

AVIATION INDUSTRY PERFORMANCE

A Review of the Aviation Industry in 2008

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Memorandum

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Office of Inspector General

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A Review of the Aviation Industry in 2008

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Attn. of: J-2

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

This report provides a comprehensive analysis of aviation industry trends in 2008¹ and their impact on aviation system performance, demand and capacity for domestic and international flights, and air service in small communities.²

Unprecedented fuel prices in the first three quarters of 2008 followed by a worsening global economic recession drastically impacted the airline industry, with \$5.8 billion³ in operating losses for the year and multiple bankruptcies. Airlines responded to the dramatic shift in their operating environment by cutting flights, raising fares, and tapping into ancillary sources of revenue. As a result of these trends, domestic passenger traffic (measured in Revenue Passenger Miles, or RPM)⁴ declined by approximately 10 percent in the fourth quarter of 2008, compared to the fourth quarter of 2007. Preliminary data on international passenger traffic to and from the United States indicate a 7-percent decline in the last 3 months of 2008 after having grown by 5 percent in the first half of the year. One positive outcome of reduced service and ridership in the second half of 2008 was fewer flight delays and improved on-time performance.

Airlines anticipate further declines in domestic and international passenger demand as a result of the ongoing economic downturn. Consequently, they have

¹ Unless otherwise specified, all data presented are on a calendar-year basis.

² This report is the 10th in a series of periodic updates on aviation industry trends issued by our office. The performance metrics are based on data collected and processed by the Department of Transportation's Office of Aviation Analysis, Bureau of Transportation Statistics, Office of Airline Information, and Federal Aviation Administration. OIG reports are available on our website: www.oig.dot.gov.

³ Operating performance for leading network, low-cost, and regional airlines. See exhibit A for complete list of airlines included in this analysis.

⁴ See exhibit C for a glossary of commonly used terms, including Revenue Passenger Miles (RPMs).

announced further service reductions in 2009 and have resorted to lowering airfares to stimulate demand until those capacity cutbacks can be implemented.

Airlines Reduced Flights, Raised Airfares, and Introduced New Fees in 2008

In response to the worsening economy, volatile fuel prices, and the resulting operating losses in 2008, airlines took aggressive measures to generate operational savings. By November 2008, airlines had implemented capacity cutbacks that eliminated roughly 13 percent of domestic scheduled flights and associated seat miles compared to November 2007. These measures significantly affected air service and airports of all sizes across the country and brought the number of scheduled flights down to levels last seen in 2002.

To achieve savings through service cuts, airlines grounded approximately 376 aircraft⁵ systemwide—mainly the less fuel-efficient models in their fleets—and laid off about 37,000 airline employees. Non-stop service in domestic long-distance markets also declined as airlines started routing these passengers on connecting flights through their hub airports.

From the beginning of 2008 through the July 2008 peak in fuel prices, airlines initiated several fare increases. Average airfares increased between 9 percent and 16 percent in the third quarter of 2008, compared to the third quarter of 2007, depending on the length of the flight (see table A). The average all-inclusive price of air travel increased further as airlines began charging fees for ancillary services such as checking bags, selecting seats, and using on-board pillows and blankets.

Table A. Airfares by Flight Length

| Flight Length (Average Distance) | Average Airfares | | Change |
|-------------------------------------|------------------|---------|--------|
| | 3Q 2008 | 3Q 2007 | |
| Short (≈ 300 miles) | \$142 | \$122 | 16% |
| Medium (≈ 1,000 miles) | \$183 | \$168 | 9% |
| Long (≈ 1,500 miles) | \$232 | \$208 | 11% |

Source: Department of Transportation

Note: Airfare data do not include fees for checked bags and other ancillary services.

Reduced Service Options Resulted in Diminished Service to Small Communities

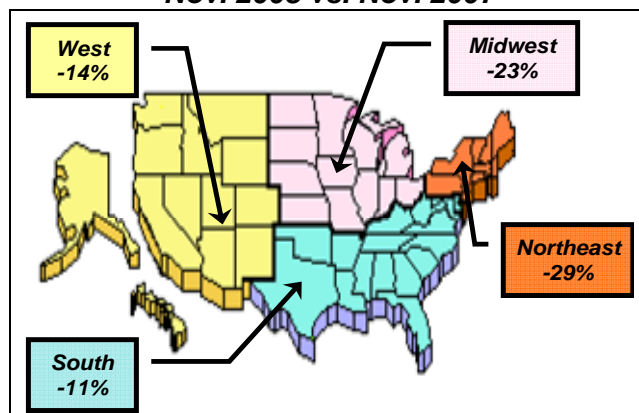
Air service to small communities came under a lot of pressure during 2008. Airlines operating scheduled air services to small communities were either forced to eliminate the smaller aircraft from their fleets or ceased flight operations altogether due to the financial strain put on them by high fuel prices and operating

⁵ Includes aircraft grounded by network, low-cost, and regional carriers. See exhibit A for complete list of airlines included in this analysis.

losses. While few communities lost all air service due to the cuts in scheduled flights, many small- and medium-sized communities saw a reduction in their access to hub airports. However, only 76 of all 667 of the Nation's airports receiving scheduled air service lost more than half of the air carriers serving their communities.

Small community (non-hub) airports saw the biggest impact, with a 16-percent decline in available seats for non-hubs,⁶ compared to an 11-percent nationwide decline. From a regional perspective, non-hub airports in the Northeast and Midwest lost the highest percentages of available seats as shown in figure A. The reduction in scheduled flights also affected some large airports, which lost a high percentage of flights as airlines downsized their secondary hubs. For example, Los Angeles International, Cincinnati, Kansas City, and Oakland saw declines in their domestic departures of between 25 and 30 percent.

Figure A. Regional Changes in Available Seats at Non-Hub Airports, Nov. 2008 vs. Nov. 2007



Source: Federal Aviation Administration

Overall, 54 small communities lost all air service at some point in 2008, although two-thirds of those only lost service temporarily during a transition from one Essential Air Service (EAS) carrier to another. The EAS program, which guarantees air service to eligible small communities, experienced many challenges in 2008 when key EAS contracting carriers decided to either cease operations or reduce the number of small (18 seat) aircraft in their fleets.⁷

A significant increase in the number of communities vying for replacement air service along with a reduction in the number of airlines willing to provide this service led to lengthy interruptions in service at some airports. As a result, the Department of Transportation was forced to negotiate replacement contracts at much higher subsidy costs due to higher fuel prices, fewer economically viable aircraft, and fewer airlines available to bid on contracts. Consequently, the

⁶ Analysis based on FAA classification of airports: Non-hub airports enplane less than 0.05 percent of system-wide passengers. Small-hub airports enplane more than 0.05 percent but less than 0.25 percent of system-wide passengers. Medium-hub airports enplane more than 0.25 but less than 1 percent of system-wide passengers. Large-hub airport enplane more than 1 percent of system-wide passengers.

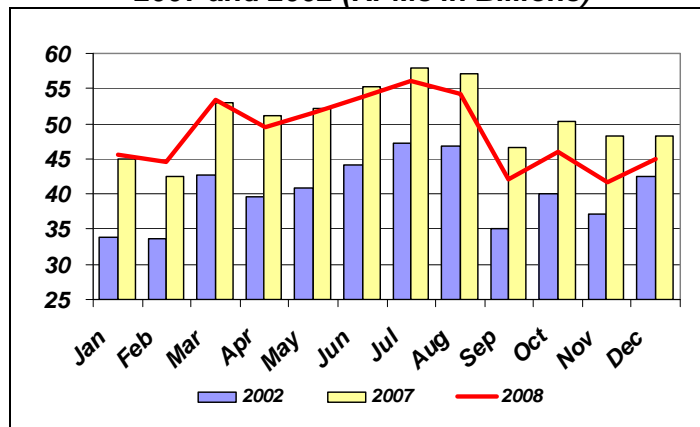
⁷ Air Midwest, Skyway Airlines, and Big Sky Airlines, all of whom provided lift to the EAS program decided to cease operations in 2008. Colgan Airlines eliminated most of the 18-seat aircraft from its fleet.

Department expects program costs to increase from \$109 million in fiscal year (FY) 2008 to \$160 million in FY 2009.

Service Cutbacks and Higher Airfares Caused Decline in Passenger Traffic

Although airlines were able to save on operating costs through service reductions, the cutback in flights also reduced passengers' service options. This, combined with the effect of the economic recession and higher airfares, led to domestic passenger traffic declining in the second half of 2008 after remaining relatively unchanged in the first half of the year. By the end of 2008, domestic passenger ridership (measured in RPMs) declined by approximately 10 percent (compared to the fourth quarter of 2007) to the lowest levels since 2004 (see figure B).

Figure B. Domestic Passenger Traffic, 2008 vs. 2007 and 2002 (RPMs in Billions)



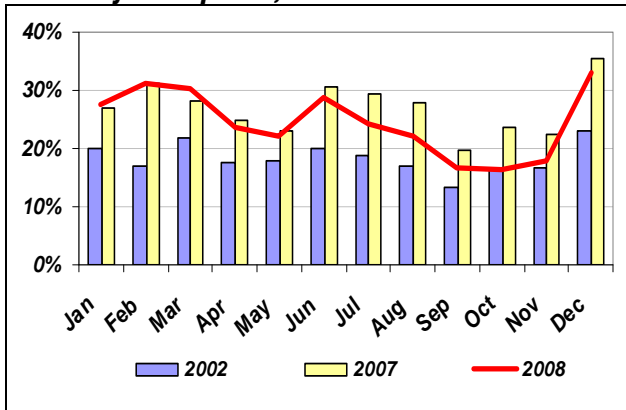
Source: Bureau of Transportation Statistics

Flight Delays Declined Significantly Following Reduced Flight and Passenger Activity

The record rate of flight delays in 2007 continued into the first 6 months of 2008 but fell to 22 percent in the last 6 months as airlines began cutting scheduled flights (compared to 27 percent in 2007). However, we identified six larger, more congested airports that continued to see above-average rates of delays toward the end of 2008—ranging from 27 to 37 percent—compared to the average rate of 21 percent for the remaining 49 airports tracked by the Federal Aviation Administration (FAA). Below, figure C shows the trend of delay rates for all 55 FAA-tracked airports, and figure D shows the 2008 rate of delays at the 6 larger airports.⁸ Finally, the average length of a delayed flight in the second half of 2008 did not improve from the second half of 2007 and remained at 55 minutes.

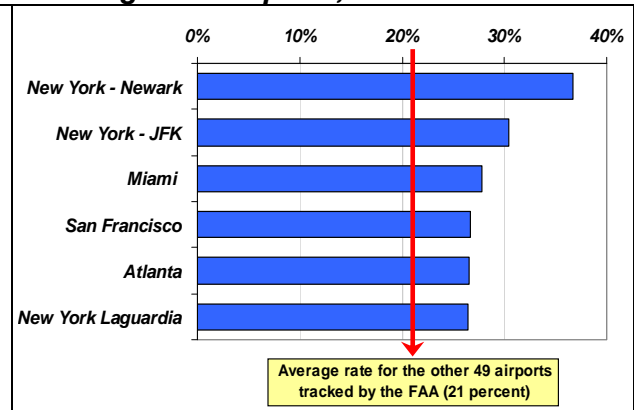
⁸ FAA tracks the number and rate of flight delays at 55 airports across the National Airspace System.

Figure C. Rate of Delayed Flights at 55 Major Airports, 2008 vs. 2007 and 2002



Source: Federal Aviation Administration

Figure D. Rate of Delayed Flights at Congested Airports, 4th Quarter 2008



Source: Federal Aviation Administration

At the request of the House Subcommittee on Aviation, our office recently initiated an audit that will:

- evaluate further the impact of airline decisions to reduce flight schedules on the delays and performance of the National Airspace System,
- analyze the delay problem specifically in the New York region and its corresponding effect across the country,
- examine progress in implementing the 77 initiatives emphasized by the New York Aviation Rulemaking Committee for reducing delays in New York, and
- highlight impacts from airline changes on travelers and airports.

