AVIATION INDUSTRY PERFORMANCE

Trends in Demand and Capacity,
Aviation System Performance,
Airline Finances, and Service to Small Airports

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Memorandum

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From: Kenneth M. Mead
Inspector General

Reply to Attn. of: JA-50

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

Attached is the seventh 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. An attachment to this report includes three exhibits: Exhibit A, Summary of Aviation Industry Metrics, which contains detailed textual and graphic presentations of 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 list highlights the most significant trends that have emerged since we issued our last report in August 2004.[2] A more detailed discussion of these trends follows this summary.

- **Fuel Costs Continue to Escalate.** Rising fuel costs continue to undermine the financial improvement of network carriers and are also cutting into the low-

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

[2] OIG Report Number CC-2004-085, "Airline Industry Metrics: Trends on Demand and Capacity, Aviation System Performance, Airline Finances, and Service to Small Airports," August 10, 2004. OIG reports can be found on our website: www.oig.dot.gov.

cost carriers' bottom lines. After several years of relatively stable unit costs, the cost per available seat mile (CASM) for low-cost carriers grew from 7.61 cents in the first quarter of 2004 to 8.77 cents in the first quarter of 2005, an increase of 15 percent.

- **Lower Airfares Prevail.** Declining airfares contribute to financial difficulties of network carriers, although consumers have benefited from relatively inexpensive travel in many markets. Since 2000, average fares (including taxes and fees) for all carriers dropped between 6 and 14 percent, and network carriers have seen fares, net of taxes and fees, decline by about 20 percent.

- **Congestion is Back**. Delays have returned, exceeding 2000 levels in many markets during the first quarter of 2005. The average delay was 52.3 minutes and affected more than one quarter of all flights. Following a relatively calm April and May, preliminary June data indicates that travel disruptions may once again be returning this summer, including at Chicago-O'Hare where the Administration intervened in 2004 to curb growing delays. It is too soon to tell whether this is a short-term condition resulting from anomalous weather or if it is a more pervasive problem.

- **Airports are at Risk for Summer Delays**. Airports to watch this summer for congestion include *Philadelphia*, *LaGuardia*, *Newark*, *Washington-Dulles*, *Atlanta*, and *Fort Lauderdale*. All had some or all of the following factors: significant delays last summer, substantial projected traffic growth this summer, and consistently elevated delay rates sustained over the past year or longer. A second tier to watch includes *New York-JFK*, *Boston*, and *Chicago-O'Hare*. These airports have had high rates of delay in the past and experienced high rates of delays through the first 2 weeks of the summer travel season.

- **Service Lags in Small Communities.** Traffic has rebounded in all but the Nation's smallest communities. These communities depend on connections through network hubs—whether small, medium, or large—for mobility throughout the country. Compared to July 2000 levels, scheduled flights in July 2005 are still down by more than 25 percent in some markets.

Both Network and Low-Cost Carriers Are Feeling the Financial Pressure of Continued Growth in Jet Fuel Costs

All network carriers posted net losses in the first quarter of 2005, with a cumulative loss of nearly $1.5 billion, which was a slight deterioration over the $1.1 billion in cumulative losses for the first quarter of 2004. Network carriers have made some progress in reducing labor and other costs, but continue to struggle financially with the continued escalation of fuel prices. The cost per

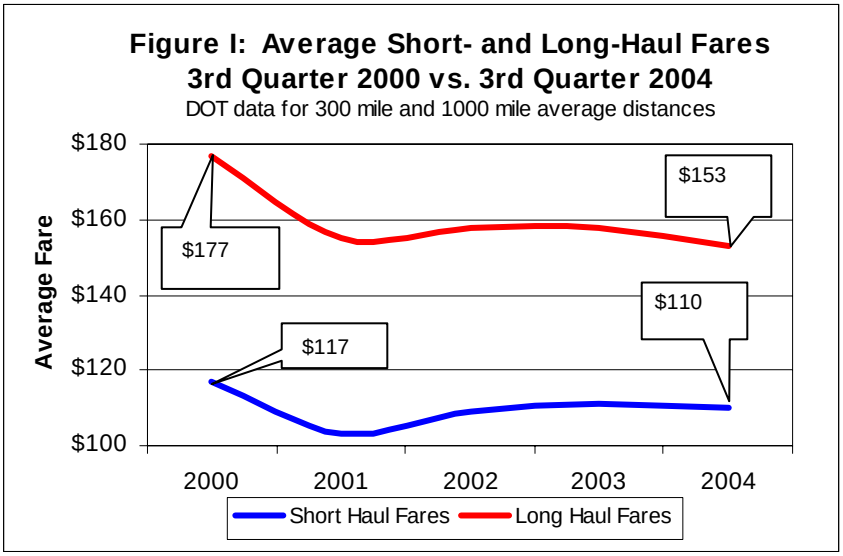
gallon for domestic jet fuel in April 2005 ($1.56) was up 56 percent over the cost per gallon in April 2004 ($1.00).

