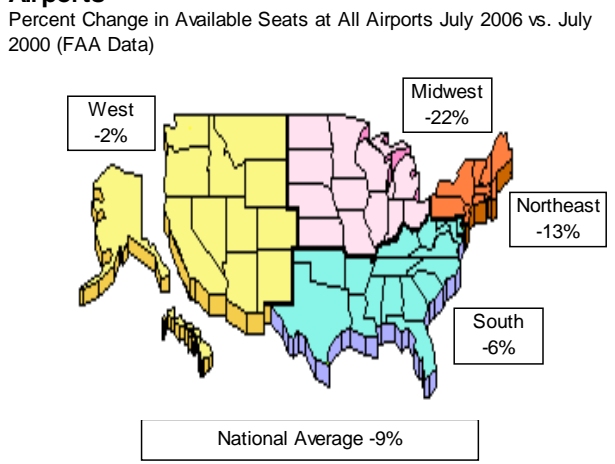
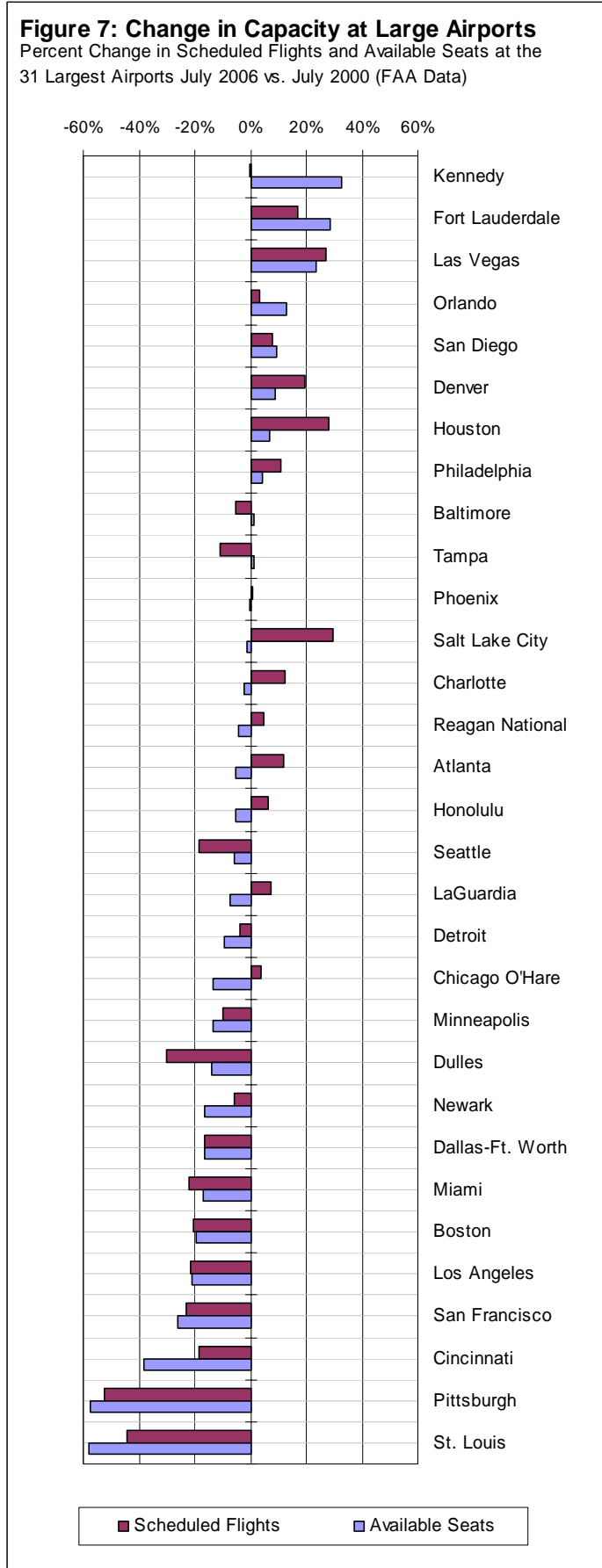


Figure 6: Regional Differences in Capacity at All Airports
Percent Change in Available Seats at All Airports July 2006 vs. July 2000 (FAA Data)



CAPACITY AT LARGE AIRPORTS. Capacity, as measured by scheduled seats and flights, declined at 21 of the 31 largest airports between July 2000 and July 2006. Airports losing seats include St. Louis (-58 percent), Pittsburgh (-57 percent), and Cincinnati (-38 percent). Airports gaining seats include New York-Kennedy (33 percent), Fort Lauderdale (29 percent), and Las Vegas (24 percent). The increase at these airports reflects significant growth in service by low-cost carriers.

Differences between the change in flights and seats at an individual airport are due to the change in mix of aircraft sizes. For example, at Houston flights grew at a greater rate (28 percent) than seats (7 percent), indicating that relatively smaller regional jets are used in a larger proportion of flights in July 2006 (52 percent) compared to July 2000 (15 percent). *[Figure 7]*



LOSS OF SHORT-HAUL AIR SERVICE. In total, scheduled domestic flights in July 2006 were down 8 percent from July 2000. The largest decline was in the shortest flights: scheduled domestic flights with stage lengths less than 250 miles were down 32 percent and flights between 250 and 499 miles were down 9 percent. Flights of 500 to 999 miles in length increased 20 percent and flights of 1,000 miles or more increased 14 percent.

Sharp reductions were made by network carriers (-3.3 million seats) and regional and other smaller airlines (-2.3 million seats). Low-cost carriers, which generally have not provided short-haul service, changed minimally during this period (-200,000 seats). [Figures 8 and 9]

DOMESTIC AND INTERNATIONAL AIR CARGO.

Revenue ton-miles (RTMs) for domestic air cargo were 21.1 billion for the 12-month period ending March 2006, nearly unchanged from the same period the prior year. Growth in the domestic air cargo industry has lagged behind that of international air cargo, as rising air cargo charges have made surface modes a competitive alternative. Compared to the 12-month period ending March 2005, international air cargo RTMs in the 12 months ending March 2006 increased from 37.2 billion to 37.6 billion, a growth of 1.3 percent.

Over the longer term, i.e., compared to the 12 months ended March 2001, international air cargo grew 15 percent. Much of this growth was in the Pacific and Latin American markets. Pacific RTMs increased 26.4 percent to 18.4 billion RTMs, Latin American RTMs increased 15 percent to 4.3 billion RTMs, and Trans-Atlantic RTPMs increased 3.5 percent to 15 billion RTMs. [Figure 10]

LOW-COST CARRIERS GAIN MARKET SHARE.

Low-cost carriers have continued to expand their share of domestic capacity (as measured in scheduled seats). Between July 2000 and July 2006, low-cost carriers increased their share of all scheduled seats from 19 percent to 28 percent. Network carriers (including their regional airline

Figure 8: Length of Domestic Flights

Percent Change in Scheduled Flights by Length of Flight July 2006 vs. July 2000 (FAA Data)

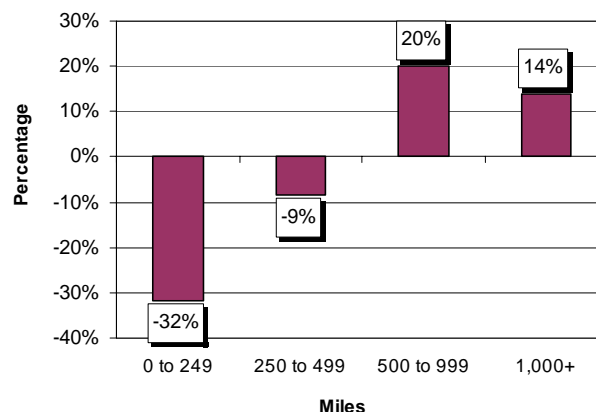


Figure 9: Short-Haul Flights: Seats by Type of Airline

Scheduled Available Seats on Flights Less than 250 Miles July 2006 vs. July 2000 (FAA Data)

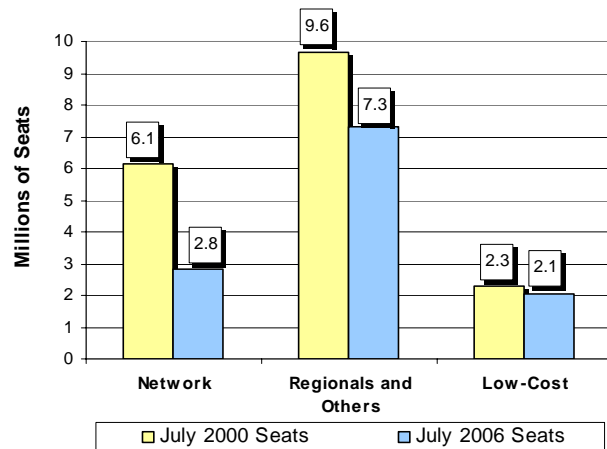
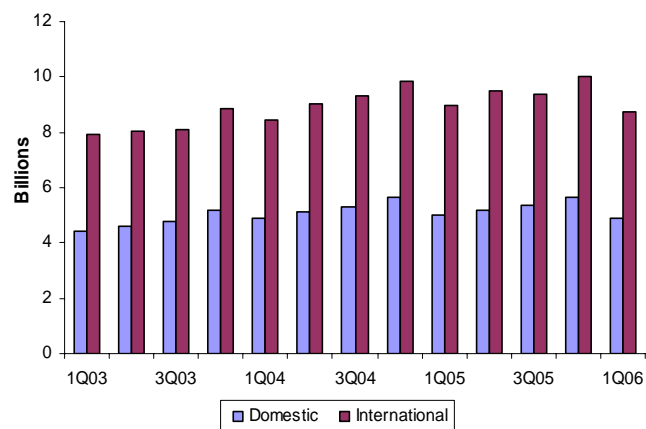


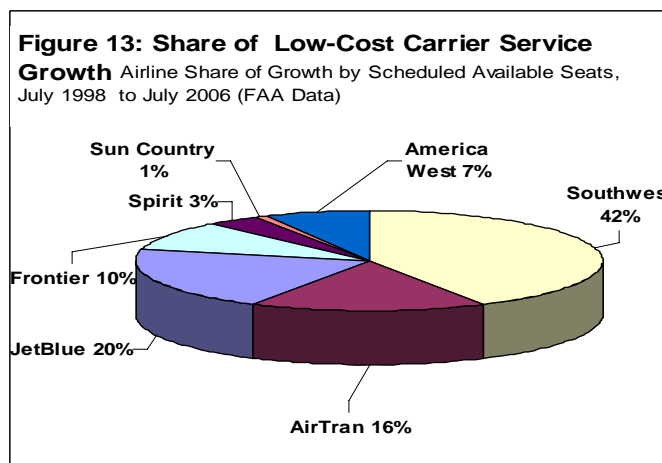
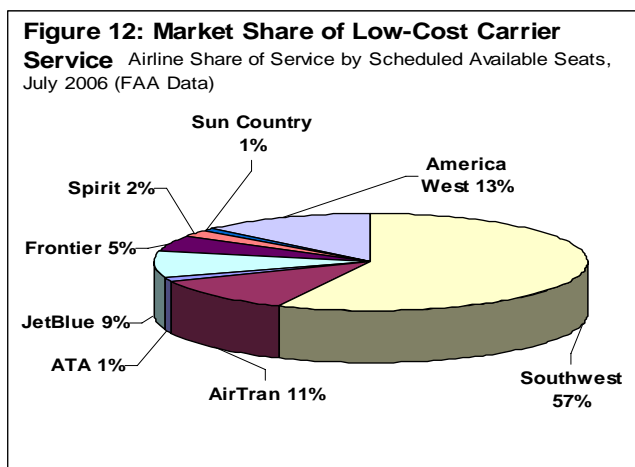
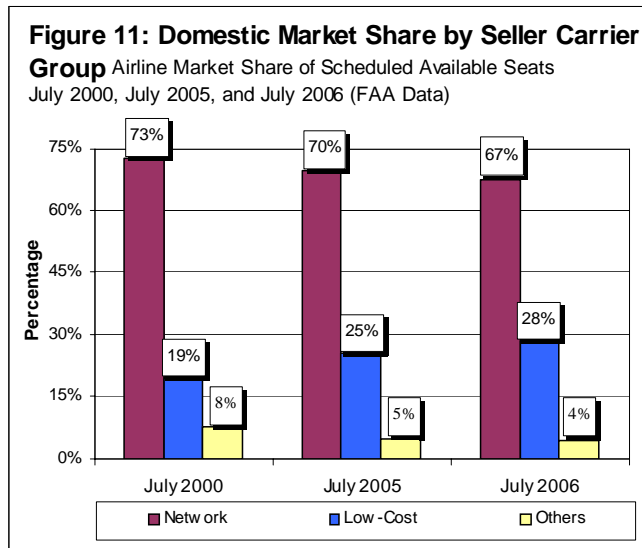
Figure 10: Domestic and International Air Cargo Traffic