We expect to report our results later this year.

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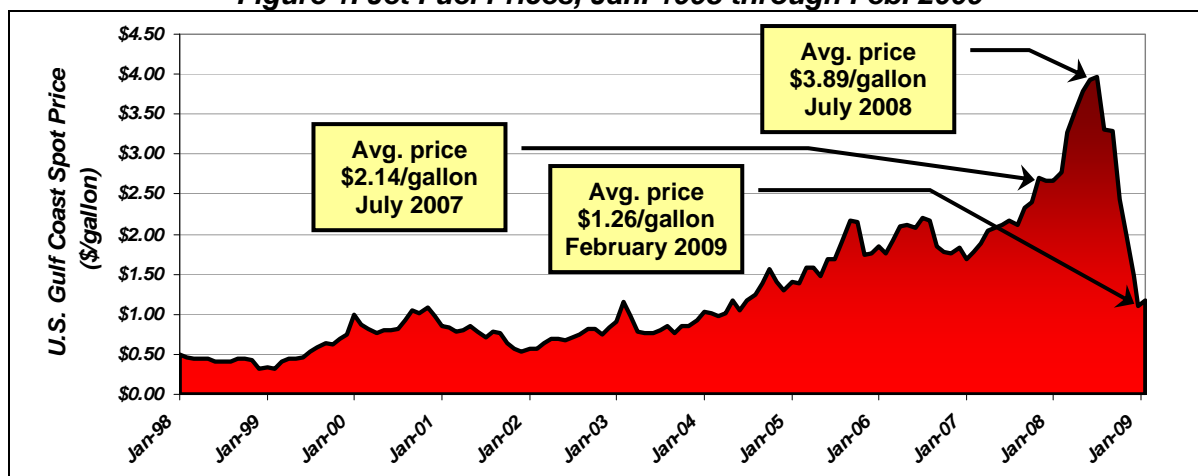
IMPACT OF FUEL CRISIS AND ECONOMIC RECESSION ON AIRLINES' FINANCIAL CONDITION

During the second half of 2008 the aviation industry faced an extremely challenging economic environment. A deepening economic recession led to an increasingly uncertain revenue outlook for the industry as passengers altered their demand for air services. The present crisis was preceded by a dramatic shift in the industry's operating costs as fuel prices soared to unprecedented highs in the first half of 2008. The combined impact of the high price of fuel followed by the downturn in the economy led to multiple bankruptcies, service cessations, and a general deterioration of the airline industry's creditworthiness.

Jet Fuel Prices Surged in the First Half of 2008 Before Normalizing in the Second Half in Response to the Global Economic Crisis

During the first half of 2008, jet fuel prices surged to historical highs, peaking in July at an average price of \$3.89 per gallon, an 81-percent increase over July 2007 (see figure 1 below). Fuel prices normalized in the second half of the year, declining to an average price of \$1.26 per gallon by February 2009.

Figure 1. Jet Fuel Prices, Jan. 1998 through Feb. 2009



Source: Energy Information Administration

According to data reported by airlines to the Bureau of Transportation Statistics (BTS) airline fuel costs increased by \$16.5 billion during the first three quarters of 2008. As a result, fuel costs accounted for roughly 37 percent of the industry's operating costs and actually replaced labor as the largest component of the industry's cost structure. The increase in fuel cost per available seat mile (CASM) more than eliminated any other operating cost savings that many airlines had achieved by restructuring their operations after the September 11, 2001, terrorist attacks.

The Energy Information Administration (EIA) projects that future fuel prices will be driven mainly by the depth and duration of the global economic downturn, the

pace and timing of the recovery, and the supply of crude oil. The EIA is forecasting that fuel prices will continue to be depressed in 2009 in response to continued softness in the demand for crude oil resulting from the ongoing global economic recession. Prices are forecasted to begin rebounding in 2010, following a global economic recovery.

Airlines Suffered Significant Losses as Airfare Revenues Did Not Keep Up With Increasing Fuel Costs and Air Travel Declined

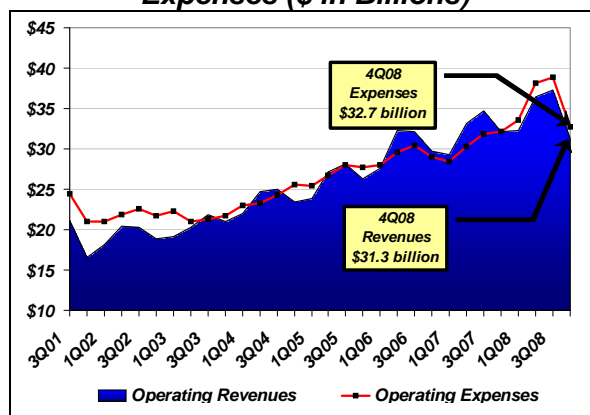
The increases in fuel prices and the economic recession impacted all components of the aviation industry—both major network and low-cost carriers—and affected airlines' cash flow and creditworthiness.

Overall, in 2008, the industry reported operating losses totaling \$5.8 billion. Of this amount, airlines incurred:

- \$4.4 billion in the first three quarters of 2008. This was due to high fuel prices and aggressive fuel hedging⁹ by certain airlines, which resulted in airlines struggling to recoup rising operating costs through higher airfares.
- \$1.4 billion in the fourth quarter of 2008, when passenger traffic began waning as a result of the global economic crisis.

As a result of these heavy losses, 10 carriers sought bankruptcy protection, and 11 carriers ceased all flight operations.¹⁰ Prior to the fourth quarter of 2007, the industry had experienced six consecutive quarters of operating profits totaling \$11.8 billion (see figure 2).

Figure 2. Airline Operating Revenue vs. Expenses (\$ in Billions)



Source: Office of Secretary of Transportation – Airline Quarterly Financial Review

Impact on Major Network Carriers

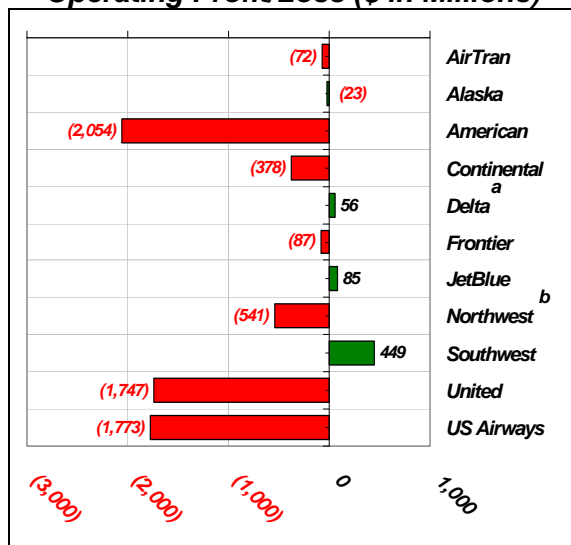
American, United, US Airways, and Continental reported operating losses of \$2.1 billion, \$1.7 billion, \$1.8 billion, and \$378 million, respectively, in 2008. Further, Northwest reported a loss of \$541 million before its merger with Delta in October 2008. Delta was the only network carrier to report an operating profit in 2008 (\$56 million) as shown in figure 3 below. Delta's operating performance

⁹ "Fuel hedging" is a contractual tool used by some airlines to stabilize jet fuel costs. A fuel hedge contract commits an airline to paying a pre-determined price for future jet fuel purchases. Airlines enter into such contracts as a bet that future jet fuel prices will be higher than current prices or to reduce the turbulence of confronting future expenses of unknown size. If the price of jet fuel falls and the airline hedged for a higher price, the airline will be forced to pay an above-market rate for jet fuel.

¹⁰ Eight of the airlines that ceased operations did so after attempting to restructure under bankruptcy protection.

was bolstered by its emergence from bankruptcy in April 2007, which allowed it to streamline operating costs. Delta also benefited by shifting capacity into growing international markets.

Figure 3. Select Carrier 2008 Operating Profit/Loss (\$ in Millions)



Source: Department of Transportation.

^a Includes operating results for Northwest from October 30 through the end of 2008 due to merger.

^b Financial results through October 29, 2008.

Impact on Low-Cost Carriers

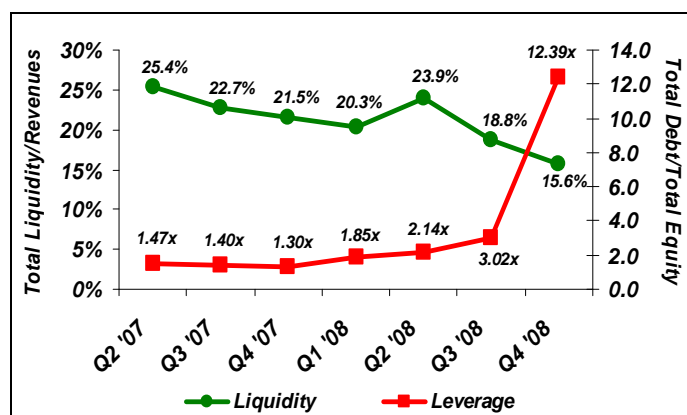
Low-cost carriers' operating performance varied as shown in figure 3. For instance, Southwest Airlines reported operating profits totaling \$449 million for 2008. JetBlue also reported an \$85 million operating profit in 2008, while Frontier and AirTran reported operating losses of \$87 million and \$72 million respectively.

Impact on Airlines' Cash Flow and Creditworthiness

Higher fuel prices in the first three quarters of 2008 followed by significant declines in passenger traffic put a lot of pressure on airlines' cash positions. Many were forced to borrow, by committing unencumbered assets and other forms of collateral, to maintain adequate levels of cash to support operations (see figure 4 below).

Although the cash raised by the airlines did improve the industry's liquidity in the short run, it deteriorated to roughly 15.6 percent by the end of 2008.¹¹ Meanwhile, industry leverage saw a sharp deterioration between the second quarter of 2007 and the fourth quarter of 2008. The deterioration in airlines' liquidity and leverage positions affected the industry's overall creditworthiness as the debt ratings for most airlines (including Southwest Airlines) were downgraded during 2008.

Figure 4. Industry Liquidity and Leverage



Source: Security and Exchange Commission

Note: Total liquidity defined as total available cash (cash + short term investment + balance available to be borrowed under a revolving line of credit)

¹¹ A decline in a carrier's liquidity ratio indicates that it has less cash available to support its ongoing flight operations. Historically, larger airlines often filed for bankruptcy when liquidity approached or dipped below 15 percent.

Considering current market conditions, the scarcity of unencumbered assets, and the industry's deteriorating creditworthiness, raising capital in the near future, if necessary, will be a daunting task for airlines.

MEASURES IMPLEMENTED BY AIRLINES HAVE IMPACTED AIR SERVICE ACROSS THE NATIONAL AIRSPACE SYSTEM

During the fall of 2008, airlines responded to the fuel crisis and economic recession by cutting flights and costs, raising fares and tapping into ancillary sources of revenues. By November 2008, airlines had implemented capacity cutbacks that eliminated roughly 13 percent of domestic scheduled flights and associated seat miles compared to November 2007. The biggest impact of the service reductions was seen in the form of reduced frequencies between many small- and medium-sized communities and their connecting hubs and a decrease in non-stop service in domestic, long-distance markets as airlines started routing passengers through their hub airports. These measures significantly affected airports and aircraft of all sizes and brought the number of scheduled flights to its lowest levels in the last 9 years.

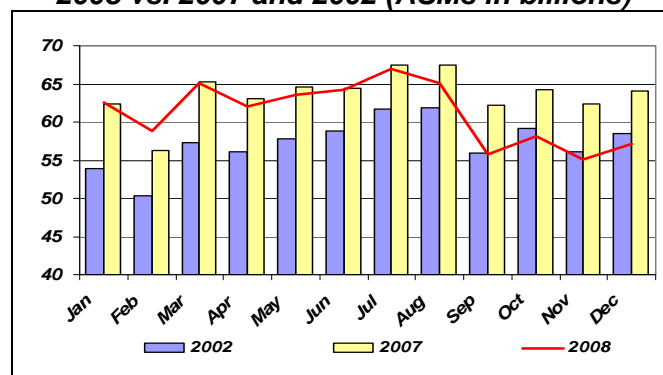
Many airlines operating scheduled air services to small communities were either forced to eliminate the smaller aircraft from their fleets or ceased flight operations altogether due to the financial strain put on them by high fuel prices. Passenger demand is expected to continue to slide in 2009. Consequently, airlines announced further reductions in flights and have resorted to lowering airfares in an effort to stimulate demand until the new capacity cuts are implemented. This will further reduce air service across the National Airspace System as well as service to small communities.

Airline Capacity Cutbacks

In September 2008, airlines began cutting capacity. Data for the last 3 months of 2008 show a 10.7-percent decline in year-over-year available seat miles (ASMs). These cuts brought capacity down to levels last seen in 2002 when the industry was still recovering from the September 11, 2001, terrorist attacks (see figure 5).

Legacy carriers recorded the deepest cuts in domestic air service during the fall of 2008. Between November 2007 and November 2008, six of seven legacy carriers cut domestic flights between 13 and 17 percent

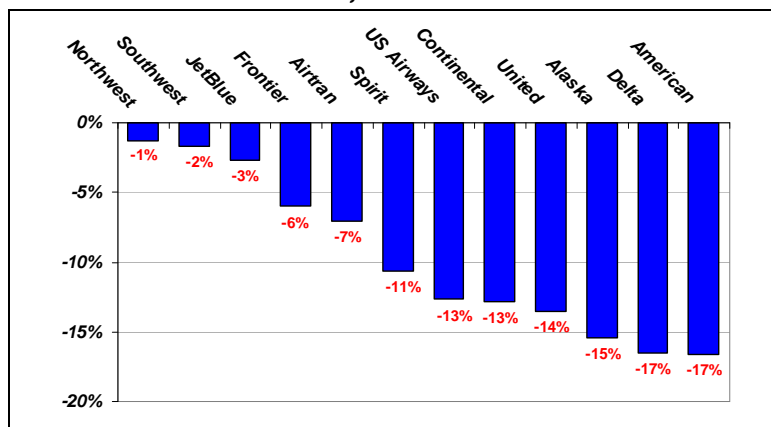
Figure 5. Changes in Domestic Capacity, 2008 vs. 2007 and 2002 (ASMs in billions)



Source: Bureau of Transportation Statistics

(see figure 6).¹² Only Northwest Airlines remained relatively unchanged. The low-cost carriers, as a group, registered approximately a 4-percent reduction in flights, with most individual carriers reporting only single-digit declines in flights; however, Spirit Airlines cut domestic flights by 11 percent.

Figure 6. Change in Scheduled Flights for Legacy and Low-Cost Carriers, Nov. 2008 vs. Nov. 2007

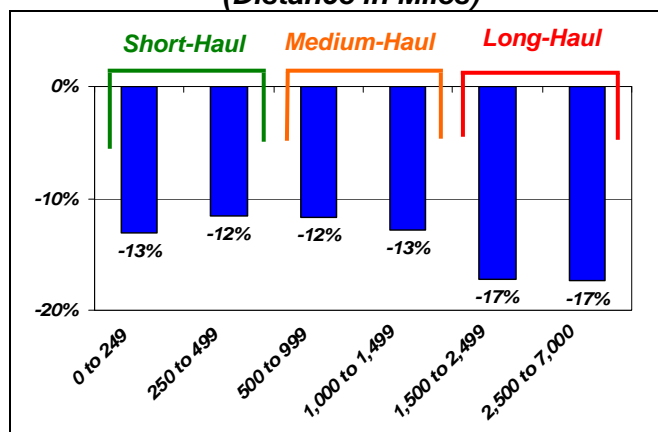


Source: Federal Aviation Administration

Airline Cuts in Long-Distance Service

Airlines cut service in markets of all distances. However, flights in long-haul markets experienced the greatest decline (see figure 7 below). Although more convenient for passengers, long-haul, non-stop flights were cut to save operating costs. Airlines accommodated affected passengers by connecting them through hub airports. The loss of service in some long-haul markets also reflects the decision of ExpressJet Airlines to terminate its short-lived attempt to start service under its own brand to link long-haul markets between medium-sized cities.

Figure 7. Change in Scheduled Flights by Flight Distance, Nov. 2008 vs. Nov. 2007 (Distance in Miles)



Source: Federal Aviation Administration

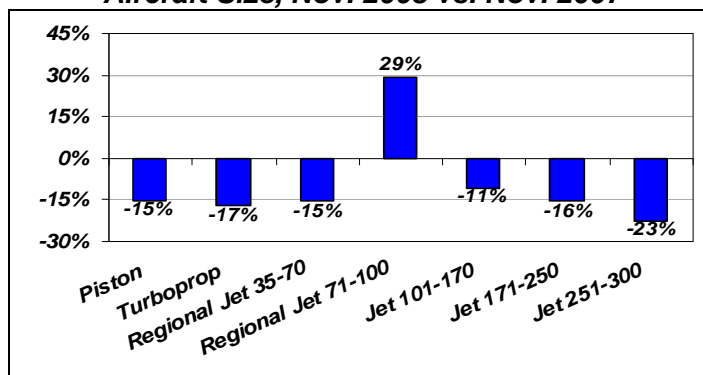
¹² This analysis is based on the airlines' branded system, including regional airline flights operated under the brand of a network airline. Legacy and low-cost carriers are defined in exhibit C.

Impact of Airline Cutbacks on Aircraft Usage

The cutbacks in scheduled air service affected aircraft of all sizes except regional jets in the 71- to 100-seat category. Domestic scheduled flights on all other aircraft experienced double-digit declines in November 2008 as compared to November 2007 (see figure 8).

However, scheduled flights using 71- to 100-seat regional jets were up 29 percent year-over-year. The growth of the larger regional jets reflects the relatively recent introduction of aircraft in this size class and a strategic choice by airlines to use these fuel-efficient aircraft to serve markets that were previously serviced by older narrow body jets, which were less fuel efficient.

Figure 8. Change in Scheduled Flights by Aircraft Size, Nov. 2008 vs. Nov. 2007



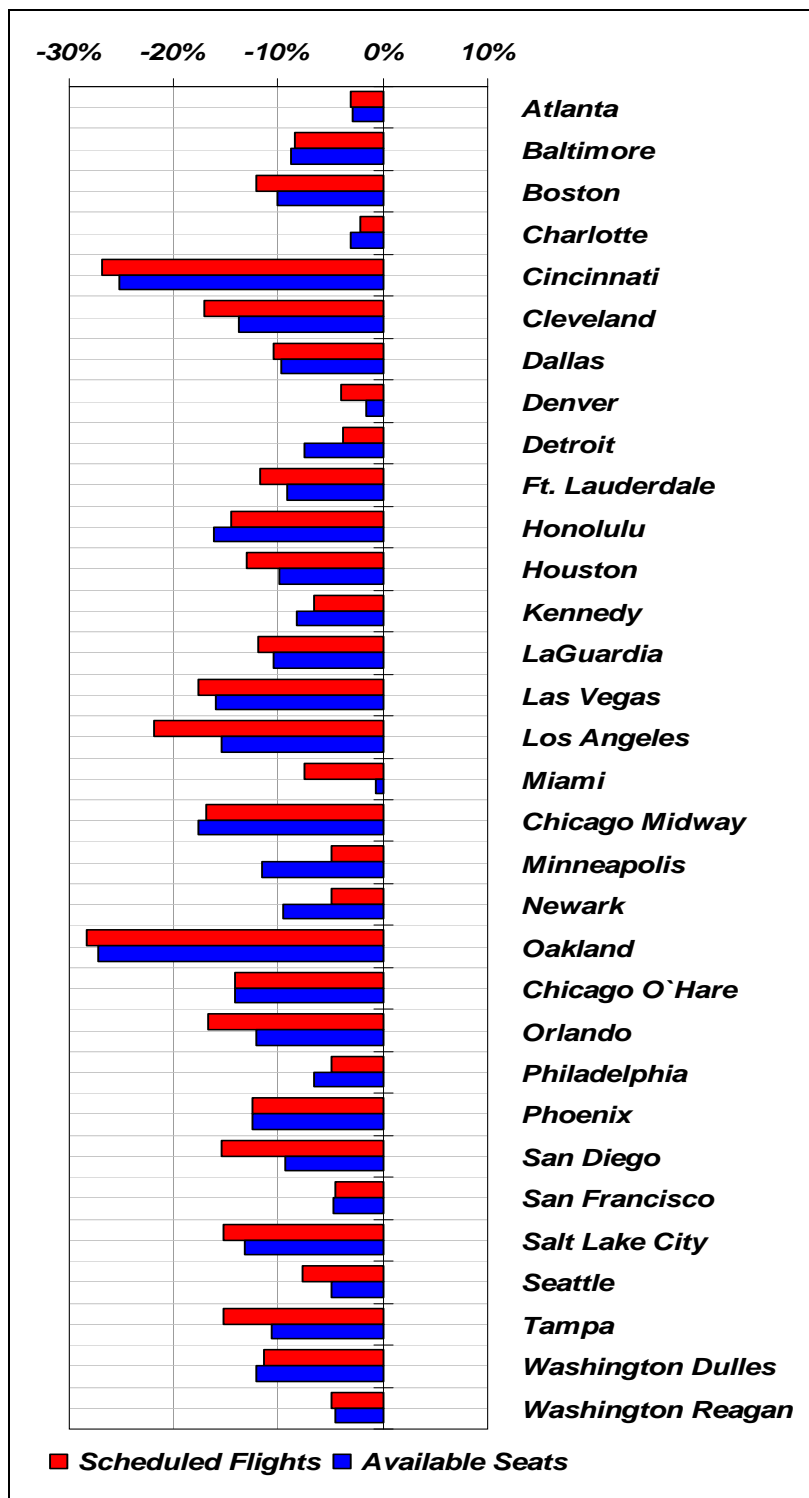
Source: Federal Aviation Administration

Note: Number ranges in figure 8 represent number of seat ranges for that aircraft.

Impact of Airline Cutbacks at Major Airports

All major airports experienced a decline in domestic service between November 2007 and November 2008. For example, large airports in Atlanta, Denver, Detroit, Washington, D.C., Newark, and San Francisco experienced declines ranging from 2 percent to 5 percent, in scheduled flight activity. Conversely, large airports in Los Angeles, Cincinnati, and Oakland reported reductions in flight activity of 22 percent, 27 percent, and 28 percent, respectively (see figure 9 below).

**Figure 9. Capacity Changes at Major Airports,
November 2008 vs. November 2007**

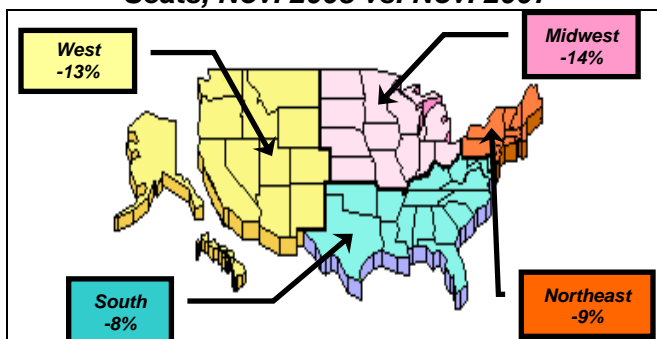


Source: Federal Aviation Administration

Regional Impact of Airline Cutbacks

A comparison of available seat capacity between November 2007 and November 2008 reveals an 11-percent decrease in available seats nationally, which was spread fairly evenly across the Nation's regions. However, the western and midwestern regions saw slightly deeper losses in percentages of available seats (see figure 10).