Quarterly Revenue Ton-Miles 1Qtr 2003-1Qtr 2006 (BTS Data)

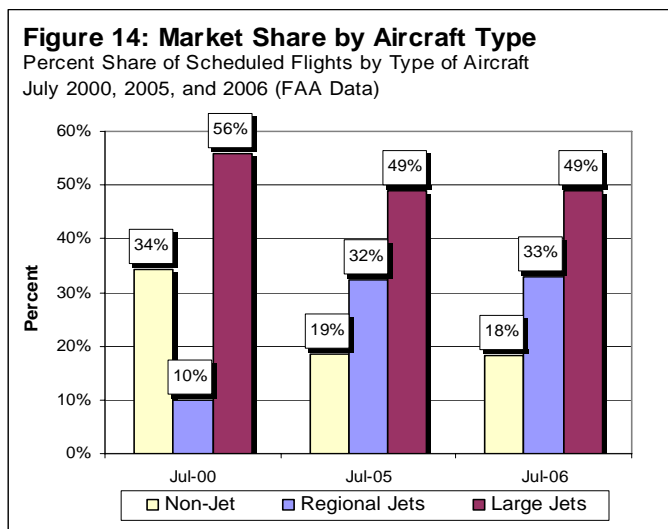


affiliates) reduced their share from 73 percent to 67 percent, and other carriers (for example, Aloha Airlines, Hawaiian Airlines, Midwest Airlines, and intra-Alaska carriers) reduced their share from 8 percent to 4 percent. [Figure 11]

MARKET SHARE AND GROWTH OF LOW-COST CARRIERS. Southwest Airlines represents 57 percent of the total number of seats scheduled by the low-cost carriers and 42 percent of the total growth in low-cost service over the last 8 years. Together, low-cost carriers increased their capacity nearly 75 percent between 1998 and 2006. [Figures 12 and 13]

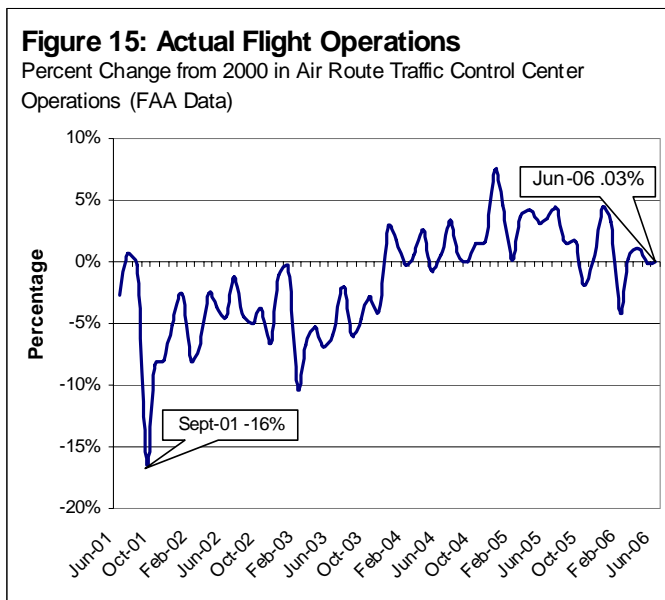


MARKET SHARE BY AIRCRAFT TYPE. In July 2000, 10 percent of domestic scheduled flights were on regional jets. In July 2006, regional jets account for one-third of all domestic scheduled flights. Many carriers substituted regional jets for large jets to better meet demand. Use of large jets declined from 56 percent of scheduled flights in July 2000 to 49 percent for each of the last 2 years. Since July 2000, non-jets (turbo-prop and piston engine aircraft) declined from 34 percent to 18 percent of scheduled flights. [Figure 14]

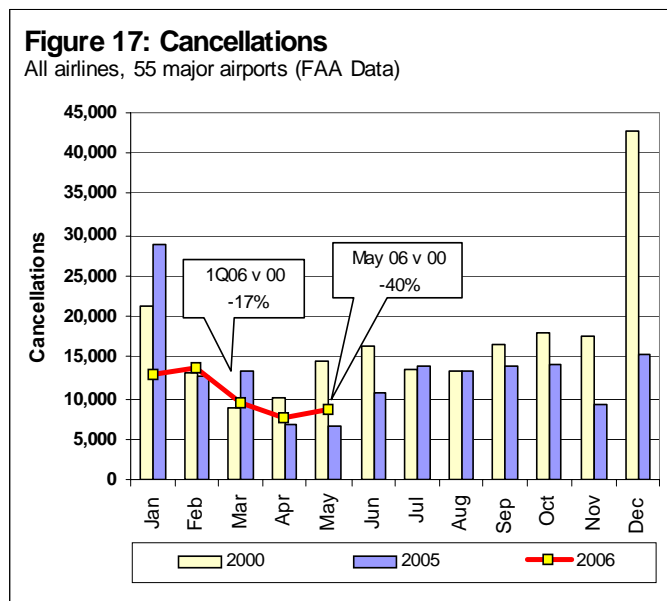
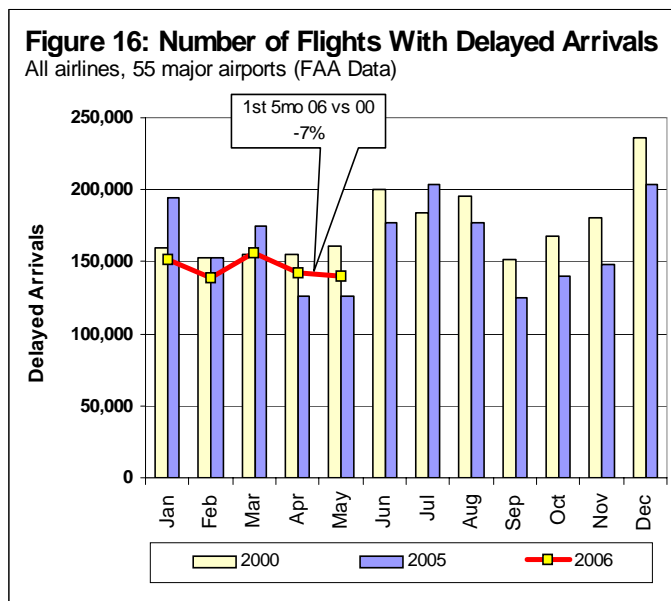


II. Aviation System Performance

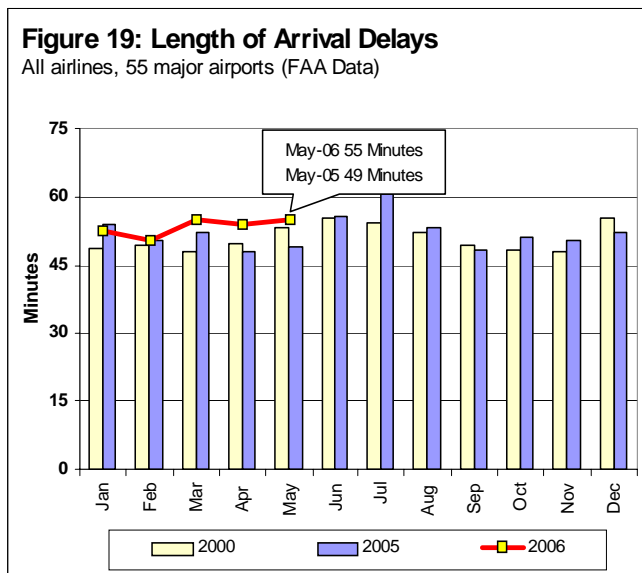
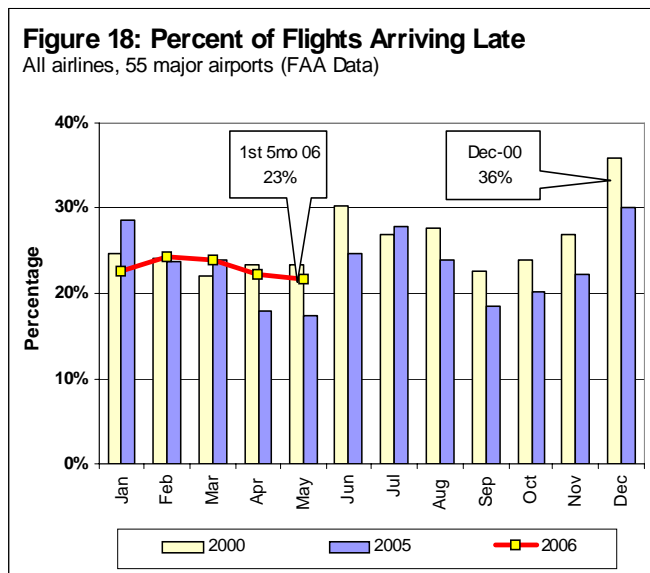
FLIGHT OPERATIONS. Following a decline that started in 2000, the number of domestic aircraft operations handled by FAA’s Air Route Traffic Control Centers began to recover and exceeded 2000 levels in most of 2004 and 2005. However, beginning in mid-2005 and lasting into 2006, flight operations declined as the network carriers reduced capacity. In the first half of 2006, domestic flight operations were on par with operations in the first half of 2000. [Figure 15]



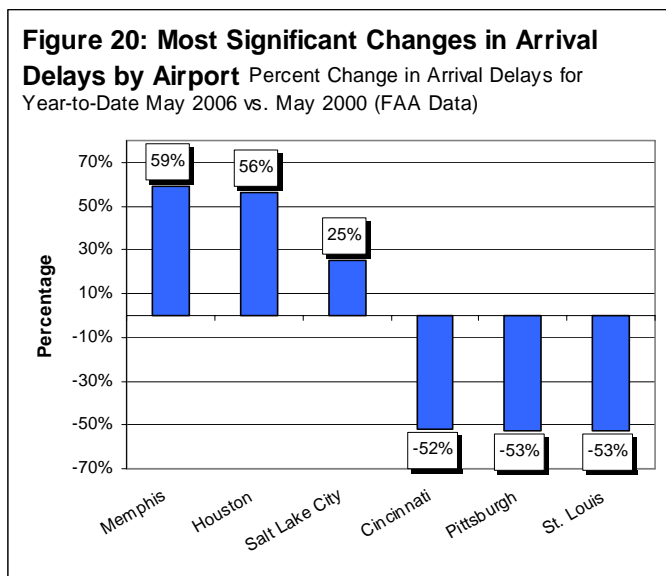
FLIGHT DELAYS AND CANCELLATIONS. The number of delayed flights for the first 5 months of 2006 (726,319) was 6 percent below the same period in 2005 (773,260) and 7 percent below 2000 (781,068). In April and May of 2006, delayed flights exceeded 2005 levels by a wide margin; this is a function of the unusually low numbers of delays in 2005 (compared to similar months since 2000). Flight cancellations for the first 5 months of 2006 (52,297) were 23 percent lower than the same period in 2005 (68,002) and 23 percent lower than in 2000 (67,627). [Figures 16 and 17]



OTHER INDICATORS OF DELAYS. While the number of delayed flights was down at the 55 airports tracked by FAA, the percent of flights delayed during the first 5 months of 2006 (23 percent) was relatively unchanged from the same periods in 2000 and 2005. This was despite the 2006 flight operations at those airports declining 5 percent from 2000 and 9 percent from 2005. The average delay for the first five months of 2006 was 53 minutes—compared to 50 minutes in 2000 and 51 minutes in 2005. To date, 2006 marks the first year in which the monthly average length of delay has exceeded 50 minutes for each month. *[Figures 18 and 19]*

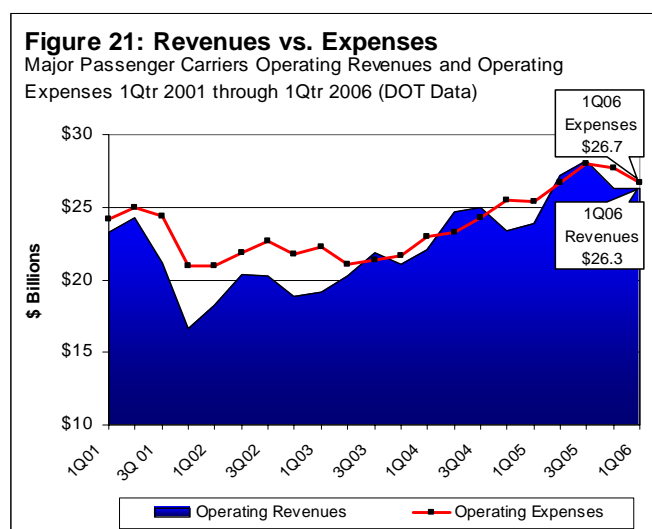


DELAYS AT SELECT AIRPORTS. Systemwide arrival delays are down 7 percent compared to 2000 levels; however, changes have not occurred uniformly among airports. Memphis, Houston (Bush), and Salt Lake City had the greatest increases in delays. These delays can be attributed, at least partially, to the deteriorating on-time performance of FedEx at Memphis, runway reconstruction at Houston, and increased flights in Salt Lake City. The airports with the greatest decrease in delays—Cincinnati, Pittsburgh, and St. Louis—were airports where the dominant hub airlines reduced operations while in or following bankruptcy. *[Figure 20]*



III. Airline Finances

AIRLINE REVENUES AND EXPENSES. In the first quarter of 2006, the major passenger airlines recorded \$26.3 billion in revenue and \$26.7 billion in expenses. This resulted in an operating loss of about \$0.5 billion compared to an operating loss of \$1.5 billion in the first quarter of 2005. Rising fuel prices undermined the airlines' efforts to reduce their operating expenses. During the first quarter of 2006, fuel prices hovered around \$2 a gallon, compared to an average of \$1.64 in 2005 and \$1.13 in 2004. [Figure 21]

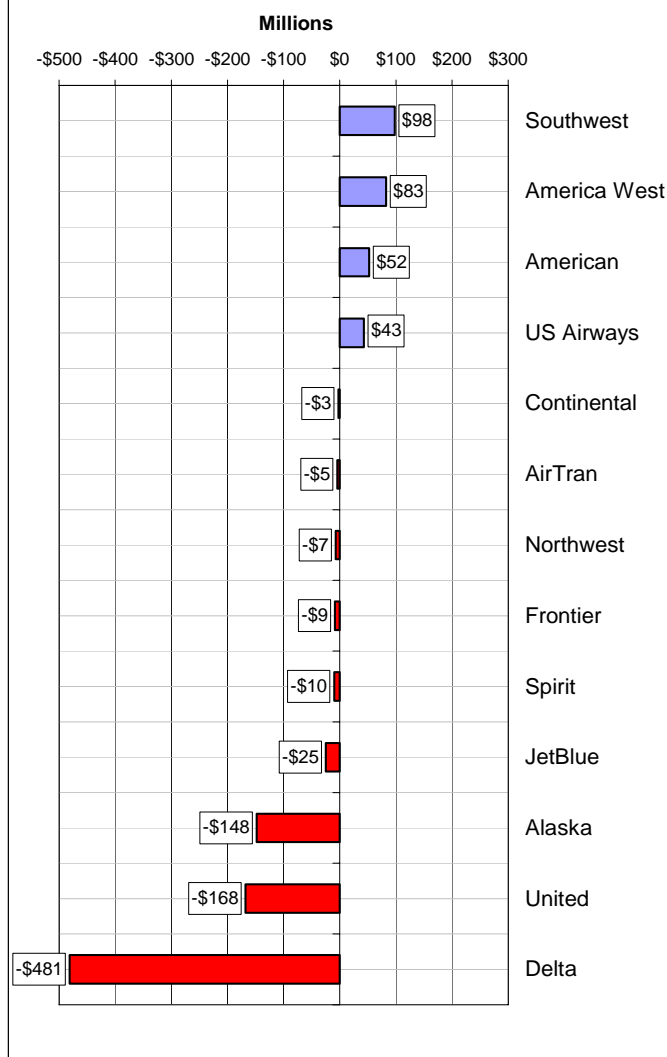


AIRLINE OPERATING PROFITS AND LOSSES.⁷

The first quarter of 2006 operating results for 13 select network and low-cost carriers illustrate the continued financial troubles of the airline industry. Of the total first quarter loss, the select network carriers as a group reported \$710 million in losses. Only American (\$52 million) and US Airways (\$43 million) generated profits, while Delta (-\$481 million), United (-\$168 million), and Alaska (-\$148 million) generated losses. The low-cost carriers posted a \$133 million operating profit, mostly on the strength of Southwest (\$98 million) and America West (\$83 million), because the balance of the low-cost carriers reported operating losses. [Figure 22]

Figure 22: Selected Network and Low Cost Carriers Operating Profit or Loss

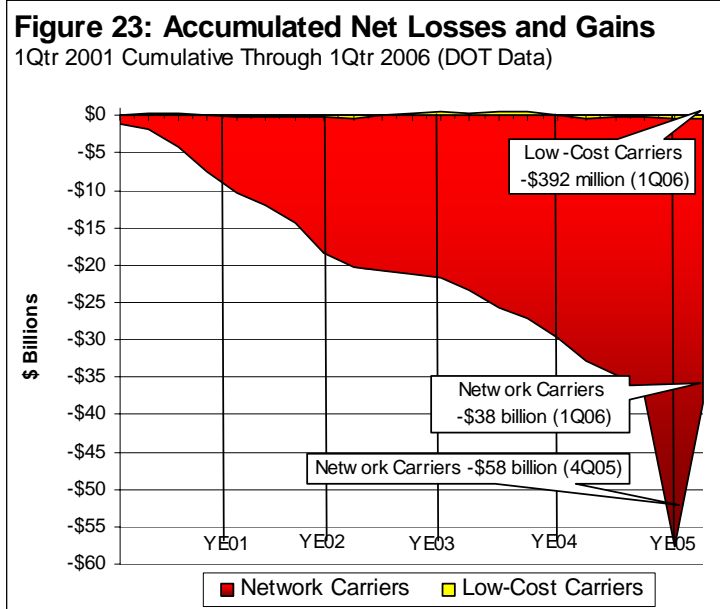
System Operations for Quarter Ending 3/31/06 (DOT Data)



⁷ Operating profit or loss is the difference between operating revenues and operating expenses. Net profit or loss is the result of operating profit or loss plus or minus interest, taxes, dividends, accounting changes, and other extraordinary charges (write-offs) or credits.

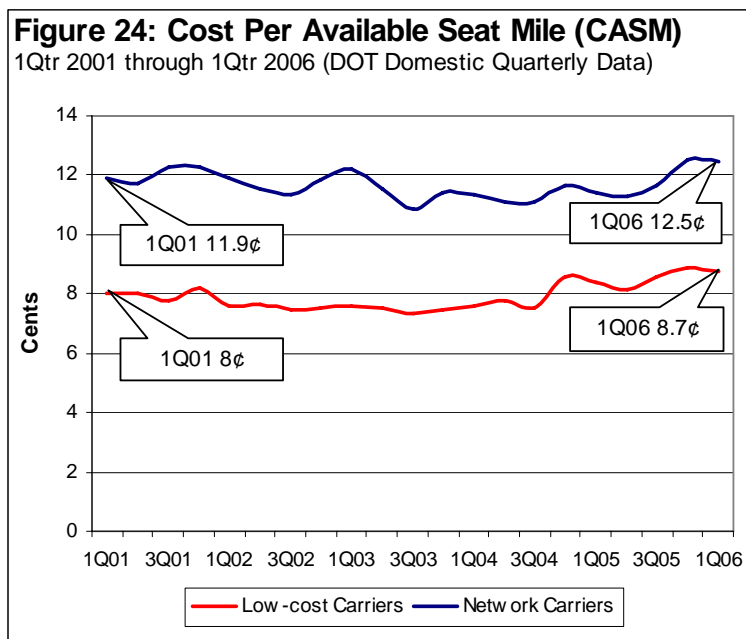
ACCUMULATED NET LOSSES AND PROFITS.

A combination of weak fares, soaring fuel costs, and asset write-offs under bankruptcy have combined to produce a 5-plus year string of net losses for the network carriers. Between the first quarter of 2001 and the fourth quarter of 2005, network carriers generated \$58 billion in net losses. During the first quarter of 2006, carriers wrote off more than \$18 billion in pension liabilities, which lessened the cumulative total losses to \$38 billion. Over the 5-year period, four airlines in bankruptcy accounted for 76 percent of the network carriers' combined losses, with Delta leading the way (\$12.5 billion), followed by United (\$9.2 billion), Northwest (\$4.8 billion), and US Airways (\$2.6 billion). Between the first quarter of 2001 and the first quarter of 2006, the select low-cost carriers accumulated \$392 million in net losses, which reflect the combined results of several profitable carriers and others that experienced losses, some of which are related to bankruptcy filings over the last 5 years. [Figure 23]



COST PER AVAILABLE SEAT-MILE (CASM).

Between 2001 and late 2004, network carriers achieved some success in lowering their unit costs. However, rising fuel costs have offset these efforts and started pushing the CASM upward. Between the first quarter of 2001 and the first quarter of 2006, network carriers' CASM rose 5 percent, from 11.9 cents to 12.5 cents. CASM for low-cost carriers essentially remained steady between 2001 and late 2004 at about 8 cents. Low-cost carriers were not exempt from rising fuel expense, which pushed their CASM to 8.7 cents for the first quarter of 2006, up 9 percent from the first quarter of 2001. [Figure 24]



AIR FARES AND YIELDS.

While domestic yield (passenger revenue per passenger-mile) has improved for the seven major airlines⁸ over the past year, it is still below 2000 levels. The 13.36 cent yield in June 2006 was 8 percent below the

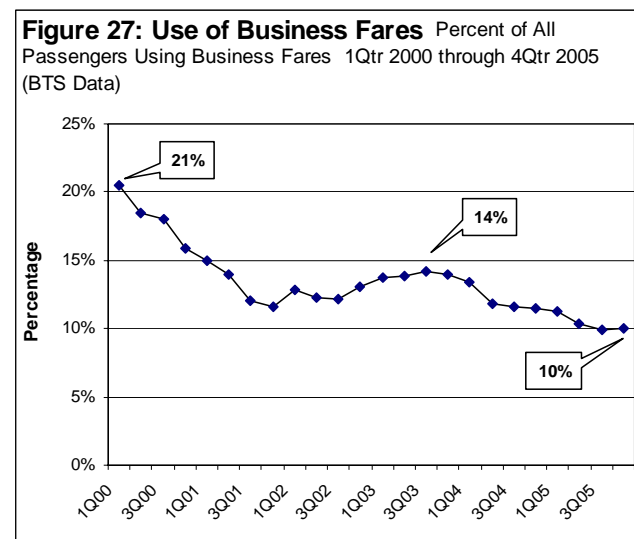
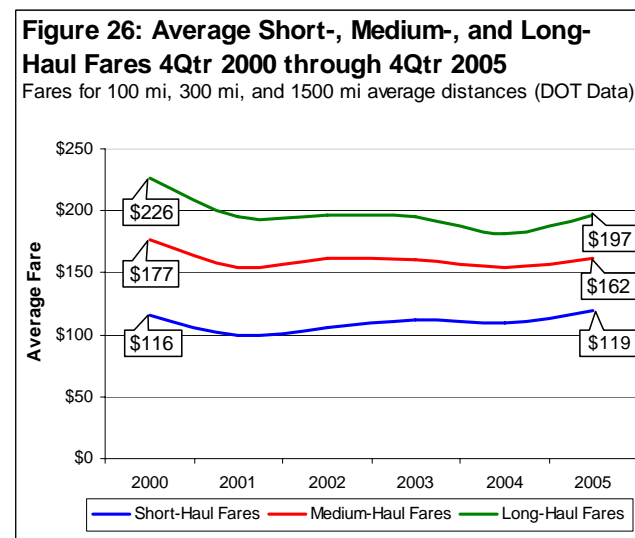
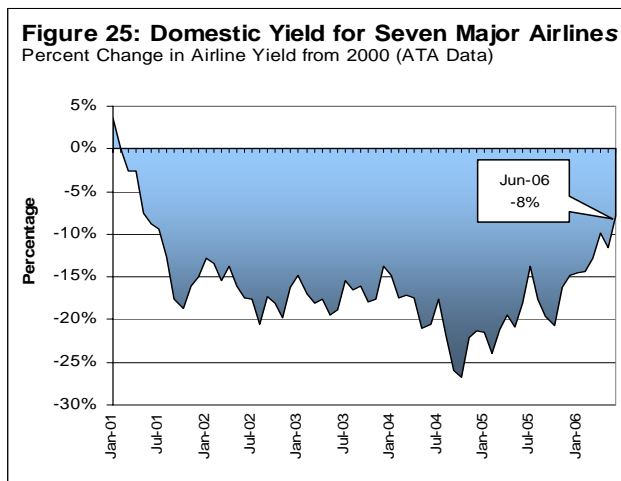
⁸ The Air Transport Association publishes monthly yield figures for a group of seven major airlines: Alaska, American, Continental, Delta, Northwest, United, and US Airways.