Figure 10. Regional Changes in Available Seats, Nov. 2008 vs. Nov. 2007



Source: Federal Aviation Administration

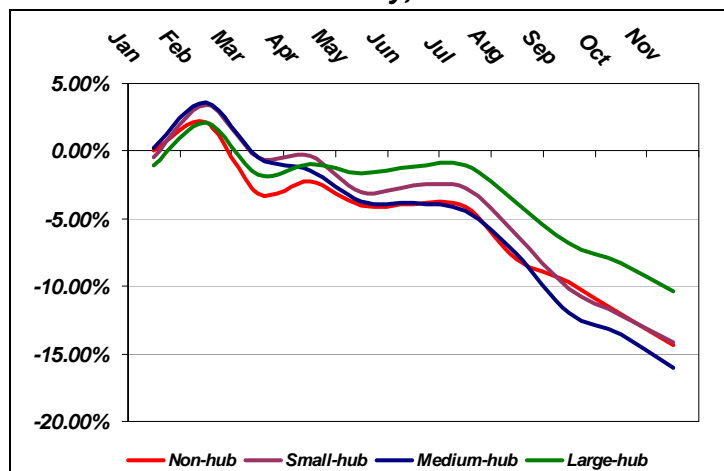
- The western region's 13-percent decline in capacity was due in part to changes in service to and within Hawaii—which was impacted by the bankruptcy and closure of Aloha Airlines—and large cuts in service to leisure destinations such as Las Vegas.

- The midwestern region's 14-percent decline in capacity resulted from the downsizing of Delta's Cincinnati hub and cutbacks by other carriers at their hubs in Cleveland and Chicago.

Impact of Airline Cutbacks on Small- and Medium-Sized Community Airports

Although cutbacks in flight schedules affected airports of all sizes, the greatest impact was seen at small and non-hub community airports (see figure 11). Specifically, on a year-over-year basis, scheduled domestic flights in November 2008 were down roughly by 10 percent for the large-hub airports, 16 percent for medium-hub airports, and 14 percent for both small and non-hub airports (Since 2000, non-hub airports have seen scheduled flights decline by approximately 36 percent.)

Figure 11. Change in Scheduled Departures by Size of Community, 2008 vs. 2007



Source: Federal Aviation Administration

Yet, overall competition as measured by the number of airlines serving an airport did not decline appreciably (see table 1). Only 76 of all 667 of the Nation's airports receiving scheduled air service lost more than half of the air carriers serving their communities.

**Table 1. Change in Domestic Competition,
Nov. 2008 vs. Nov. 2007**

| Percent Change in Carriers Serving Airport | Airports in Group | Average Carriers Lost |
|--|-------------------|-----------------------|
| 100% (Lost all carriers) | 30* | -1.1 |
| 75% - 99% | 1 | -3.0 |
| 50% - 74% | 45 | -1.3 |
| 25% - 49% | 90 | -1.3 |
| 1% - 24% | 69 | -1.4 |
| 0% (Lost no carriers) | 405 | 0.0 |
| Increase in carriers | 27 | 1.1 |
| Total | 667 | |

Source: Federal Aviation Administration

*12 of 30 airports only lost service temporarily during a transition to a replacement carrier.

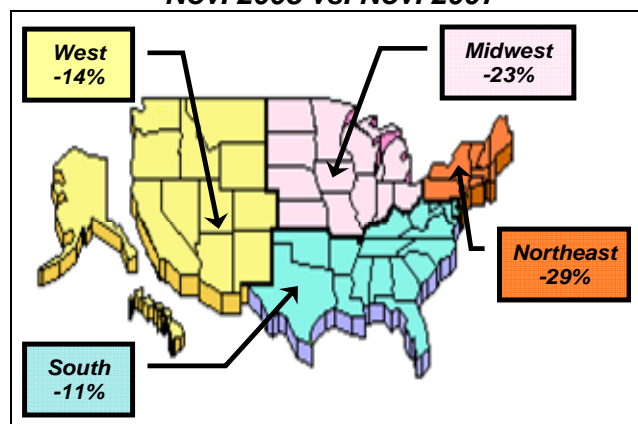
Drastic Capacity Declines at Small Community (Non-Hub) Airports

Small community airports (non-hubs) saw the greatest reduction in their available seat capacity, with a 16-percent decline in available seats, compared to the 11-percent decline nationwide.

Regionally, non-hub airports in the south saw an 11-percent decline in year-over-year available seat capacity, while non-hubs in the west saw a decline of 14 percent. In the midwestern region, available seats at non-hub airports declined 23 percent, most notably at Peoria and Rockford, Illinois, and at Kalamazoo and Lansing, Michigan.

Non-hubs in the northeastern region saw the largest impact of the capacity cutbacks where year-over-year available seat capacity declined by 29 percent. However, the significance of this decline is tempered by the fact that this region also has the fewest number of non-hub airports, which results in a magnified percentage decline in available capacity. Within the northeast region,

**Figure 12. Regional Changes in Available Seats at Non-Hub Airports,
Nov. 2008 vs. Nov. 2007**



Source: Federal Aviation Administration

New York’s Stewart Airport lost approximately two-thirds of its available seat capacity and accounted for the highest percentage of losses in the entire region.

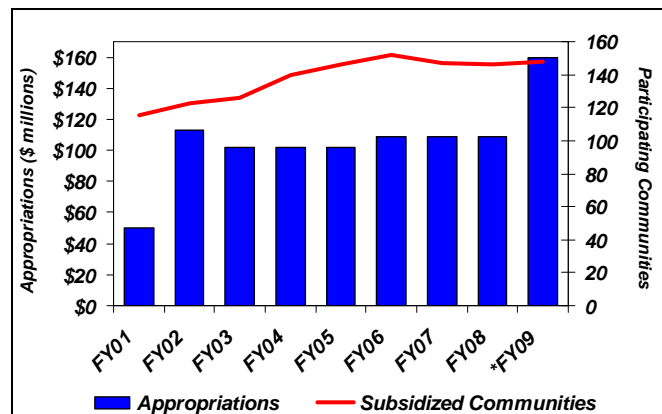
Impact on Essential Air Service (EAS) Program

The EAS program, which guarantees air service to eligible small communities, experienced many challenges in 2008 when key EAS contracting carriers decided to either cease operations or reduce the number of small (18 seat) aircraft in their fleets. This resulted in 37 communities transitioning from one EAS carrier to another during 2008. As of the release date for this report, six of these communities continue to wait for replacement EAS service.

The number of communities receiving a subsidy under the EAS program increased from 115 in 2001 to 146 in 2008 (see figure 13). During the same period, the EAS annual appropriation more than doubled from \$50 million to \$109 million.

A significant increase in the number of communities vying for replacement air service along with a reduction in the number of airlines willing to provide this service led to lengthy interruptions in service at some airports, which forced the Department of Transportation to negotiate replacement contracts at much higher subsidy costs, given the higher fuel prices. The Department projects subsidy costs will increase by 47 percent to \$160 million in FY 2009.

Figure 13. EAS Funding and Participating Communities



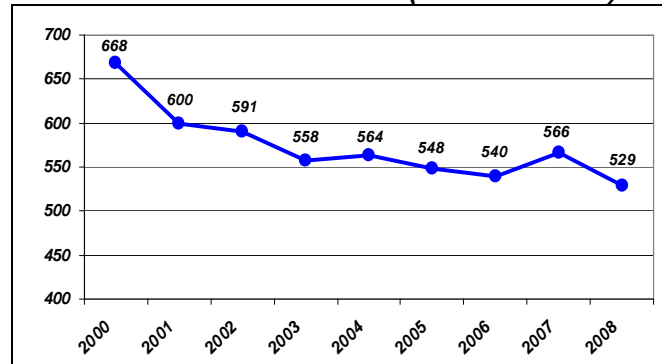
Source: Department of Transportation
 * FY 2009 numbers are projections

In Addition to Service and Capacity Cutbacks, Airlines Also Sought To Offset Operating Losses by Reducing Their Workforce, Raising Airfares, and Introducing New Fees

Workforce Layoffs

As a result of the capacity cutbacks, airlines reduced operating costs by paring down their workforce. Airlines eliminated approximately 37,000 positions during 2008, a 7-percent decline from 2007 employment levels (see figure 14 below).

Figure 14. Aviation-Related Employment for US Certificated Carriers (in Thousands)



Source: Bureau of Transportation Statistics (BTS)

American, Continental, and Delta were among the carriers that experienced the highest reduction in their workforces during 2008. The industry reached its peak employment in 2000 with roughly 668,000 employees. Following the September 11, 2001, terrorist attacks, airline employment fell dramatically as demand declined and airlines were forced to restructure. By the end of 2006, aviation-related employment had declined to roughly 540,000, a 19-percent decline from its 2000 peak. Fueled by airline restructurings and increases in airline passenger traffic, the industry added jobs in 2007. However, in 2008, after fuel prices spiked, airlines began reducing their workforces and fleet sizes to cut costs. The recent layoffs placed airline-related employment at levels not seen since 1992.

Fare Increases and New Fees

Airlines stabilized their revenue outlook by implementing fare increases and fuel surcharges and charging fees for ancillary services. From the beginning of 2008 through the peak of the fuel prices in July 2008, airlines initiated 16 price increases.¹³ These increases included nine roundtrip fare increases that ranged from \$4 through \$70 and seven roundtrip fuel surcharges that ranged from \$10 through \$40. The price increases resulted in average airfare increases of between 9 percent and 16 percent in the third quarter of 2008, compared to the third quarter of 2007 (depending on the length of the flight), and played a significant role in stabilizing the industry's revenue outlook (see table A on page ii). Airlines also generated revenue by tapping into ancillary sources, that is, charging fees for services that were previously included in the price of airline tickets (see table 2 below).

¹³ A price increase represents a fare increase or fuel surcharge implemented by a network carrier that is matched by competing network carriers (and often times by major low-cost carriers) on more than two-thirds of their respective route networks. Price increases that are not adopted by competing network carriers are usually retracted by the carrier proposing the fare increase or fuel surcharge and are not included in this analysis.

Table 2. Summary of Airline Fees

| | 1 st Checked Bag | 2 nd Checked Bag | Additional Bags | Ticket Change Fee | Seat Selection Fee |
|------------------|-----------------------------|-----------------------------|-----------------|-------------------|--------------------|
| Air Tran | ✓ | ✓ | ✓ | ✓ | ✓ |
| Alaska | | ✓ | ✓ | ✓ | |
| American | ✓ | ✓ | ✓ | ✓ | |
| Continental | ✓ | ✓ | ✓ | ✓ | |
| Delta | ✓ | ✓ | ✓ | ✓ | |
| JetBlue | | ✓ | ✓ | ✓ | ✓ |
| Midwest Airlines | ✓ | ✓ | ✓ | ✓ | |
| Northwest | ✓ | ✓ | ✓ | ✓ | |
| Southwest | | | ✓ | | |
| Spirit | ✓ | ✓ | ✓ | ✓ | ✓ |
| United | ✓ | ✓ | ✓ | ✓ | ✓ |
| US Airways | ✓ | ✓ | ✓ | ✓ | ✓ |

Source: Airline web sites

AIRLINE SERVICE CUTS, HIGHER AIRFARES, AND CONCERNS OVER THE ECONOMY HAVE LED TO A DECLINE IN AIR TRAFFIC

Although airlines were able to save on operating costs through service reductions, the cutback in flights operations reduced passengers' service options. This, combined with the effect of the global economic recession and increases in air fares, led to drops in domestic and international passenger traffic as well as general aviation and air cargo flight activity in 2008.