14.50 cent yield in 2000. Yields began to improve in May 2005 and continued to improve as carriers reduced capacity, which has allowed them to raise fares. During the first 6 months of 2006, each month's yield was, on average, 11 percent higher than the corresponding month in 2005. [Figure 25]

SHORT-, MEDIUM-, AND LONG-HAUL FARES.

Domestic air fares in markets of all distances declined in 2000 and early 2001 as the economy began to soften and security concerns increased after September 11th. Fares remained relatively constant over the next several years until 2005, when the airlines began incorporating the rising cost of fuel in their fares. Reduced capacity also gave pricing power to the airlines. In the fourth quarter of 2005, the average short-haul fare (300 miles)⁹ of \$119 exceeded the average fare in the fourth quarter of 2000 by 3 percent. Fares in medium-haul markets (1,000 miles) averaged \$162 for the fourth quarter of 2005, which was 8.5 percent below the average fare of the fourth quarter of 2000. Even with some fuel-related increases in 2005, the average fare in the long-haul market (1,500 miles) was \$197 in the fourth quarter of 2005, 13 percent below the same period in 2000. Fourth quarter 2005 fares reflect recent fare increases; short-, medium- and long-haul fares are above fourth quarter 2004 fares by 9 percent, 5 percent, and 8 percent, respectively. [Figure 26]

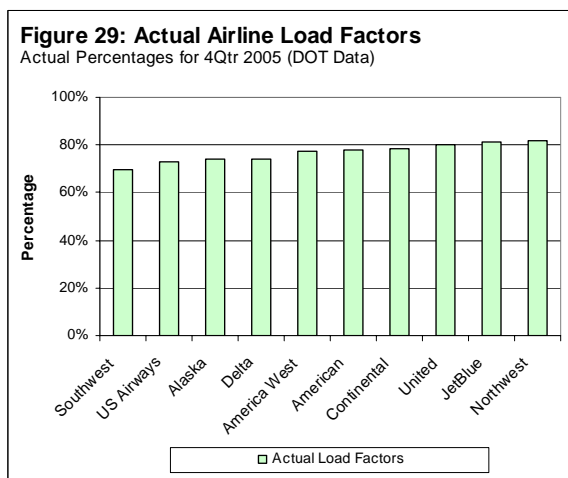
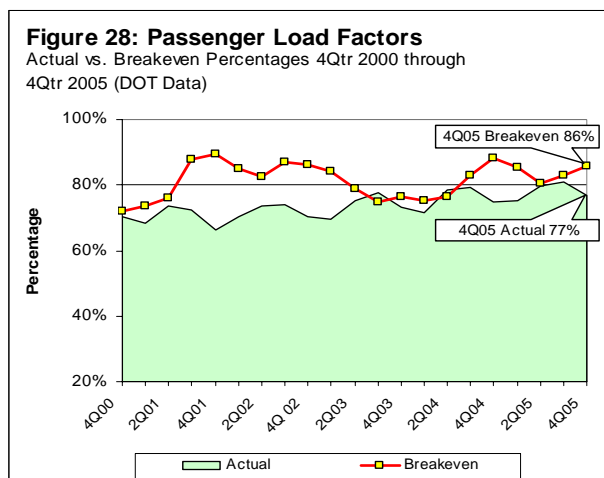
BUSINESS AND LEISURE TRAVEL. The drop in the use of traditional business fares that began in early 2000 continued through 2005. The percent of passengers traveling on first, business, or unrestricted coach tickets declined from 21 percent in the first quarter of 2000 to 10 percent in the fourth quarter of 2005. During this period, travel on the highest priced tickets declined as business travelers became increasingly unwilling to pay a premium for unrestricted fares¹⁰ and airlines made restricted coach tickets more attractive by changing their fare restrictions (such as Saturday night stay) to regain lagging business travel. After several unsuccessful attempts in 2005 to raise fares, in early 2006, the airlines successfully implemented several fare increases and eliminated some of the discount fares they created to stimulate business travel. [Figure 27]



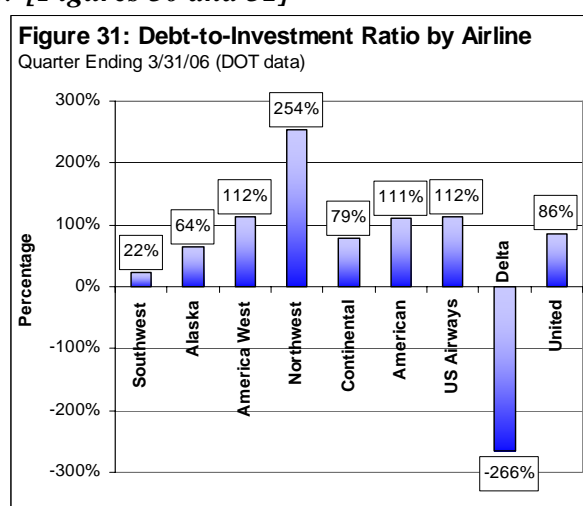
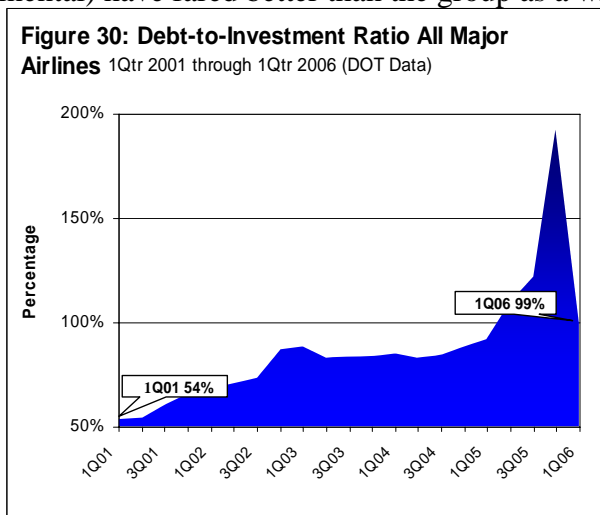
⁹ We chose these three mileage blocks as representatives of short-, medium-, and long-haul markets.

¹⁰ Fully refundable fares without advance purchase and minimum stay requirements.

AIRLINE LOAD FACTOR. Load factor is the average percent of available seats filled by revenue passengers. For the fourth quarter of 2005, the load factor for the 14 major passenger airlines¹¹ was 77 percent, up slightly from the 75 percent load factor in the fourth quarter of 2004. This continued the generally upward trend in capacity utilization since 2000. The breakeven load factor, or the percentage of paying passengers needed to cover airline costs, dipped slightly from 88 percent in the fourth quarter of 2004 to 86 percent in the fourth quarter of 2005. [Figures 28 and 29]



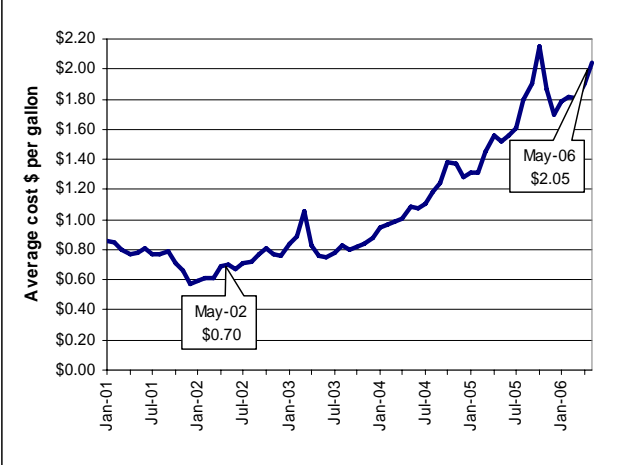
DEBT TO INVESTMENT RATIO. Between 2002 and 2006, accumulating net losses and bankruptcy-related asset write-offs wiped out \$28 billion or 99 percent of stockholders' equity in the 16 major passenger airlines. Because the major airlines' total debt stayed constant, total investment in the industry dropped 36 percent to \$51 billion, leaving debt as the sole source of financing for many airlines. The percent of debt to total investment remained relatively constant (in the 80 percent range) from 2003 through most of 2005. In late 2005, bankruptcy-related charges caused the percentage to rise to 193 percent in the fourth quarter of 2005. For the first quarter of 2006, the debt-to-investment ratio for the major airlines stood at 99.3 percent. Only a few airlines (Southwest, Alaska, and Continental) have fared better than the group as a whole. [Figures 30 and 31]



¹¹ During the fourth quarter of 2005 only 14 passenger airlines met the \$1 billion annual revenue criteria to be included in the major airline category. Three airlines were added to the group in the first quarter of 2006.

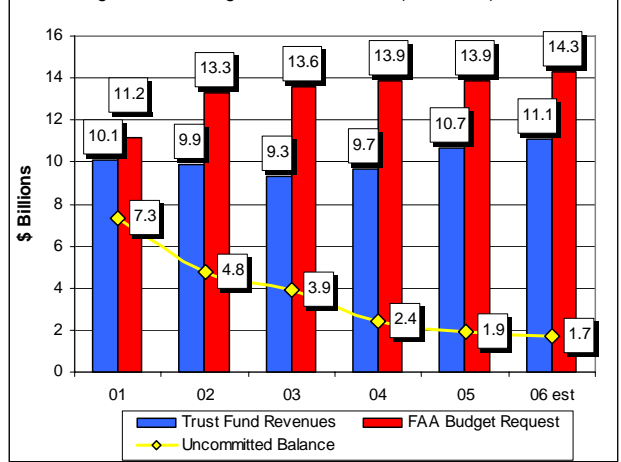
FUEL COSTS. Jet fuel prices have climbed steadily since May 2002. In May 2006, the average price was \$2.05, which is 35 percent higher than the average price in May 2005 (\$1.52) and 193 percent higher than May 2002 (\$0.70). Total domestic fuel expense for the industry increased \$1.9 billion in the first 5 months of 2006 compared to a year earlier despite a 6 percent decline in flights. Fuel prices are influenced by a number of factors including global demand, supply, political events and manufacturing capability. Local issues can also affect fuel prices. For example, the increase in jet fuel costs that began in September 2005 may be partially attributed to Hurricanes Katrina and Rita. According to the ATA, 25 percent of normal jet fuel production was disturbed by the damage these two storms caused to Gulf coast refineries and pipelines. *[Figure 32]*

Figure 32: Cost Per Gallon Domestic Jet Fuel
(ATA Data)



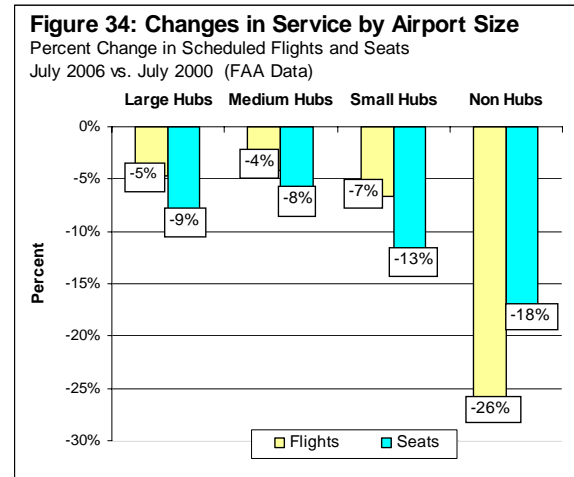
AIRPORT AND AIRWAY TRUST FUND. The aviation trust fund derives much of its revenues from a 7.5 percent airline ticket tax. Between fiscal year FY 2001 and FY 2003, the trust fund revenues declined, as did the number of passengers and the price of tickets. Traffic and fares picked up in 2004 and 2005. Trust fund revenue is not keeping pace with trust fund expenditures, resulting in a decline of its uncommitted balance. In 2001, the uncommitted balance was \$7.3 billion; the current estimate for 2006 is \$1.7 billion. *[Figure 33]*

Figure 33: Airport & Airway Trust Fund
FAA Budget and Funding FY 2001-FY 2006 (FAA Data)

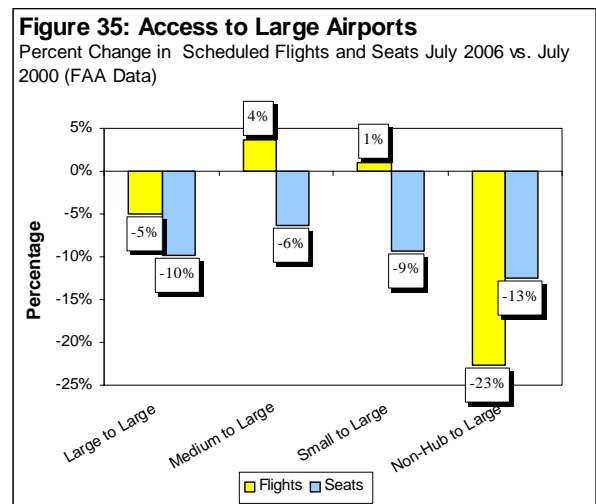


IV. Air Service at Small Airports

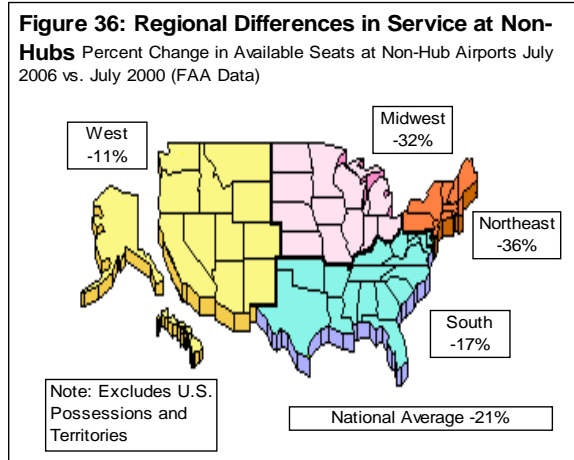
CHANGES IN AIR SERVICE. Following the economic downturn in late 2000 and the after-effects of September 11, service (as measured by scheduled flights and seats) declined at airports of all sizes. Service began to return in 2003, and scheduled flights at small-, medium- and large-hub airports continued to increase through 2005. The only category of airports where service has not rebounded is at non-hub airports, which are the Nation’s smallest commercial airports. Scheduled flights at non-hub airports in July 2006 are down 26 percent from July 2000, and scheduled seats are down by 18 percent. After rebounding to within a few percentage points of 2000 levels, the airlines began to eliminate capacity in 2005, enabling them to control some costs and increase fares. [Figure 34]



ACCESS TO LARGE AIRPORTS. The number of seats scheduled into large hub airports from markets of all sizes have declined since 2000, although the most significant change was in flights into large hubs from the smallest—or non-hub—airports. Scheduled flights into large airports from non-hubs were down 13 percent between July 2000 and July 2006 and seats were down 23 percent. Flights from small and medium hubs into large hubs increased very slightly between 2000 and 2006, although the number of seats declined at the same time. This is largely a result of airlines attempting to match capacity to demand by using smaller aircraft in smaller markets. [Figure 35]



NON-HUB AIRPORT SERVICE LOSSES BY REGION. In July 2006, scheduled seats at non-hub airports in the Northeast and Midwest regions were lower by 36 percent and 32 percent, respectively, compared to July 2000. Over the same time, scheduled seats declined by 17 percent in the South and 11 percent in the West. The seat reductions at the non-hub airports have accelerated sharply in the last year; out of the 900,000 monthly seats lost over the last 6 years at non-hub airports, 365,000 (or 40 percent) of the reductions occurred in the last year. This is primarily due to downsizing by Delta and Northwest following their 2005 bankruptcy filings. [Figure 36]



ESSENTIAL AIR SERVICE. Since 2001, Essential Air Service funding has remained steady while the number of communities supported has increased. Fiscal Year 2006 appropriations for this service totaled \$109 million to support 153 communities. The Administration's FY 2007 budget requests \$50 million, while the FY 2007 appropriations bills passed by the full House and by the Senate Appropriations Committee provide for \$117 million. *[Figure 37]*

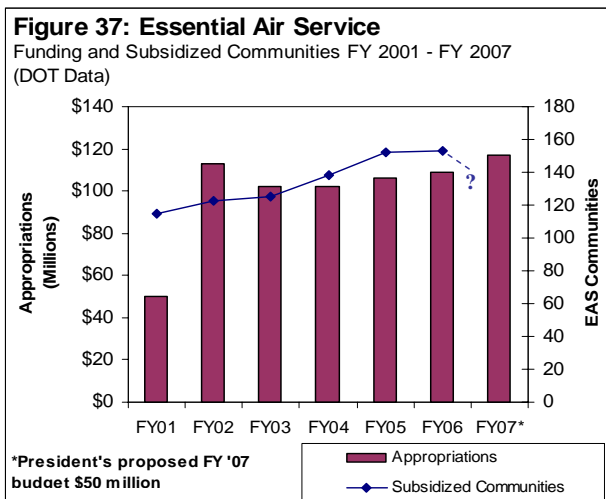


EXHIBIT B. SCOPE AND METHODOLOGY

Data represented graphically in the report were collected from the following primary sources: the Air Transport Association (ATA), the Federal Aviation Administration (FAA), the Bureau of Transportation Statistics (BTS), and the Office of Aviation Analyses (OAA). The ATA is a trade association of U.S. certificated air carriers. FAA, BTS, and OAA are organizations within the Department of Transportation. These sources were used to perform the analyses detailed below.

We note that we did not systematically audit or validate the data contained in any of the databases. However, we conducted trend analyses and sporadic checks of the data to assess reasonableness and comprehensiveness. When our judgmental sampling identified anomalies or apparent limitations in the data, we held discussions with managers responsible for maintaining the databases to understand and attempt to resolve the inconsistencies. Consequently, we did not perform sufficient tests to draw conclusions or form an opinion on the completeness or accuracy of the data sources.

We met periodically with staff from ATA, FAA, BTS, and OAA to discuss data issues and obtain feedback on modifications we made to existing data in order to more accurately represent industry trends. We used a definition of a regional jet based on size, operational, and ownership criteria that differ from those used by other industry and government entities. We sought feedback on the definition and adjusted data sets to reflect our revised definition. In addition, we classified our set of low-cost carriers to include America West Airlines, whose costs per available seat mile are consistent with other low-cost carriers. In some of our prior reports on industry conditions, we included America West Airlines as a network carrier.

A. Analyses Performed With ATA Data

Financial, traffic, and operational statistics obtained from ATA sources were used in financial and statistical analyses of history, trends, status, and performance of fuel expenses and unit revenues.

1. ATA Monthly Passenger Yield Report. A collection of current and historic airline yield statistics (passenger revenue per revenue passenger-mile). Scope: selected member airlines of the ATA, 1980 through June 2006.¹³

¹³ Data for “Domestic Yield for Seven Major Airlines” (Figure 25) includes the following major network air carriers: Alaska Airlines, American Airlines, Continental Airlines, Delta Airlines, Northwest Airlines, United Airlines, and US Airways (includes America West).

2. ATA Monthly Fuel Report. A publication of monthly airline fuel consumption and cost data collected and reported by BTS. Scope: all U.S. certificated airlines required to report fuel cost and consumption reports (DOT Form 41, Schedule P-12), 1986 through May 2006.¹⁴

B. Analyses Performed With BTS Data

Financial, traffic, operational statistics, and passenger ticket survey information obtained from BTS sources were used in financial and statistical Analyses of history, trends, status and performance of financial condition, net profits and losses, debt and investment, load factors, and business and leisure travel characteristics.

1. Air Carrier Financial Statistics. A compilation of financial reports submitted by air carriers as required under Title 14 Code of Federal Regulations (CFR) Part 241 (Form 41) and through hardcopy in the public reference room of the Office of Airline Information. Scope: all certificated U.S. air carriers, 2001 through the quarter ended March 31, 2006.
2. Air Carrier Traffic Statistics. A compilation of traffic and capacity reports submitted by air carriers as required under 14 CFR Part 241 (Form 41). Scope: all certificated U.S. air carriers (passenger and cargo), commuter air carriers, and foreign air carriers operating to and from the United States, 2000 through March 2006.
3. Origin and Destination Survey of Passenger Travel (O&D Survey). A compilation of surveyed ticket information submitted quarterly as required under 14 CFR Part 241 (Form 41). Scope: 10-percent sample of tickets used by passengers; 1993 through the fourth quarter 2005.

C. Analyses Performed With DOT-OAA Data

Financial, traffic and operational statistics obtained from DOT sources were used in financial and statistical Analyses of history, trends, status and performance of airline revenues, expenses, profits, traffic and capacity and of the Essential Air Service Program.

1. Airlines Quarterly Financial Review. A quarterly report analyzing the financial and operating performance and condition of the major airlines in

¹⁴ Data for “Cost per Gallon Domestic Jet Fuel” (Figure 32) include all major, national, and large regional U.S. airlines that report to DOT.

- the U.S. Prepared using financial and traffic statistics reported to BTS by the airlines. Scope: 17 major air carriers (17 passenger and 2 all-cargo carriers), second quarter 1995 through the first quarter 2006.
2. Essential Air Service Program (EAS). Information on EAS budgets and number of communities served was supplied to the OIG by EAS program administrators. Scope: budget and program activity for Fiscal Years 2001 through 2006 as well as the Administration's budget proposal for Fiscal Year 2007 and figures for full House and Senate committee appropriations for EAS.
 3. Domestic Airline Fares Consumer Report. Table 6 of this quarterly report supplies the average air fare paid by passengers traveling in distinct airport-pair markets with an average of 10 or more daily passengers. Prepared using the DOT Domestic edition of the Origin and Destination Survey of Passenger Travel (O&D Survey). Scope: A ten percent sample of tickets of passengers traveling on domestic flights within the 48 states, quarterly from 1999.

D. Analyses Performed With FAA Data

Air Traffic Control (ATC) delay and operational statistics as well as airline flight schedule data obtained from FAA sources were used in statistical Analyses of history, trends, status and performance of air traffic control management and delays; airline scheduled capacity, operations and market share; aircraft type usage; and the Aviation Airport and Airway Trust Fund.

1. Flight Schedule Data System (FSDS). A database of published airline flight schedules. Scope: worldwide, 1995 through July 2006.
2. Aviation System Performance Metrics (ASPM). A database of FAA air traffic control performance measures including delays, cancellations, operations, and causes for delays. Scope: 55 major airports across the country and all air route traffic control centers, 1998 through May 2006.
3. Operations Net (OPSNET) – Center. A database of air route traffic control center aircraft movement operations handled by the various air route traffic control centers. Scope: 22 air route traffic control centers, 1990 through June 2006.
4. Aviation Airport and Airway Trust Fund. Actual and estimated revenues for the Trust Fund were obtained by OIG staff from the FAA. Scope: actual revenues and uncommitted Trust Fund balances for Fiscal

Years 2001 through and 2005; estimates of revenue and uncommitted Trust Fund balances for Fiscal Year 2006 prepared in December 2005.