Passenger Traffic Declined in 2008, Reaching Levels Not Seen Since 2004

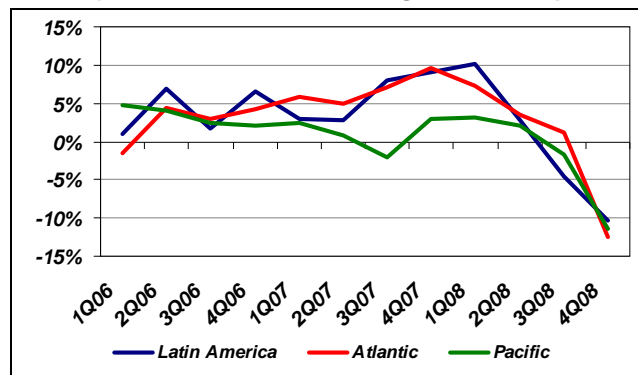
Beginning in late summer 2008, domestic passenger traffic (measured in RPMs) began shrinking after remaining relatively unchanged in the first half of the year. In the fourth quarter of 2008, domestic passenger ridership declined by 9.6 percent, compared to the fourth quarter of 2007, and ended the year at levels slightly lower than those last seen in the fourth quarter of 2004.

In contrast, international passenger traffic to and from the United States grew during the first half of 2008 as airlines moved some of their capacity from their domestic service to their international markets. Specifically, international passenger traffic saw a 6-percent and 3-percent, year-over-year increase in the first and second quarters of 2008, respectively.

For the first 9 months of 2008, passenger traffic was up slightly in each of the three international regions: Latin America (2.8 percent), Atlantic (3.5 percent), and Pacific (1.1 percent).

Initial signs of softness in international travel began appearing in the third quarter of 2008, especially in Latin America where traffic was down 4.6 percent compared to the same period in 2007 (see figure 15). International traffic figures for the last 3 months of 2008 show an accelerated decline, with each of the three international regions showing declines of between 4 and 10 percent compared to the fourth quarter of 2007.

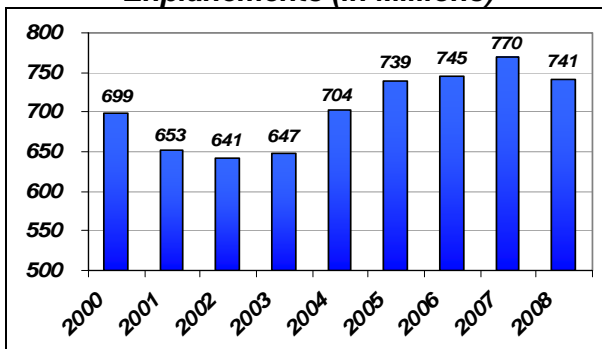
Figure 15. International Passenger Traffic (Year-Over-Year Change in RPMs)



Source: Bureau of Transportation Statistics

System-wide¹⁴ passenger enplanement data indicate that passenger enplanements declined by 3.7 percent to 741.5 million in 2008, when compared to 2007. This

Figure 16. System-Wide Passenger Enplanements (in Millions)



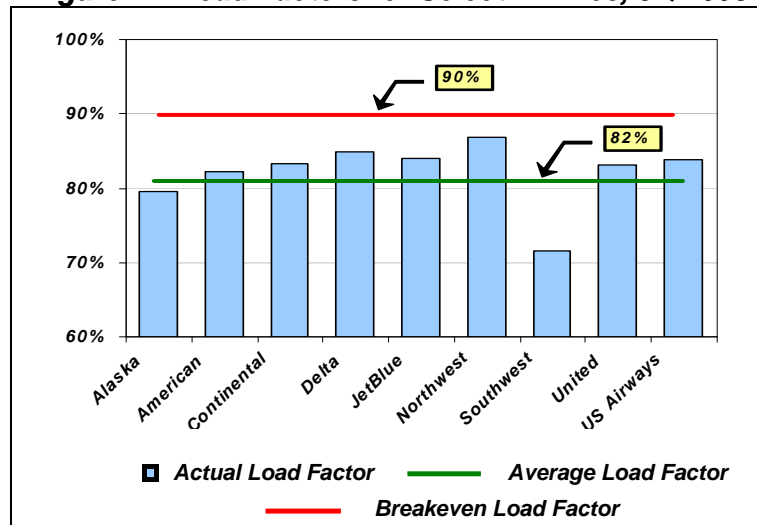
Source: Bureau of Transportation Statistics

marked the first annual decline in passenger enplanements since 2002 and resulted in enplanements declining to levels last seen in 2005 (see figure 16). Enplanements began to decline in March 2008 and worsened as the year progressed, with a decline of 8.5 percent in the fourth quarter of 2008 compared to the same period in 2007.

During the third quarter of 2008, the major passenger airlines were able to fill 82 percent of available seats (actual load factor), a decrease of 1 percent compared to 2007 (see figure 17 below).

¹⁴ System-wide passenger enplanements include passengers on domestic flights as well as international flights to and from the United States.

Figure 17. Load Factors for Select Airlines, 3Q 2008



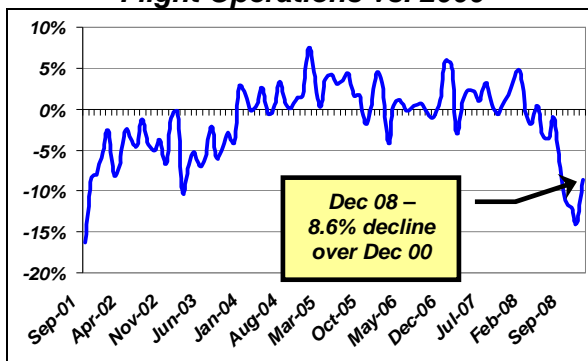
Source: Department of Transportation – Airline Quarterly Financial Review

However, the average breakeven load factor increased sharply to 90 percent in the third quarter (an increase of 12 percent over 2007) due to the increase in fuel prices. Preliminary data on the fourth quarter of 2008 show that airlines continued to maintain high load factors in the face of weakening demand through the implementation of the previously announced capacity cutbacks. Airlines expect passenger demand to continue to decline. Consequently, airlines have announced plans to further cut capacity and are lowering airfares in an effort to stimulate demand until those additional capacity cuts can be implemented.

Other Flight Activity Across the National Airspace System Declined in 2008

In November 2008, flight operations at en route centers were down by 14 percent

Figure 18. Change in En Route Center Flight Operations vs. 2000



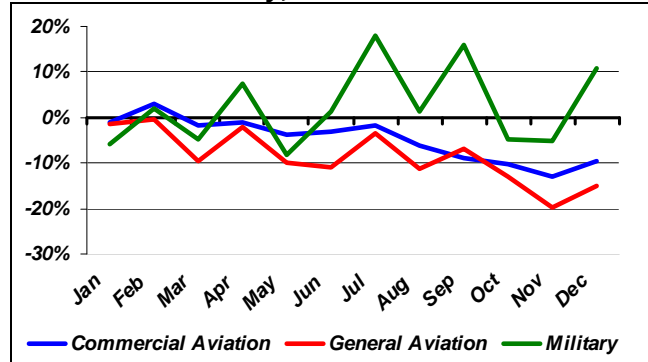
Source: Federal Aviation Administration

compared to November 2000. This is the second biggest decrease in flight operations since September 2001 when operations declined by 16 percent year-over-year. In December 2008, flight operations were 8.6 percent lower than the same period in 2000 (see figure 18).

Declines in General Aviation Activity

In addition to the downturn in airline operations, the unprecedented fuel prices and economic recession also negatively affected general aviation activity in 2008. When compared to 2007, instrument controlled (IFR) aircraft operations recorded at air traffic control towers in 2008 declined by 9 percent for general aviation and 5 percent for airlines. Furthermore, general aviation operations were down by 6 percent in the first half of 2008 and 11 percent in the second half when compared to the same periods in 2007.

Figure 19. Year-Over-Year Change in Tower Activity, 2008 vs. 2007



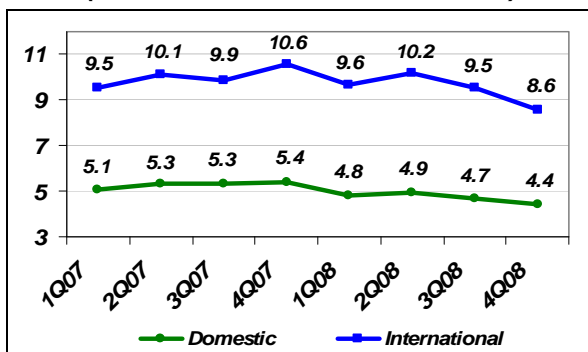
Source: Federal Aviation Administration
 Note: Chart presents IFR flight operations

Monthly, general aviation IFR operations were down as much as 20 percent in November 2008, compared to November 2007 (see figure 19). Indicative of the effect of fuel prices and economic deterioration on general aviation businesses, the relatively new very light jet (VLJ)¹⁵ industry also suffered several significant setbacks during 2008. VLJ manufacturers Adam Aircraft, Eclipse Aviation, and the leading VLJ operator, DayJet, ceased operations late in 2008.

Declines in Air Cargo Activity

Domestic air cargo traffic fell by 8.3 percent in the first 9 months of 2008 (see figure 20). Overnight delivery provider DHL announced that it would cease operations in the United States, which resulted in the layoff of 14,900 employees at DHL and 2 airlines providing lift on its behalf.

Figure 20. Domestic and International Air Cargo Traffic (Revenue Ton Miles in Billions)



Source: Bureau of Transportation Statistics

International air cargo traffic to and from the United States remained relatively unchanged in the first 9 months of 2008 compared to the same period in 2007.

Both domestic and international air cargo traffic declined at an accelerated

¹⁵ Very Light Jets (VLJs) are a new generation of small, general aviation jet aircraft designed to accommodate 4 to 6 passengers.

rate in the fourth quarter in response to the challenging economic environment, declining by 18 and 19 percent, respectively, when compared to the fourth quarter of 2007.

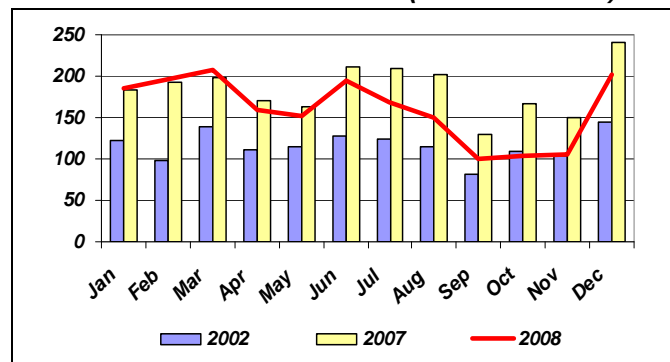
CUTBACKS IN SCHEDULED FLIGHTS ALSO LED TO FEWER FLIGHT DELAYS AND CANCELLATIONS

The record rate of flight delays seen in 2007 continued into the first half of 2008. In the second half of 2008, the number and rate of flight delays declined dramatically. The decline was primarily due to the airlines' capacity cutbacks initiated in the fall and their decision to increase scheduled flight times and turn-around times¹⁶ to minimize the ripple effect of delays seen in 2007 and the first half of 2008. Despite the improvement in the rate of flight delays, the average length of delayed flights remained unchanged.