Terms and Definitions for the Current Report

Business Travel – Business travel is measured by the percent of ticket coupons in the Origin and Destination Survey of Passenger Travel with fare codes that are typically used in business travel compared to all ticket coupons used. Fare codes typically used for business travel include restricted and unrestricted first and business class travel and unrestricted coach class travel. The count of business fare code ticket coupons in the O&D Survey is adjusted to take restricted “first class” fare coded ticket coupons out of the business category for carriers with single class service.

Hub Airport – A ranking designation of U.S. airports by the FAA based on the airport’s percentage share of total passenger enplanements at all U.S. airports. The FAA categorizes airports based on the following criteria:

Percentage of Annual Passenger Enplanements in the U.S. by Hub Type:

Large Hub	1.0% or more of total enplanements
Medium Hub	at least 0.25%, but less than 1%
Small Hub	at least 0.05%, but less than 0.25%
Non-hub	at least 2,500, but less than 0.05%

Large Jet – For the purposes of the Aviation Industry Performance report, large jets are all commercially operated jet transport aircraft other than those defined as regional jets.

Low-cost Carrier – For the purposes of the Aviation Industry Performance report, the category low-cost carrier includes: AirTran, America West, American Trans Air (ATA), Frontier Airlines, JetBlue Airways, National Airlines, Pan American Airways, Southwest Airlines, Spirit Airlines, Sun Country, and Vanguard Airlines. However, Vanguard Airlines and National Airlines ceased operations in July 2002 and November 2002, respectively; Pan American ceased operations in 1998.

Major passenger airline – Except where noted, for the Aviation Industry Performance report, the category major passenger airline includes: AirTran Airways, Alaska Airlines, America West Airlines, American Airlines, American Eagle Airlines, ATA, Inc., Atlantic Southeast Airlines, Comair, Continental Airlines, Delta Air Lines, ExpressJet, JetBlue, Northwest Airlines, SkyWest,

Southwest Airlines, United Airlines, and US Airways.¹⁵ AirTran, Atlantic Southeast, and Skywest were added to the list in the first quarter of 2006.

Network airline – For the purposes of the Aviation Industry Performance report, the category network airline includes: Alaska Airlines, American Airlines, Continental Airlines, Delta Air Lines, Northwest Airlines, United Airlines, and US Airways. For the purposes of consistency over time, the financial and operating statistics for the former Trans World Airlines have been merged with those of the acquirer American Airlines.

Other airlines – Except where noted, for the purposes of Aviation Industry Performance report, the category other airlines includes: all scheduled U.S. airlines not included in the network and low-cost categories, i.e., mostly smaller scheduled regional, commuter, and national airlines (many of which are affiliated with the major network carriers).

Regional carrier – An entity whose fleet is principally comprised of aircraft configured with fewer than 100 seats, operated within a limited geographic scope (may have multiple regions, though not interlinked across the country under its own single brand), principally serving hub-and-spoke networks, and conducting most of its operations under the affiliation(s) of larger branded airlines (network carriers). For the purposes of this report, we also consider internal mainline operating units that are principally involved in regional operations as regional carriers.

Regional Jet (RJ) – All turbofan jet-powered aircraft configured to seat 77 or fewer passengers, operated by either a regional or network carrier, and all turbofan jet-powered aircraft configured to seat between 78 and 100 passengers and operated by regional carriers.

Regions – For purposes of the airline performance report, the Nation was delineated into four regions composed of states and the District of Columbia: Northeast: Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, New Jersey, and Pennsylvania; Midwest: Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, and Kansas; South Region: Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Kentucky, Tennessee, Alabama, Mississippi, Arkansas, Louisiana, Oklahoma, Texas and District of Columbia; West: Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada, Washington, Oregon, California, Alaska, and Hawaii.

¹⁵ ATA, Inc. was excluded from first quarter 2006 financial analyses due to delinquent reporting.

EXHIBIT C. MAJOR CONTRIBUTORS TO THIS REPORT

THE FOLLOWING INDIVIDUALS CONTRIBUTED TO THIS REPORT.

<u>Name</u>	<u>Title</u>
Leila D. Kahn	Program Director
Stephen G. Smith	Project Manager
Ralph W. Morris	Economist
Gina Ronzello	Analyst
Meredith McDaniel	Analyst
Leslie Riegle	Consultant

The following pages contain textual versions of the graphs and charts contained in this document. These pages were not a part of the original document but have been added here to accommodate assistive technology.

**Figure I: Cost per Available Seat Mile Excluding Fuel
Fourth Quarter 2000 through Fourth Quarter 2004
(DOT Domestic Quarterly Data)**

Quarter Year	Network Carriers	Low-Cost Carriers
Fourth Quarter 2000	9.39¢	6.49¢
First Quarter 2001	9.74¢	6.46¢
Second Quarter 2001	9.67¢	6.55¢
Third Quarter 2001	10.20¢	6.39¢
Fourth Quarter 2001	10.45¢	7.04¢
First Quarter 2002	10.06¢	6.44¢
Second Quarter 2002	9.57¢	6.38¢
Third Quarter 2002	9.34¢	6.14¢
Fourth Quarter 2002	9.64¢	6.21¢
First Quarter 2003	9.88¢	6.09¢
Second Quarter 2003	9.36¢	6.24¢
Third Quarter 2003	8.69¢	6.00¢
Fourth Quarter 2003	9.16¢	6.13¢
First Quarter 2004	8.93¢	6.10¢
Second Quarter 2004	8.54¢	6.13¢
Third Quarter 2004	8.32¢	5.89¢
Fourth Quarter 2004	8.53¢	6.76¢
First Quarter 2005	8.36¢	6.55¢
Second Quarter 2005	7.91¢	6.03¢
Third Quarter 2005	7.86¢	6.31¢
Fourth Quarter 2006	8.38¢	6.43¢

**Figure II: Change in Scheduled Flights 2001-2006 Base Year 2000
(FAA Data)**

Month	Percentage Change in Flights from 2000					
	2001	2002	2003	2004	2005	2006
Jan	3%	-11%	-10%	-7%	-2%	-6%
Feb	2%	-10%	-11%	-7%	-2%	-8%

Mar	1%	-10%	-11%	-6%	-2%	-6%
Apr	2%	-8%	-10%	-5%	-1%	-6%
May	1%	-8%	-13%	-6%	-2%	-7%
June	1%	-8%	-10%	-5%	-1%	-6%
July	2%	-6%	-8%	-3%	0%	
Aug	1%	-7%	-10%	-3%	-2%	
Sept	0%	-10%	-10%	-4%	-4%	
Oct	-4%	-11%	-10%	-5%	-6%	
Nov	-15%	-12%	-10%	-4%	-6%	
Dec	-15%	-12%	-8%	-2%	-7%	

Notes:

- 1) Flights reached lowest point at -15% after 9/11.
- 2) Spring of 2003, the Iraq War and SARS, flights decreased notably
- 3) Flight schedules flights of July 2005 reached flight schedules flights of July 2000.
- 4) In 2005, United, US Airways, Delta and Northwest all in bankruptcy
- 5) In 2006, fuel up 185 percent from 2000:\$2.05 per gallon.

**Figure III: Departures by Airport Types
Percent Change in Scheduled Domestic Flights July 2001 through July 2006 compared to July 2000 (FAA Data)**

Month Year	At Large-Hub Airports	At Medium-Hub Airports	At Small-Hub Airports	At Non-Hub Airports
July 2001	2%	4%	3%	-5%
July 2002	-7%	-5%	-5%	-12%
July 2003	-9%	-6%	-5%	-13%
July 2004	-3%	-4%	-1%	-20%
July 2005	0%	-2%	1%	-21%
July 2006	-5%	-4%	-7%	-26%

Note: July 2006 Non-Hub flights down 26 percent compared to July 2000.

Note: All percentages are rounded.

**Table 1. Changes in Traffic and Current Delays at Select Airports
January 2000 to May 2000 versus January 2006 to May 2006
(FAA Data)**

Reduced Delays

Airport	Change in arrivals	Change in delays	Percent change January to May 2006
Cincinnati (CVG)	-23%	-52%	14%
Saint Louis (STL)	-58%	-53%	18%
Pittsburgh (PIT)	-40%	-53%	19%

Increased Delays

Airport	Change in arrivals	Change in delays	Percent change January to May 2006
Salt Lake City (SLC)	20%	25%	20%
Houston (IAH)	30%	56%	23%
Memphis (MEM)	12%	59%	24%

Figure 1: Passenger Enplanements 2000-2005
Scheduled Service System-Wide (DOT Data)

Year	Number of Enplanements (millions)
2000	698.9
2001	652.9
2002	641.0
2003	647.5
2004	703.7
2005	738.6

Figure 2: Domestic Revenue Passenger-Miles and Available Seat-Miles from 2000-2006 (BTS Data)

Quarter Year	Traffic (Revenue Passenger-Miles) in billions	Capacity (Available Seat-Miles) in billions
First Quarter 2000	123	184
Second Quarter 2000	139	186
Third Quarter 2000	140	193
Fourth Quarter 2000	129	189

First Quarter 2001	125	187
Second Quarter 2001	138	193
Third Quarter 2001	131	188
Fourth Quarter 2001	108	165
First Quarter 2002	114	168
Second Quarter 2002	129	180
Third Quarter 2002	134	188
Fourth Quarter 2002	122	178
First Quarter 2003	118	173
Second Quarter 2003	130	175
Third Quarter 2003	138	183
Fourth Quarter 2003	129	182
First Quarter 2004	130	186
Second Quarter 2004	147	192
Third Quarter 2004	151	196
Fourth Quarter 2004	140	192
First Quarter 2005	139	189
Second Quarter 2005	155	197
Third Quarter 2005	158	200
Fourth Quarter 2005	143	189
First Quarter 2006	141	185

Note: Capacity trend line increasing steadily from first quarter 2000 to first quarter 2006. The traffic trend line is increasing at a more rapid rate for this same time period.

Note: First quarter of 2000, the load factor was 67 percent. The load factor in the first quarter of 2006 was 77 percent.

Note: All numbers are rounded

Figure 3: Domestic and International Revenue Passenger-Miles From 2000-2006 (BTS Data)

Quarter Year	Domestic Traffic (Revenue Passenger-Miles) in billions	International Traffic (Revenue Passenger-Miles) in billions
First Quarter 2000	123	95
Second Quarter 2000	139	115
Third Quarter 2000	140	126
Fourth Quarter 2000	129	102
First Quarter 2001	125	98

Second Quarter 2001	138	112
Third Quarter 2001	131	111
Fourth Quarter 2001	108	72
First Quarter 2002	114	83
Second Quarter 2002	129	95
Third Quarter 2002	134	104
Fourth Quarter 2002	122	90
First Quarter 2003	118	85
Second Quarter 2003	130	85
Third Quarter 2003	138	105
Fourth Quarter 2003	129	94
First Quarter 2004	130	94
Second Quarter 2004	147	107
Third Quarter 2004	151	117
Fourth Quarter 2004	140	100
First Quarter 2005	139	102
Second Quarter 2005	155	115
Third Quarter 2005	158	125
Fourth Quarter 2005	143	104
First Quarter 2006	141	98

Note: The trend line for international traffic is increasing very slightly from first quarter 2000 to first quarter 2006. The traffic trend line for domestic is increasing at a more rapid rate for this same time period.
Note: All numbers are rounded

Figure 4: International Passenger Traffic Quarterly Revenue Passenger-Miles from First Quarter 2000 to First Quarter 2006 (BTS Data)

Quarter Year	Latin Traffic (Revenue Passenger-Miles) in billions	Atlantic Traffic (Revenue Passenger-Miles) in billions	Pacific Traffic (Revenue Passenger-Miles) in billions
First Quarter 2000	18	45	31
Second Quarter 2000	17	63	35
Third Quarter 2000	19	69	38
Fourth Quarter 2000	16	52	34
First Quarter 2001	19	46	33
Second Quarter 2001	17	61	34

Third Quarter 2001	16	60	34
Fourth Quarter 2001	13	37	22
First Quarter 2002	16	39	29
Second Quarter 2002	15	50	30
Third Quarter 2002	16	56	33
Fourth Quarter 2002	14	46	30
First Quarter 2003	17	39	29
Second Quarter 2003	15	49	21
Third Quarter 2003	17	58	30
Fourth Quarter 2003	15	48	30
First Quarter 2004	19	44	31
Second Quarter 2004	17	57	33
Third Quarter 2004	19	63	35
Fourth Quarter 2004	17	51	32
First Quarter 2005	21	47	34
Second Quarter 2005	19	60	36
Third Quarter 2005	20	67	38
Fourth Quarter 2005	17	52	35
First Quarter 2006	21	46	31

Note: The September 11th impact had a sharp downward affect on all three areas (Latin, Atlantic and Pacific) in the fourth quarter of 2001.

Note: The SARS epidemic had a negative impact in second quarter, 2003 RPMs for the Pacific region.

Note: All numbers are rounded

**Figure 5: Nine Major Airlines Reported Arrivals
Percent Change in Actual Arrivals by Airline May 2006 versus May 2000 (BTS Data)**

Airline	2006 Percentage Change
Southwest	21%
Alaska	14%
America West	1%
Northwest	-16%
Continental	-17%
Delta	-39%
American	-28%

US Airways	-52%
United	-28%

Note: All percentages are rounded

**Figure 6: Regional Differences in Capacity in All Airports
Percent Change in Available Seats at All Airports July 2006 versus July 2000 (FAA Data)**

Region	Percent Change in Available Seats
Northeast (includes Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont)	-13%
Midwest (includes Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin)	-22%
West (includes Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming)	-2%
South (includes Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia)	-6%
National Average	-9%

Note: All percentages are rounded.

**Figure 7: Change in Capacity at Large Airports
Percent Change in Scheduled Flights and Available Seats at the 31 Largest Airports July 2006 vs. July 2000 (FAA Data)**

Largest Airports	Percent Change in Scheduled Flights July 2006 vs. July 2000	Percent Change in Available Seats July 2006 vs. July 2000
Kennedy	-0.03%	32.43%
Ft. Lauderdale	17.16%	28.73%
Las Vegas	27.13%	23.63%
Orlando	3.27%	12.99%

San Diego	8.00%	9.20%
Denver	19.25%	8.96%
Houston	27.91%	6.88%
Philadelphia	10.68%	4.23%
Baltimore	-5.30%	1.21%
Tampa	-10.76%	1.16%
Phoenix	0.86%	-0.39%
Salt Lake City	29.63%	-1.07%
Charlotte	12.55%	-2.10%
Reagan National	4.78%	-4.33%
Atlanta	12.14%	-5.09%
Honolulu	6.54%	-5.17%
Seattle	-18.40%	-5.88%
LaGuardia	7.57%	-7.31%
Detroit	-3.97%	-9.55%
Chicago O'Hare	3.78%	-13.35%
Minneapolis	-10.04%	-13.47%
Dulles	-30.08%	-14.16%
Newark	-5.91%	-16.47%
Dallas-Ft. Worth	-16.54%	-16.69%
Miami	-22.16%	-17.18%
Boston	-20.50%	-19.25%
Los Angeles	-21.46%	-20.98%
San Francisco	-23.22%	-26.26%
Cincinnati	-18.38%	-38.03%
Pittsburgh	-52.17%	-57.44%
St. Louis	-44.17%	-57.76%

Note: All percentages are rounded

Figure 8: Length of Domestic Flights
Percent Change in Scheduled Flights by Length of Flight
July 2006 versus July 2000 (FAA Data)

Range in Miles	2006 Percent Change in Flights
0 to 249 miles	-32%
250 to 499 miles	-9%
500 to 999 miles	20%

1,000 miles or more	14%
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Figure 9: Short-Haul Flights: Seats by Type of Airline Available Seats on Flights Less Than 250 Miles July 2006 versus July 2000 (FAA Data)

Carrier Type	July 2000	July 2006
Network	6.1 million	2.8 million
Regionals And Others	9.6 million	7.3 million
Low-Cost	2.3 million	2.1 million

Figure 10: Domestic and International Air Cargo Traffic Quarterly Revenue Ton-Miles from First Quarter of 2003 through First Quarter of 2006 (BTS Data)

Quarter Year	Domestic Traffic (Revenue Ton-Miles) in billions	International Traffic (Revenue Ton-Miles) in billions
First Quarter 2003	4	8
Second Quarter 2003	5	8
Third Quarter 2003	5	8
Fourth Quarter 2003	5	9
First Quarter 2004	5	8
Second Quarter 2004	5	9
Third Quarter 2004	5	9
Fourth Quarter 2004	6	10
First Quarter 2005	5	9
Second Quarter 2005	5	9
Third Quarter 2005	5	9
Fourth Quarter 2005	6	10
First Quarter 2006	5	9

Note: All numbers are rounded

Figure 11: Domestic Market Share by Seller Carrier Group Airline Market Share of Scheduled Available Seats July 2000, July 2005, and July 2006 (FAA Data)

Carrier Type	July	July	July
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	2000	2005	2006
Network	73%	70%	67%
Low-Cost	19%	25%	28%
Others	8%	5%	4%

Note: All percentages are rounded.

**Figure 12: Market Share of Low Cost-Carrier Service
Airline Share of Service by Scheduled Available Seats, July 2006
(FAA Data)**

Low-Cost Airline	Market Share Percentage
Southwest	57%
America West	13%
AirTran	11%
JetBlue	9%
American Trans Air	1%
Frontier	4%
Spirit	2%
Sun Country	1%

Note: All percentages are rounded.

**Figure 13: Share of Low-Cost Carrier Service Growth
Airline Share of Growth by Scheduled Available Seats, From July 1998
to July 2006
(FAA Data)**

Low-Cost Airline	Service Growth Percentages
Southwest	42%
JetBlue	20%
AirTran	16%
Frontier	10%
America West	7%
Spirit	3%
Sun Country	1%

Note: All percentages are rounded.

Figure 14: Market Share by Aircraft Type
Percent Share of Scheduled Flights by Type of Aircraft July 2000, July 2005, and July 2006 (FAA Data)

Aircraft Type	July 2000	July 2005	July 2006
Large Jets	56%	49%	49%
Regional Jets	10%	32%	33%
Non-Jet	34%	19%	18%

Note: All percentages are rounded.

Figure 15: Actual Flight Operations
Percent Change from 2000 in Air Route Traffic Control Operations (FAA Data)

Month	2001 Percent Change in Operations	2002 Percent Change in Operations	2003 Percent Change in Operations	2004 Percent Change in Operations	2005 Percent Change in Operations	2006 Percent Change in Operations
January	5%	-3%	0%	2%	5%	3%
March	-4%	-8%	-10%	0%	0%	-4%
March	-2%	-7%	-7%	1%	4%	0%
April	0%	-3%	-5%	3%	4%	1%
May	-1%	-4%	-7%	-1%	3%	0%
June	-3%	-4%	-6%	1%	4%	0%
July	1%	-1%	-2%	3%	4%	
August	0%	-4%	-6%	1%	2%	
September	-16%	-5%	-5%	0%	2%	
October	-8%	-4%	-3%	1%	-2%	
November	-8%	-7%	-4%	2%	0%	
December	-5%	-1%	3%	7%	5%	

Note: September 2001 Actual Flight Operations Down 16 Percent

Note: June 2006 Actual Flight Operations Up .03 Percent

Note: All percentages are rounded

Figure 16: Number of Flights with Delayed Arrivals
All Airlines, 55 Major Airports (FAA Data)

Month	2000	2005	2006
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	Arrival Delays	Arrival Delays	Arrival Delays
January	158,982	194,458	150,925
February	152,326	152,706	138,232
March	154,507	174,718	156,164
April	154,472	125,868	141,463
May	160,781	125,510	139,535
June	200,301	176,498	
July	183,866	203,071	
August	195,624	176,411	
September	150,585	124,360	
October	167,005	139,069	
November	179,700	147,864	
December	235,929	203,741	

Note: First Five months 2006 versus 2000 down 7 percent

Figure 17: Cancellations
All Airlines, 55 Major Airports (FAA Data)

Month	2000 Cancellations	2005 Cancellations	2006 Cancellations
January	21,170	28,892	12,771
February	13,074	12,494	13,681
March	8,859	13,191	9,489
April	10,050	6,827	7,715
May	14,474	6,598	8,641
June	16,214	12,085	
July	13,458	13,748	
August	13,284	13,169	
September	16,507	13,831	
October	17,943	14,123	
November	17,511	9,244	
December	42,675	15,330	

Note: First Quarter 2006 versus First Quarter 2000 Down -17 percent

Note: May 2006 versus May 2000 Down -40 percent

Figure 18: Percent of Flights Arriving Late
All Airlines, 55 Major Airports (FAA Data)

Month	2000	2005	2006
January	25%	29%	23%
February	24%	24%	24%
March	22%	24%	24%
April	23%	18%	22%
May	23%	17%	22%
June	30%	25%	
July	27%	28%	
August	28%	24%	
September	23%	18%	
October	24%	20%	
November	27%	22%	
December	36%	30%	

Note: 1st five months 2006 up 23 percent

Note: December 2000 36 Percent of Flights Arrived Late

Figure 19: Length of Arrival Delays
All Airlines, 55 Major Airports (FAA Data)

Month	2000 (In Minutes)	2005 (In Minutes)	2006 (In Minutes)
January	49	54	52
February	49	50	50
March	48	52	55
April	49	48	54
May	53	49	55
June	55	56	
July	54	60	
August	52	53	
September	49	48	
October	48	51	
November	48	50	
December	55	52	

Note: May 2005 Arrivals Delayed 49 Minutes

Note: May 2006 Arrivals Delayed 55 Minutes

Figure 20: Most Significant Changes in Arrival Delays by Airport

Percent Change in Arrival Delays for Year-to-Date May 2006 versus May 2000 (FAA Data)

Airport	Percent Change
Memphis	59%
Houston	56%
Salt Lake City	25%
Cincinnati	-52%
Pittsburgh	-53%
Saint Louis	-53%

Note: Numbers are rounded

Figure 21: Revenues versus Expenses
Major Passenger Carriers Operating Revenues and Operating Expenses First Quarter 2001 through First Quarter 2006 (DOT Data)

Quarter	Operating Revenues In Billions	Operating Expenses In Billions
First Quarter 2001	\$23.3	\$24.1
Second Quarter 2001	\$24.3	\$25.0
Third Quarter 2001	\$21.2	\$24.4
Fourth Quarter 2001	\$16.6	\$20.9
First Quarter 2002	\$18.2	\$20.9
Second Quarter 2002	\$20.4	\$21.9
Third Quarter 2002	\$20.2	\$22.6
Fourth Quarter 2002	\$18.8	\$21.7
First Quarter 2003	\$19.2	\$22.2
Second Quarter 2003	\$20.3	\$21.0
Third Quarter 2003	\$21.9	\$21.3
Fourth Quarter 2003	\$21.0	\$21.7
First Quarter 2004	\$22.0	\$23.0
Second Quarter 2004	\$24.7	\$23.3
Third Quarter 2004	\$24.9	\$24.3
Fourth Quarter 2004	\$23.4	\$25.5
First Quarter 2005	\$23.9	\$25.4
Second Quarter 2005	\$27.2	\$26.7
Third Quarter 2005	\$28.1	\$28.0

Fourth Quarter 2005	\$26.3	\$27.7
First Quarter 2006	\$26.3	\$26.7

Note: All amounts are rounded

Figure 22: Selected Network and Low-Cost Carriers Operating Profit or Loss System Operations for Quarter Ending March 31, 2006 (DOT Data)

Airline	Profit or Loss (In Millions)
Southwest	\$98.1
America West	\$82.8
JetBlue	-\$24.9
Frontier	-\$8.6
Spirit	-\$10.0
Air Tran	-\$4.5
American	\$52.4
Alaska	-\$147.9
US Airways	\$42.9
Continental	-\$2.5
United	-\$167.7
Northwest	-\$7.0
Delta	-\$481.0