Flight Delays Declined Overall in 2008, but Congested Airports Continued To See High Levels of Delays, and the Average Length of a Delayed Flight Remained Unchanged

At the 55 airports tracked by FAA, flight delays for the summer of 2008 (June through August) declined 17 percent from the unprecedented levels seen in the summer of 2007. The improvement occurred as airlines began to trim their flight schedules and increase scheduled flight times and turn-around times. For the second half of 2008, the number of delays was 24 percent lower than the same period in 2007. During the fall of 2008, the number of delays fell to levels not seen since 2002 (see figure 21 below). The trend was broken in December 2008 as arrival delays jumped significantly due to severe weather across the northern tier of the United States.

Figure 21. Delayed Flights at Major Airports, 2008 vs. 2007 and 2002 (in Thousands)



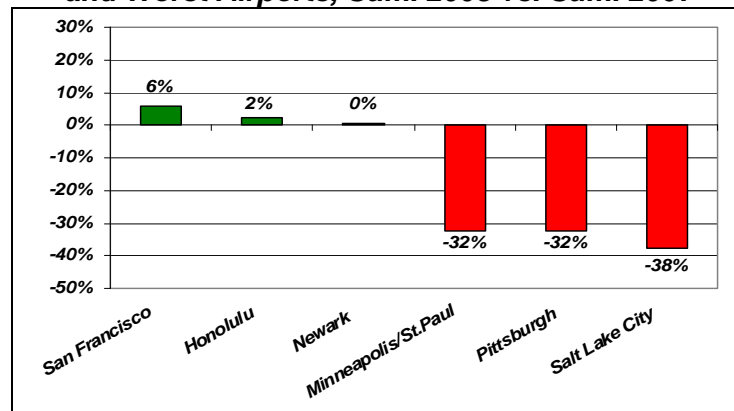
Source: Federal Aviation Administration

¹⁶ Turn-around time, adding to the time between the arrival and subsequent departure of an aircraft, provides a buffer to absorb arrival delays and minimizes the delay from propagating further into the later flights of an aircraft.

Not only did the number of delayed flights improve during the summer of 2008 but the rate of delays also improved. Flight delays declined to 25 percent during the summer of 2008, compared to approximately 29 percent during the summer of 2007. This improvement continued throughout most of the second half of 2008 (see figure C on page v). The rate of delayed flights also improved during the last 6 months of 2008—to approximately 22 percent compared to roughly 27 percent during the same period in 2007. The declining rate was aided by the significant reduction in flight operations that took place in the second half of 2008 and improved weather, except for the winter storms that plagued airport operations in December of 2008.

Of the 55 major airports tracked by FAA, 52 airports saw decreases in year-over-year flight delays during the summer of 2008. Most of the 52 airports saw reductions in the 15- to 30-percent range. The three airports that saw the biggest percentage reductions were Minneapolis, Pittsburgh, and Salt Lake City (see figure 22). Only 3 of the 55 saw little to no change (San Francisco, Honolulu, and Newark).

Figure 22. Change in Rate of Delays at Three Best and Worst Airports, Sum. 2008 vs. Sum. 2007

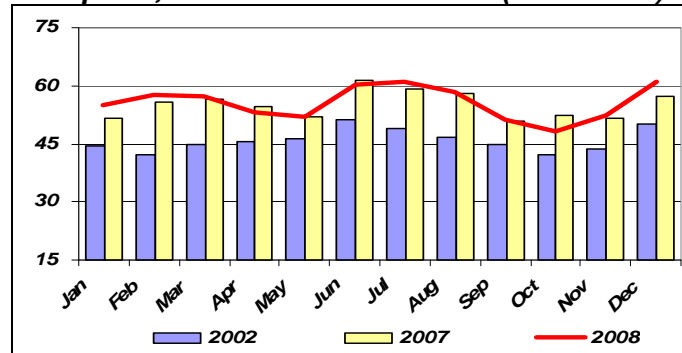


Source: Federal Aviation Administration

However, delays continued to be a problem during the summer of 2008 at larger, heavily congested airports. For example, delays at Newark were up 0.4 percent. At Kennedy, LaGuardia, and Chicago O'Hare, delays were down only about 5 percent each.

Despite the reduction in the number and rate of flight delays, the average length of a delayed flight did not change in the second half of 2008 compared to the second half of 2007 and remained at approximately 55 minutes. In fact, the average length of a delayed flight increased dramatically in December 2008 compared to the same month last year due to inclement weather conditions (see figure 23 below).

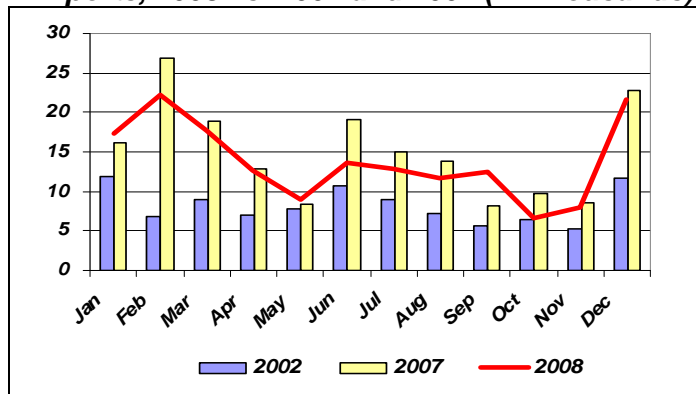
Figure 23. Length of Flight Delays at Major Airports, 2008 vs. 2007 and 2002 (in Minutes)



Source: Federal Aviation Administration

Flight cancellations at the 55 airports tracked by FAA were 8 percent lower in 2008 compared to 2007 and did not match the magnitude of the reductions in delays (which were down 13 percent). Figure 24 compares the monthly cancellations in 2008 to 2007 and 2002.

Figure 24. Flights Cancellations at Major Airports, 2008 vs. 2007 and 2002 (in Thousands)



Source: Federal Aviation Administration

EXHIBIT A. SCOPE AND METHODOLOGY

Data represented graphically in the report were collected from the Federal Aviation Administration (FAA), the Bureau of Transportation Statistics (BTS), and the Office of Aviation Analyses (OAA). The secondary sources of data were the Department of Energy's (DOE) Energy Information Administration and the Securities and Exchange Commission (SEC). FAA, BTS, and OAA are organizations within the Department of Transportation.

We did not systematically audit or validate the data contained in any of the databases. However, during previous editions, we conducted trend analyses and random 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 better understand the data 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 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.

A. Analyses Performed With BTS Data

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

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). Scope: all certificated U.S. air carriers, from 2000 through the fourth quarter 2008.
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, from 2000 through the fourth quarter 2008.
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, from 2000 through the fourth quarter 2008.

B. 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 the EAS Program.

1. Airlines' Quarterly Financial Review. A quarterly report analyzing the financial and operating performance and condition of the major airlines in the United States. Prepared using financial and traffic statistics reported to BTS by the airlines. Scope: 19 major air carriers (17 passenger and 2 all-cargo carriers), from 2001 through the fourth quarter 2008.
2. EAS Program. 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 (FY) 2001 through 2008 and OST's projected program costs for FY 2009.
3. Domestic Airline Fares Consumer Report. A quarterly report that 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 10-percent sample of tickets of passengers traveling on domestic flights within the 48 states, quarterly from the third quarter of 2007 through the third quarter 2008.

C. Analyses Performed With FAA Data

Air Traffic Control (ATC) delay and operational statistics and 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; and aircraft type usage.

1. Flight Schedule Data System (FSDS). A database of published airline flight schedules. Scope: domestic service, November 2007 versus November 2008.
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 from 2000 through fourth quarter of 2008.
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, from September 2001 through December 2008.

D. Analyses Performed From Other Sources

Historical and projected fuel prices and public and private reports and analysis regarding cash burn rates and liquidity and leverage of the airline industry.

1. U.S. DOE Energy Information Administration. A collection of official energy statistics, including historical and projected jet fuel prices. Scope: jet fuel spot price and projections, from 1990 through 2010 and crude oil spot price from 2007 through February 2009)
2. U.S. SEC Filings and Forms and airline industry analysis performed by various Wall Street Investment Banking firms. A collection of publicly available financial statement filings, including reports and estimates on liquidity, cash position, and leverage. Scope: first quarter 2007 through fourth quarter 2008.
3. Airlines Press Releases and Aviation Publications: A collection of network, low cost and regional carriers' fleet reductions announced in 2008. Fleet reductions are broken down as follows: Low-Cost Carriers – AirTran Airways (6), Frontier Airlines (11), and Southwest Airlines (22) Network Carriers – American Airlines (85), Continental Airlines (67), Delta Air Lines (20), Northwest Airlines (47), United Airlines (94), and US Airways (12) Regional Carriers – Midwest Airlines (12)

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EXHIBIT C. GLOSSARY OF COMMONLY USED TERMS

Available Seat Miles (ASMs) – One seat transported one mile; the most common measure of airline seating capacity.

Actual Load Factor – The percentage of available seats that are filled with paying passengers. Load factor is computed as the ratio of Revenue Passenger Miles to Available Seat Miles.

Breakeven Load Factor – The load factor at which a flight earns revenues equating to its expenses.

Cost per Available Seat Mile (CASM) – A measure of unit cost, calculated by dividing operating costs by available seat miles.

Enplanements – The number of passengers boarding a flight.

Enroute Center – Sometimes referred to as a “center,” or an Air Route Traffic Control Center, it houses the air traffic controllers and equipment needed to identify and direct aircraft during the en route—as opposed to the approach and departure—portion of their flights.

Essential Air Service – Government-subsidized airline service to eligible small communities, which began after the Airline Deregulation Act of 1978.

General Aviation – A term used to describe all non-military and non-airline flying, encompassing everything from recreational aircraft to experimental aircraft to privately owned and operated business jets.

Hub Airport – A ranking designation assigned to U.S. airports by FAA based on an airport’s percentage share of total passenger enplanements at all U.S. airports. FAA categorizes airports based on the following percentage of annual passenger enplanements in the United States by hub type.

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

Instrument Flight Rules – Rules governing flight relying on the aircraft’s instruments and navigation aids. IFR permit aircraft to fly in certain limited visibility and cloud conditions. Virtually any commercial operation—including airlines and business jets—utilizes the IFR system.

Jet Fuel – The term describes kerosene-type jet fuel used primarily for commercial turbojet and turboprop aircraft engines.

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. ATA ceased operations in April 2008 and Pan American ceased operations in 1998. America West airlines merged with US Airways in September 2007.

Major Legacy Passenger Airline – Except where noted, for the Aviation Industry Performance report, the category major passenger airline includes AirTran Airways, Alaska Airlines, American Airlines, American Eagle Airlines, Atlantic Southeast Airlines, Comair, Continental Airlines, Delta Air Lines, ExpressJet, Frontier, JetBlue, Mesa, Northwest Airlines, SkyWest, Southwest Airlines, United Airlines, and US Airways. AirTran, Atlantic Southeast, and Skywest were added to the list in the first quarter of 2006. In the first quarter of 2007, America Trans Air (ATA) was removed from the list while Mesa was added. America West airlines combined with US Airways in the fourth quarter of 2007 on account of their September 2007 merger.

National Airspace System (NAS) – The common network of U.S. airspace, air navigation facilities, equipment and services, airports or landing areas.

Network or Legacy 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, that is, mostly smaller scheduled regional, commuter, and national airlines (many of which are affiliated with the major network carriers).

Regional Carrier – An airline with a fleet principally comprised of aircraft configured with fewer than 100 seats, operating 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 this report, the Nation was delineated into four regions composed of states and the District of Columbia. Northeast Region: Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, New Jersey, and Pennsylvania. Midwest Region: 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 Region: Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada, Washington, Oregon, California, Alaska, and Hawaii.

Revenue or Yield Management – The process an airline uses to optimize revenue across its system of flights. In this process, airlines seek to determine the optimal mix of prices and seats to maximize revenue per flight, or per network of flights, rather than per person.

Revenue Passenger Mile (RPM) – One fare-paying passenger transported one mile; the most common measure of demand for air travel.