Figure 23: Accumulated Net Losses and Gains First Quarter 2001 Cumulatively through First Quarter 2006 (DOT Data)

Quarter Year	Network Carriers Cumulative Sum Dollars in Billions	Low-Cost Carriers Cumulative Sum Dollars in Billions
First Quarter 2001	-\$1	\$0.1
Second Quarter 2001	-\$1.8	\$0.2
Third Quarter 2001	-\$4.2	\$0.3
Fourth Quarter 2001	-\$7.4	\$0.2
First Quarter 2002	-\$10.4	-\$0.2
Second Quarter 2002	-\$11.9	-\$0.2
Third Quarter 2002	-\$14.5	-\$0.2
Fourth Quarter 2002	-\$18.5	-\$0.3
First Quarter 2003	-\$20.4	-\$0.3

Second Quarter 2003	-\$20.7	\$0.2
Third Quarter 2003	-\$21.2	\$0.3
Fourth Quarter 2003	-\$21.8	\$0.4
First Quarter 2004	-\$23.4	\$0.4
Second Quarter 2004	-\$25.8	\$0.5
Third Quarter 2004	-\$27.2	\$0.5
Fourth Quarter 2004	-\$29.7	-\$0.1
First Quarter 2005	-\$32.8	-\$0.3
Second Quarter 2005	\$34.8	-\$0.2
Third Quarter 2005	\$37.5	-\$0.2
Fourth Quarter 2005	\$57.6	-\$0.5
First Quarter 2006	\$38.5	-\$0.4

Note: Fourth Quarter 2005 - Since the first quarter of 2001 Network Carriers Have Accumulated Net Losses of 58 billion Dollars

Note: First Quarter 2006 - Since the first quarter of 2001 Network Carriers Have Accumulated Net Losses of 38 billion Dollars

Note: First Quarter 2006 - Since the first quarter of 2001 Low-Cost Carriers Have Accumulated 392 million Dollars in Net Losses

Note: Numbers are rounded

**Figure 24: Cost per Available Seat Mile (CASM)
First Quarter 2001 through First Quarter 2006
(DOT Domestic Quarterly Data)**

Quarter Year	Network Carriers	Low-Cost Carriers
First Quarter 2001	11.9¢	8.0¢
Second Quarter 2001	11.8¢	8.0¢
Third Quarter 2001	12.3¢	7.8¢
Fourth Quarter 2001	12.3¢	8.2¢
First Quarter 2002	12.0¢	7.6¢
Second Quarter 2002	11.5¢	7.7¢
Third Quarter 2002	11.3¢	7.4¢
Fourth Quarter 2002	11.8¢	7.5¢
First Quarter 2003	12.2¢	7.6¢
Second Quarter 2003	11.5¢	7.5¢
Third Quarter 2003	10.9¢	7.3¢
Fourth Quarter 2003	11.4¢	7.5¢
First Quarter 2004	11.3¢	7.6¢
Second Quarter 2004	11.1¢	7.7¢

Third Quarter 2004	11.1¢	7.6¢
Fourth Quarter 2004	11.7¢	8.6¢
First Quarter 2005	11.4¢	8.4¢
Second Quarter 2005	11.3¢	8.3¢
Third Quarter 2005	11.6¢	8.7¢
Fourth Quarter 2006	12.5¢	8.9¢
First Quarter 2006	12.5¢	8.7¢

Note: All amounts are rounded

Figure 25: Domestic Yield for Seven Major Airlines
Percent Change in Airline Yield from 2000 (ATA Data)

Month	2001 % Change in Yield	2002 % Change in Yield	2003 % Change in Yield	2004 % Change in Yield	2005 % Change in Yield	2006 % Change in Yield
Jan	4%	-13%	-15%	-15%	-22%	-15%
Feb	0%	-14%	-17%	-18%	-24%	-14%
Mar	-3%	-16%	-18%	-17%	-21%	-13%
Apr	-3%	-14%	-18%	-18%	-20%	-10%
May	-7%	-16%	-19%	-21%	-21%	-12%
June	-9%	-18%	-19%	-21%	-18%	-8%
July	-10%	-18%	-15%	-18%	-14%	
Aug	-13%	-21%	-17%	-22%	-18%	
Sept	-18%	-17%	-16%	-26%	-20%	
Oct	-19%	-18%	-18%	-27%	-21%	
Nov	-16%	-20%	-18%	-22%	-16%	
Dec	-15%	-16%	-14%	-21%	-15%	

Note: June 2006 Yield Down -8 Percent

Figure 26: Average Short-, Medium-, and Long-Haul Fares Fourth
Quarter 2000-2005
Fares for 100 mi, 300 mi, and 1500 mi average distances (DOT Data)

Fiscal Year	Short Haul	Medium Haul	Long Haul
2000	\$116	\$177	\$226
2001	\$99	\$154	\$195
2002	\$106	\$162	\$196

2003	\$112	\$161	\$195
2004	\$109	\$154	\$182
2005	\$119	\$162	\$197

Figure 27: Use of Business Fares
Passengers Using Business Fares First Quarter 2000 through Fourth Quarter 2005 (BTS Data)

Quarter	Percent of Passengers Using Business Fares
First Quarter 2000	21%
Second Quarter 2000	19%
Third Quarter 2000	18%
Fourth Quarter 2000	16%
First Quarter 2001	15%
Second Quarter 2001	14%
Third Quarter 2001	12%
Fourth Quarter 2001	12%
First Quarter 2002	13%
Second Quarter 2002	12%
Third Quarter 2002	12%
Fourth Quarter 2002	13%
First Quarter 2003	14%
Second Quarter 2003	14%
Third Quarter 2003	14%
Fourth Quarter 2003	14%
First Quarter 2004	13%
Second Quarter 2004	12%
Third Quarter 2004	12%
Fourth Quarter 2004	12%
First Quarter 2005	11%
Second Quarter 2005	10%
Third Quarter 2005	10%
Fourth Quarter 2005	10%

Figure 28: Passenger Load Factors
Actual versus Breakeven Percentages Fourth Quarter 2000 through Fourth Quarter 2005 (DOT Data)

Quarter	Actual Load Factor	Breakeven Load Factor
First Quarter 2000	69%	68%
Second Quarter 2000	76%	67%
Third Quarter 2000	76%	71%
Fourth Quarter 2000	70%	72%
First Quarter 2001	68%	74%
Second Quarter 2001	74%	76%
Third Quarter 2001	72%	88%
Fourth Quarter 2001	66%	90%
First Quarter 2002	70%	85%
Second Quarter 2002	74%	83%
Third Quarter 2002	74%	87%
Fourth Quarter 2002	71%	86%
First Quarter 2003	69%	84%
Second Quarter 2003	75%	79%
Third Quarter 2003	78%	75%
Fourth Quarter 2003	73%	77%
First Quarter 2004	72%	75%
Second Quarter 2004	78%	77%
Third Quarter 2004	79%	83%
Fourth Quarter 2004	75%	88%
First Quarter 2005	75%	85%
Second Quarter 2005	80%	81%
Third Quarter 2005	81%	83%
Fourth Quarter 2005	77%	86%

Note: All percentages are rounded.

**Figure 29: Actual Airline Load Factors
Actual Percentages for Fourth Quarter 2005 (DOT Data)**

Airline	Actual Load Factor
Southwest	69.6%
Delta	74.3%
America West	77.5%
American	78.0%

Continental	78.4%
Northwest	81.6%
United	80.2%
US Airways	72.9%
Alaska	73.9%
JetBlue	81.1%

**Figure 30: Debt-to-Investment Ratio All Major Airlines
First Quarter 2001 through First Quarter 2006 (DOT Data)**

Quarter	Ratio (Percentage)
First Quarter 2001	54%
Second Quarter 2001	54%
Third Quarter 2001	60%
Fourth Quarter 2001	66%
First Quarter 2002	68%
Second Quarter 2002	70%
Third Quarter 2002	73%
Fourth Quarter 2002	87%
First Quarter 2003	88%
Second Quarter 2003	83%
Third Quarter 2003	84%
Fourth Quarter 2003	84%
First Quarter 2004	85%
Second Quarter 2004	83%
Third Quarter 2004	84%
Fourth Quarter 2004	88%
First Quarter 2005	92%
Second Quarter 2005	110%
Third Quarter 2005	122%
Fourth Quarter 2005	193%
First Quarter 2006	99%

Note: All percentages are rounded

**Figure 31: Debt-to-Investment Ratio by Airline
For the Quarter Ending March 31, 2006 (DOT Data)**

Airlines	Ratio (Percentage)
Southwest	22%
Alaska	64%
America West	112%
Northwest	254%
Continental	79%
American	111%
US Airways	112%
Delta	-265.7%
United	85.8%

Figure 32: Cost per Gallon Domestic Jet Fuel (ATA Data)

Month	2001 Average Cost	2002 Average Cost	2003 Average Cost	2004 Average Cost	2005 Average Cost	2006 Average Cost
January	\$0.86	\$0.60	\$0.84	\$0.95	\$1.31	\$1.79
February	\$0.85	\$0.62	\$0.88	\$0.97	\$1.32	\$1.82
March	\$0.80	\$0.62	\$1.05	\$0.98	\$1.45	\$1.81
April	\$0.77	\$0.69	\$0.83	\$1.00	\$1.56	\$1.90
May	\$0.78	\$0.70	\$0.76	\$1.08	\$1.52	\$2.05
June	\$0.81	\$0.67	\$0.75	\$1.07	\$1.56	
July	\$0.77	\$0.71	\$0.78	\$1.10	\$1.61	
August	\$0.77	\$0.72	\$0.83	\$1.18	\$1.79	
September	\$0.79	\$0.77	\$0.80	\$1.24	\$1.90	
October	\$0.71	\$0.81	\$0.82	\$1.39	\$2.15	
November	\$0.66	\$0.77	\$0.84	\$1.37	\$1.86	
December	\$0.57	\$0.76	\$0.88	\$1.28	\$1.70	

Note: May 2002 Jet Fuel Cost was \$0.70

Note: May 2006 Jet Fuel Cost was \$2.05

Note: Numbers are rounded

Figure 33: Airport and Airway Trust Fund
FAA Budget and Funding Fiscal Years 2001-2006 in Billions (FAA Data)

Fiscal Year	Trust Fund	FAA Budget	Uncommitted
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	Revenues	Request	Balance
2001	\$10.1	\$11.2	\$7.3
2002	\$9.9	\$13.3	\$4.8
2003	\$9.3	\$13.6	\$3.9
2004	\$9.7	\$13.9	\$2.4
2005	\$10.7	\$13.9	\$1.9
2006	\$11.1	\$14.3	\$1.7

Note: Figures for Fiscal Year 2006 are estimated.

Figure 34: Changes in Service by Airport Size
Percent Change in Scheduled Flights and Available Seats July 2006
versus July 2000 (FAA Data)

From	Flights	Seats
Large	-5%	-9%
Medium	-4%	-8%
Small	-7%	-13%
Non-Hub	-26%	-18%

Figure 35: Access to Large Airports
Percent Change in Number of Scheduled Flights and Seats July 2006
versus July 2000 (FAA Data)

To Large Airports	Flights	Seats
Large	-4.96%	-9.87%
Medium	3.66%	-6.30%
Small	1.03%	-9.30%
Non-Hub	-22.61%	-12.51%

Note: All percentages are rounded

Figure 36: Regional Differences in Service at Non-Hubs
Percent Change in Available Seats at Non-Hub Airports
July 2006 versus July 2000 (FAA Data)

Region	Percent Change in Available Seats
Northeast (includes Connecticut, Maine,	-36%

Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont)	
Midwest (includes Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin)	-32%
South (includes Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia)	-17%
West (includes Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming)	-11%
National Average	-21%

Note: All percentages are rounded.

Note: Excludes US possessions and territories

**Figure 37: Essential Air Service
Congressional Funding and Subsidized Communities Fiscal Year 2001
through Fiscal Year 2007 (DOT Data)**

Fiscal Year	Appropriations In Millions	Number of Communities Subsidized
2001	\$50	115
2002	\$113	123
2003	\$102	125
2004	\$102	138
2005	\$106	152
2006	\$109	153
2007 *	\$50	88

Note: President's proposed FY 2007 Budget.