Revenue Ton Miles – One ton of cargo transported one mile.

Tower – Also referred to as control tower, is located at the airport and generally handles at and in close proximity of the airport.

Turboprop – A type of engine that uses a jet engine to turn a propeller. Turboprops are often used on regional and business aircraft because of their relative efficiency at speeds slower than, and altitudes lower than, those of a typical jet aircraft.

Very Light Jet (VLJ) – Typically an aircraft weighing less than 6,000 pounds equipped with twin turbojet engines with seating for four to six passengers.

Exhibit C. Glossary of Commonly Used Terms

EXHIBIT D. MAJOR CONTRIBUTORS TO THIS REPORT

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

**Aviation Industry Performance: A Review of the Aviation
Industry in 2008
Section 508 Compliant Presentation**

Table A: Airfares by Flight Length (3Q08 versus 3Q07)

| Market Definition (Average Distance) | Average Airfares | | Change |
|---|------------------|-------|--------|
| | 3Q08 | 3Q07 | |
| Short-Haul (300 miles) | \$142 | \$122 | 16% |
| Medium-Haul (1,000 miles) | \$183 | \$168 | 9% |
| Long-Haul (1,500 miles) | \$232 | \$208 | 11% |

Source: Department of Transportation

Note: Airfare data do not include fees for checked bags and other ancillary services.

**Figure A: Regional Changes in Available Seats at Non-Hub Airports,
November 2008 versus November 2007**

| Region | Percent Change in Available Seats |
|---|-----------------------------------|
| Northeast (includes Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont) | -29% |
| Midwest (includes Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin) | -23% |
| West (includes Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming) | -14% |
| South (includes Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia) | -11% |
| National Average | -16% |

Source: Federal Aviation Administration

Figure B: Domestic Passenger Traffic, 2008 versus 2007 and 2002 (Monthly Revenue Passenger miles in Billions)

| Month | 2002 | 2007 | 2008 |
|-----------|------|------|------|
| January | 33.9 | 45.0 | 45.5 |
| February | 33.6 | 41.9 | 44.6 |
| March | 42.6 | 52.0 | 53.4 |
| April | 39.5 | 49.9 | 49.5 |
| May | 40.9 | 50.4 | 51.5 |
| June | 44.1 | 53.4 | 53.8 |
| July | 47.2 | 55.9 | 56.1 |
| August | 46.9 | 53.4 | 54.2 |
| September | 35.1 | 44.2 | 42.2 |
| October | 40.1 | 48.3 | 46.1 |
| November | 37.2 | 47.0 | 41.6 |
| December | 42.4 | 48.0 | 45.1 |

Source: Bureau of Transportation Statistics

Figure C: Rate of Delayed Flights at 55 Major Airports 2008 versus 2007 and 2002

| Month | 2002 | 2007 | 2008 |
|-----------|------|------|------|
| January | 20% | 27% | 28% |
| February | 17% | 31% | 31% |
| March | 22% | 28% | 30% |
| April | 17% | 25% | 24% |
| May | 18% | 23% | 22% |
| June | 20% | 31% | 29% |
| July | 19% | 30% | 24% |
| August | 17% | 28% | 22% |
| September | 13% | 20% | 17% |
| October | 16% | 24% | 16% |
| November | 17% | 22% | 18% |
| December | 23% | 35% | 33% |

Source: Federal Aviation Administration

Figure D: Rate of Delayed Flights at Congested Airports (4th Quarter 2008)

| Airport | Rate of Delay (4th Qtr 2008) |
|---|--|
| New York – Newark | 37% |
| New York – Kennedy | 30% |
| Miami | 28% |
| San Francisco | 27% |
| Atlanta | 27% |
| New York - LaGuardia | 26% |
| Average delay rate at remaining 49 airports tracked by the FAA | 21% |

Source: Federal Aviation Administration

Figure 1: Jet Fuel Prices – U.S Gulf Coast Spot Price (January 1998 – February 2009)

| Month | Monthly Oil Price (\$/Gallon) |
|--------------|--------------------------------------|
| January 1998 | \$0.48 |
| January 1999 | \$0.33 |
| January 2000 | \$0.78 |
| January 2001 | \$0.87 |
| January 2002 | \$0.53 |
| January 2003 | \$0.89 |
| January 2004 | \$1.00 |
| January 2005 | \$1.33 |
| January 2006 | \$1.82 |
| January 2007 | \$1.65 |
| January 2008 | \$2.60 |
| January 2009 | \$1.47 |

Source: Energy Information Administration

Note: Average spot price for July 2007: \$2.14/gallon

Note: Average spot price for July 2008: \$3.89/gallon

Note: Average spot price for February 2009: \$1.26/gallon

Figure 2: Airline Operating Revenue versus Expenses (\$ in Billions)

| 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 | \$27.6 | \$28.0 |
| Second Quarter 2006 | \$33.2 | \$29.6 |
| Third Quarter 2006 | \$32.1 | \$30.4 |
| Fourth Quarter 2006 | \$29.3 | \$28.6 |
| First Quarter 2007 | \$28.9 | \$28.1 |
| Second Quarter 2007 | \$33.2 | \$30.2 |
| Third Quarter 2007 | \$34.7 | \$31.9 |
| Fourth Quarter 2007 | \$32.2 | \$32.2 |
| First Quarter 2008 | \$32.4 | \$33.6 |
| Second Quarter 2008 | \$36.5 | \$38.1 |
| Third Quarter 2008 | \$37.3 | \$38.8 |
| Fourth Quarter 2008 | \$31.3 | \$32.7 |

Source: Office of Secretary of Transportation – Airline Quarterly Financial Review

Figure 3: Select Carrier 2008 Operating Profit/(Loss) (\$ in Millions)

| Airline | Profit or Loss (In Millions) |
|------------------------|---------------------------------|
| AirTran | -\$72 |
| Alaska | -\$23 |
| American | -\$2,054 |
| Continental | -\$378 |
| Delta ^a | \$56 |
| Frontier | -\$87 |
| JetBlue | \$85 |
| Northwest ^b | -\$541 |
| Southwest | \$449 |
| United | -\$1,747 |
| US Airways | -\$1,773 |

Source: Department of Transportation.

^a Includes operating results for Northwest from October 30 through the end of 2008 due to merger.

^b Financial results through October 29, 2008.

Figure 4: Industry Liquidity and Leverage

| Quarter | Total Liquidity/LTM Revenue | Total Debt/Total Equity |
|---------------------|--------------------------------|----------------------------|
| Second Quarter 2007 | 25.4% | 1.5x |
| Third Quarter 2007 | 22.7% | 1.4x |
| Fourth Quarter 2007 | 21.5% | 1.3x |
| First Quarter 2008 | 20.3% | 1.8x |
| Second Quarter 2008 | 23.9% | 2.1x |
| Third Quarter 2008 | 18.8% | 3.0x |
| Fourth Quarter 2008 | 15.6% | 12.4x |

Source: Security and Exchange Commission

Note: Total liquidity defined as total available cash (cash + short term investment + balance available to be borrowed under a revolving line of credit)

Figure 5: Changes in Domestic Capacity, 2008 versus 2007 and 2002 (Available Seat Miles in Billions)

| Month | 2002 | 2007 | 2008 |
|-----------|------|------|------|
| January | 54.0 | 62.4 | 62.6 |
| February | 50.3 | 56.2 | 58.8 |
| March | 57.3 | 65.2 | 65.1 |
| April | 56.1 | 63.0 | 62.0 |
| May | 57.8 | 64.5 | 63.6 |
| June | 58.7 | 64.4 | 64.2 |
| July | 61.7 | 67.5 | 67.0 |
| August | 61.9 | 67.5 | 65.2 |
| September | 55.9 | 62.2 | 55.7 |
| October | 59.2 | 64.2 | 58.1 |
| November | 56.1 | 62.4 | 55.0 |
| December | 58.4 | 64.1 | 57.2 |

Source: Bureau of Transportation Statistics

Figure 6: Changes in Scheduled Flights for Legacy and Low Cost Carriers, November 2008 versus November 2007

| Airline | Percentage Change |
|-------------|-------------------|
| Northwest | -1% |
| Southwest | -2% |
| JetBlue | -3% |
| Frontier | -6% |
| AirTran | -7% |
| Spirit | -11% |
| US Airways | -13% |
| Continental | -13% |
| United | -14% |
| Alaska | -15% |
| Delta | -17% |
| American | -17% |

Source: Federal Aviation Administration

Figure 7: Change in Scheduled Flights by Flight Distance November 2008 versus November 2007 (Distance in Miles)

| Range in Miles | Percent Change in Flights |
|-----------------------------------|---------------------------|
| Short-Haul: 0 to 249 miles | -13% |
| Short-Haul: 250 to 499 miles | -12% |
| Medium-Haul: 500 to 999 miles | -12% |
| Medium-Haul: 1,000 to 1,499 miles | -13% |
| Long-Haul: 1,500 to 2,499 miles | -17% |
| Long-Haul: 2,500 to 7,000 miles | -17% |

Source: Federal Aviation Administration

Figure 8: Percent Change in Scheduled Flights by Aircraft Size, November 2008 vs. November 2007

| Aircraft Type | Percent Change |
|---------------------------|----------------|
| Piston | -15% |
| Turboprop | -17% |
| Regional Jet 35-70 Seats | -15% |
| Regional Jet 71-100 Seats | 29% |
| Jet 101-170 Seats | -11% |
| Jet 171-250 Seats | -16% |
| Jet 251-300 Seats | -23% |

Source: Federal Aviation Administration

Note: Number ranges in figure 8 represent number of seat ranges for that aircraft.

Figure 9: Capacity Changes at Major Airports, November 2008 versus November 2007

| Airports | Percent Change in Scheduled Flights | Percent Change in Scheduled Seats |
|-------------------|--|--|
| Atlanta | -3% | -3% |
| Baltimore | -8% | -9% |
| Boston | -12% | -10% |
| Charlotte | -2% | -3% |
| Cincinnati | -27% | -25% |
| Cleveland | -17% | -14% |
| Dallas | -10% | -10% |
| Denver | -4% | -2% |
| Detroit | -4% | -7% |
| Ft. Lauderdale | -12% | -9% |
| Honolulu | -14% | -16% |
| Houston | -13% | -10% |
| Kennedy | -7% | -8% |
| LaGuardia | -12% | -11% |
| Las Vegas | -18% | -16% |
| Los Angeles | -22% | -15% |
| Miami | -8% | -1% |
| Chicago Midway | -17% | -18% |
| Minneapolis | -5% | -12% |
| Reagan National | -5% | -5% |
| Newark | -5% | -10% |
| Oakland | -28% | -27% |
| Chicago O'Hare | -14% | -14% |
| Orlando | -17% | -12% |
| Philadelphia | -5% | -7% |
| Phoenix | -13% | -13% |
| San Diego | -15% | -9% |
| San Francisco | -4% | -5% |
| Salt Lake City | -15% | -13% |
| Seattle | -8% | -5% |
| Tampa | -15% | -11% |
| Washington Dulles | -11% | -12% |

Source: Federal Aviation Administration

Figure 10: Regional Changes in Available Seats, November 2008 versus November 2007

| Region | Percent Change in Available Seats |
|---|-----------------------------------|
| Northeast (includes Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont) | -9% |
| Midwest (includes Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin) | -14% |
| West (includes Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming) | -13% |
| South (includes Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia) | -8% |
| National Average | -11% |

Source: Federal Aviation Administration

Figure 11: Change in Scheduled Departures by Size of Community, 2008 vs. 2007

| Month | Large-Hub Airports | Medium-Hub Airports | Small-Hub Airports | Non-Hub Airports |
|-----------|--------------------|---------------------|--------------------|------------------|
| January | -1.08% | 0.19% | -0.44% | 0.03% |
| February | 2.13% | 3.57% | 3.43% | 2.10% |
| March | -1.79% | -0.44% | -0.48% | -3.15% |
| April | -0.97% | -1.45% | -0.40% | -2.25% |
| May | -1.64% | -3.74% | -3.07% | -4.04% |
| June | -1.16% | -3.85% | -2.56% | -3.88% |
| July | -1.07% | -4.45% | -2.72% | -4.12% |
| August | -3.79% | -7.61% | -6.21% | -8.00% |
| September | -6.82% | -11.97% | -10.21% | -9.73% |
| October | -8.30% | -13.54% | -12.18% | -12.02% |
| November | -10.38% | -16.02% | -14.18% | -14.38% |

Source: Federal Aviation Administration

Table 1. Change in Domestic Competition, November 2008 versus November 2007

| Percent Change in Carriers Serving Airport | Airports in Group | Average Carriers Lost |
|--|-------------------|-----------------------|
| 100% (Lost all carriers) | 30* | -1.1 |
| 75% - 99% | 1 | -3.0 |
| 50% - 74% | 45 | -1.3 |
| 25% - 49% | 90 | -1.3 |
| 1% - 24% | 69 | -1.4 |
| 0% (Lost no carriers) | 405 | 0.0 |
| Increase in carriers | 27 | 1.1 |
| Total | 667 | |

Source: Federal Aviation Administration

*12 of 30 airports only lost service temporarily during a transition to a replacement carrier.

Figure 12: Regional Changes in Available Seats at Non-Hub Airports, November 2008 versus November 2007

| Region | Percent Change in Available Seats |
|---|-----------------------------------|
| Northeast (includes Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont) | -29% |
| Midwest (includes Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin) | -23% |
| South (includes Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia) | -11% |
| West (includes Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming) | -14% |
| National Average | -16% |

Source: Federal Aviation Administration

Figure 13: EAS Funding and Participating Communities

| Fiscal Year | Appropriations In Millions | Number of Communities Subsidized |
|--------------------|---------------------------------------|---|
| 2001 | \$50 | 115 |
| 2002 | \$113 | 123 |
| 2003 | \$102 | 126 |
| 2004 | \$102 | 140 |
| 2005 | \$102 | 146 |
| 2006 | \$109 | 152 |
| 2007 | \$109 | 147 |
| 2008 | \$109 | 146 |
| 2009* | \$160 | 148 |

Source: Department of Transportation

* FY 2009 numbers are projections

**Figure 14: Aviation Related Employment
for US Certificated Carriers (in Thousands)**

| Year | Employment |
|-------------|-------------------|
| 2000 | 667,778 |
| 2001 | 599,531 |
| 2002 | 590,779 |
| 2003 | 558,246 |
| 2004 | 563,588 |
| 2005 | 547,795 |
| 2006 | 539,833 |
| 2007 | 566,069 |
| 2008 | 528,813 |

Source: Bureau of Transportation Statistics (BTS)

Table 2: Summary of Airline Fees

| Airline | First Checked Bag | Second Checked Bag | Additional Bags | Ticket Change Fee | Seat Selection Fee |
|-------------|-------------------|--------------------|-----------------|-------------------|--------------------|
| AirTran | Yes | Yes | Yes | Yes | Yes |
| Alaska | No | Yes | Yes | Yes | No |
| American | Yes | Yes | Yes | Yes | No |
| Continental | Yes | Yes | Yes | Yes | No |
| Delta | Yes | Yes | Yes | Yes | No |
| JetBlue | No | Yes | Yes | Yes | Yes |
| Midwest | Yes | Yes | Yes | Yes | No |
| Northwest | Yes | Yes | Yes | Yes | No |
| Southwest | No | No | Yes | No | No |
| Spirit | Yes | Yes | Yes | Yes | Yes |
| United | Yes | Yes | Yes | Yes | Yes |
| US Air | Yes | Yes | Yes | Yes | Yes |

Source: Airline web sites

Figure 15: International Passenger Traffic (Year-Over-Year Change in Revenue Passenger Miles)

| | Latin | Atlantic | Pacific |
|---------------------|-------|----------|---------|
| First Quarter 2006 | 1.1% | -1.6% | 4.8% |
| Second Quarter 2006 | 6.9% | 4.4% | 4.1% |
| Third Quarter 2006 | 1.8% | 3.0% | 2.4% |
| Fourth Quarter 2006 | 6.6% | 4.3% | 2.1% |
| First Quarter 2007 | 2.9% | 5.8% | 2.5% |
| Second Quarter 2007 | 2.9% | 5.0% | 0.8% |
| Third Quarter 2007 | 8.0% | 7.1% | -2.0% |
| Fourth Quarter 2007 | 9.0% | 9.7% | 2.9% |
| First Quarter 2008 | 10.2% | 7.2% | 3.1% |
| Second Quarter 2008 | 2.8% | 3.5% | 2.0% |
| Third Quarter 2008 | -4.6% | 1.1% | 1.6% |
| Fourth Quarter 2008 | -9.8% | -4.3% | -9.7% |

Source: Bureau of Transportation Statistics

Figure 16: System-Wide Passenger Enplanements (in Millions)

| Year | Number of Enplanements (millions) |
|------|-----------------------------------|
| 2000 | 699 |
| 2001 | 653 |
| 2002 | 641 |
| 2003 | 647 |
| 2004 | 704 |
| 2005 | 739 |
| 2006 | 745 |
| 2007 | 770 |
| 2008 | 741 |

Source: Bureau of Transportation Statistics

Figure 17: Load Factors for Select Airlines, Third Quarter 2008

| Airline | Actual Load Factor |
|------------------------------|--------------------|
| Alaska | 79.5% |
| American | 82.2% |
| Continental | 83.3% |
| Delta | 84.9% |
| JetBlue | 84.0% |
| Northwest | 86.8% |
| Southwest | 71.6% |
| United | 83.2% |
| US Airways | 83.9% |
| Average Load Factor | 82.2% |
| Breakeven Load Factor | 89.9% |

Source: Department of Transportation – Airline Quarterly Financial Review

Figure 18: Change in En Route Center Flight Operations versus 2000

| Month | 2001 % Change | 2002 % Change | 2003 % Change | 2004 % Change | 2005 % Change | 2006 % Change | 2007 % Change | 2008 % Change |
|-----------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| January | 5% | -3% | 0% | 2% | 5% | 3% | 5% | 5% |
| March | -4% | -8% | -10% | 0% | 0% | -4% | -3% | -1% |
| March | -2% | -7% | -7% | 1% | 4% | 0% | 1% | -2% |
| April | 0% | -3% | -5% | 3% | 4% | 1% | 2% | 0% |
| May | -1% | -4% | -7% | -1% | 3% | 0% | 1% | -3% |
| June | -3% | -4% | -6% | 1% | 4% | 0% | 2% | -4% |
| July | 1% | -1% | -2% | 3% | 4% | 1% | 3% | -1% |
| August | 0% | -4% | -6% | 1% | 2% | 0% | 1% | -7% |
| September | -16% | -5% | -5% | 0% | 2% | -1% | -1% | -11% |
| October | -8% | -4% | -3% | 1% | -2% | -1% | 0% | -12% |
| November | -8% | -7% | -4% | 2% | 0% | 1% | 2% | -14% |
| December | -5% | -1% | 3% | 7% | 5% | 6% | 3% | -9% |

Source: Federal Aviation Administration

Figure 19: Year-Over-Year Change in Tower Activity, 2008 versus 2007

| Month | Airline | General Aviation | Military |
|-----------|---------|------------------|----------|
| January | -1% | -2% | -6% |
| February | 3% | 0% | 2% |
| March | -2% | -10% | -5% |
| April | -1% | -2% | 8% |
| May | -4% | -10% | -8% |
| June | -3% | -11% | 1% |
| July | -2% | -3% | 18% |
| August | -6% | -11% | 1% |
| September | -9% | -7% | 16% |
| October | -10% | -13% | -5% |
| November | -13% | -20% | -5% |
| December | -10% | -15% | 11% |

Source: Federal Aviation Administration

Note: Chart presents IFR flight operations

Figure 20: Domestic and International Air Cargo Traffic (Revenue Ton-Miles in Billions)

| Quarter Year | Domestic Traffic (Revenue Ton-Miles) in billions | International Traffic (Revenue Ton-Miles) in billions |
|---------------------|---|--|
| First Quarter 2007 | 5.1 | 9.5 |
| Second Quarter 2007 | 5.3 | 10.1 |
| Third Quarter 2007 | 5.3 | 9.9 |
| Fourth Quarter 2007 | 5.4 | 10.6 |
| First Quarter 2008 | 4.8 | 9.6 |
| Second Quarter 2008 | 4.9 | 10.2 |
| Third Quarter 2008 | 4.7 | 9.5 |
| Fourth Quarter 2008 | 4.4 | 8.6 |

Source: Bureau of Transportation Statistics

Figure 21: Delayed Flights at Major Airports, 2008 versus 2007 and 2002 (in Thousands)

| Month | 2002 Arrival Delays | 2007 Arrival Delays | 2008 Arrival Delays |
|--------------|------------------------------------|------------------------------------|------------------------------------|
| January | 122,447 | 183,178 | 185,557 |
| February | 97,553 | 192,061 | 196,320 |
| March | 139,565 | 197,891 | 208,194 |
| April | 110,234 | 169,522 | 159,058 |
| May | 114,836 | 162,256 | 151,261 |
| June | 127,174 | 210,491 | 194,626 |
| July | 124,435 | 208,996 | 169,343 |
| August | 113,938 | 200,996 | 149,536 |
| September | 82,308 | 129,931 | 100,413 |
| October | 108,417 | 166,019 | 103,660 |
| November | 102,923 | 150,635 | 104,898 |
| December | 144,773 | 239,932 | 201,229 |

Source: Federal Aviation Administration

Figure 22: Change in Rate of Delays at Three Best and Worst Airports, Summer 2008 versus Summer 2007

| Airport | Percent Change |
|----------------------|----------------|
| San Francisco | 6% |
| Honolulu | 2% |
| Newark | 0% |
| Minneapolis/St. Paul | -32% |
| Pittsburgh | -32% |
| Salt Lake City | -38% |

Source: Federal Aviation Administration

Figure 23: Length of Flight Delays at Major Airports, 2008 versus 2007 and 2002 (in Minutes)

| Month | 2002 | 2007 | 2008 |
|-----------|------|------|------|
| January | 44 | 52 | 55 |
| February | 42 | 56 | 57 |
| March | 45 | 57 | 57 |
| April | 45 | 54 | 53 |
| May | 46 | 52 | 52 |
| June | 51 | 62 | 60 |
| July | 49 | 59 | 61 |
| August | 47 | 58 | 58 |
| September | 45 | 51 | 51 |
| October | 42 | 52 | 48 |
| November | 44 | 51 | 52 |
| December | 50 | 57 | 61 |

Source: Federal Aviation Administration

Figure 24: Flight Cancellations at Major Airports, 2008 vs. 2007 and 2002 (in Thousands)

| Month | 2002 Cancellations | 2007 Cancellations | 2008 Cancellations |
|--------------|-------------------------------|-------------------------------|-------------------------------|
| January | 11,876 | 16,135 | 17,245 |
| February | 6,851 | 26,786 | 22,209 |
| March | 9,034 | 18,814 | 17,700 |
| April | 7,078 | 12,845 | 12,599 |
| May | 7,849 | 8,472 | 8,865 |
| June | 10,721 | 18,996 | 13,707 |
| July | 8,893 | 15,022 | 12,891 |
| August | 7,263 | 13,844 | 11,705 |
| September | 5,680 | 8,163 | 12,459 |
| October | 6,514 | 9,648 | 6,672 |
| November | 5,216 | 8,664 | 7,918 |
| December | 11,638 | 22,810 | 21,532 |

Source: Federal Aviation Administration