Low-cost carriers have generally fared better financially as their routes—and market share—continue to expand. However, escalating fuel costs have resulted in a less robust financial performance than in 2004. For example, JetBlue posted a profit of $25.8 million in the first quarter of 2005, down 21 percent from the first quarter of 2004. During this period, JetBlue's fuel costs grew by 76 percent, representing more than 40 percent of JetBlue's total operating cost growth between the first quarter of 2004 and first quarter of 2005.

One airline that has remained relatively insulated from the rapid growth in fuel prices is Southwest Airlines, which has locked in, or "hedged" its future fuel costs through 2009. While other airlines have seen fuel costs rise as the price of crude oil has reached the $60 per barrel mark, Southwest has kept fuel costs relatively stable with hedges locked in at $26 per barrel. Southwest's current hedges extend on a sliding scale through 2009, when they will decline to 25 percent of projected consumption at a cost of approximately $35 per barrel.

Further compounding the ill effects of the higher cost of fuel is an equally challenging revenue environment. Although passenger traffic is back to 2000 levels, DOT data shows that average fares for all carriers (inclusive of taxes and fees), in both short- and long-haul markets lag 2000 fares. As Figure I illustrates, in short-haul markets (251-350 miles), the average fare is $110, a drop of 6 percent from 2000 levels. In long-haul markets (951-1050 miles), the average fare of $153 represents a 14 percent drop from the $177 average long-haul fare in 2000.

Figure I: Average Short- and Long-Haul Fares
3rd Quarter 2000 vs. 3rd Quarter 2004
DOT data for 300 mile and 1000 mile average distances



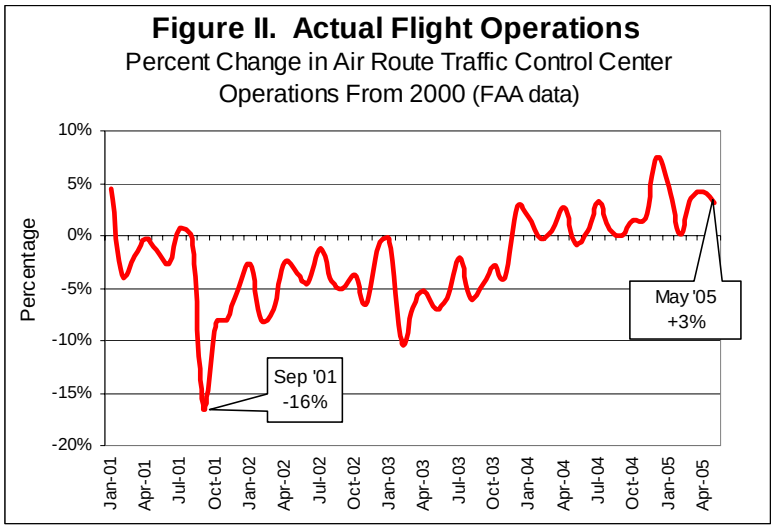
The average 1000-mile fares for the eight major carriers reported by the Air Transport Association (ATA) demonstrated declines of an even greater magnitude. In May 2000, the average fare (exclusive of taxes and fees) was $147; in May 2005, it was $118—a drop of about 20 percent. The difference between the fare changes reported by DOT and those reported by ATA are two-fold. First,

DOT fares include taxes and fees. Increased fees and taxes between 2000 and 2005 mask the drop in base fares that is demonstrated by the ATA data. Second, the eight carriers represented by the ATA figures were all network carriers in 2000 (America West has since been re-categorized as a low-cost carrier). The sharp decline in fares for those eight carriers is an indicator of the impact of low-cost carrier competition on former network-carrier dominated markets. The average fare reduction also reflects the continued drop in premium-fare business travelers.

Traffic Levels Are Growing, as Are the Number, Rate, and Length of Delays in Key Markets

Both enplanements and operations are back to or greater than 2000 levels, when air travel was at its peak. Enplanements in 2004 were 698.7 million, just about 250,000 short of year 2000 enplanements. As Figure II shows, flight operations in May 2005 actually exceeded May 2000 operations by 3 percent.

Figure II. Actual Flight Operations
Percent Change in Air Route Traffic Control Center Operations From 2000 (FAA data)



In the first quarter of 2005, we saw a significant increase in the number of delays. First quarter 2005 arrival delays were up 17 percent over the first quarter of 2004, and affected more than 25 percent of all flights. The average length of delay in the first quarter of 2005 averaged 52.3 minutes compared to 48.5 minutes in the same period in 2000. During the first quarter of 2005, one-third or more of all arrivals were delayed at five airports, including New York-LaGuardia, Philadelphia, and Newark.

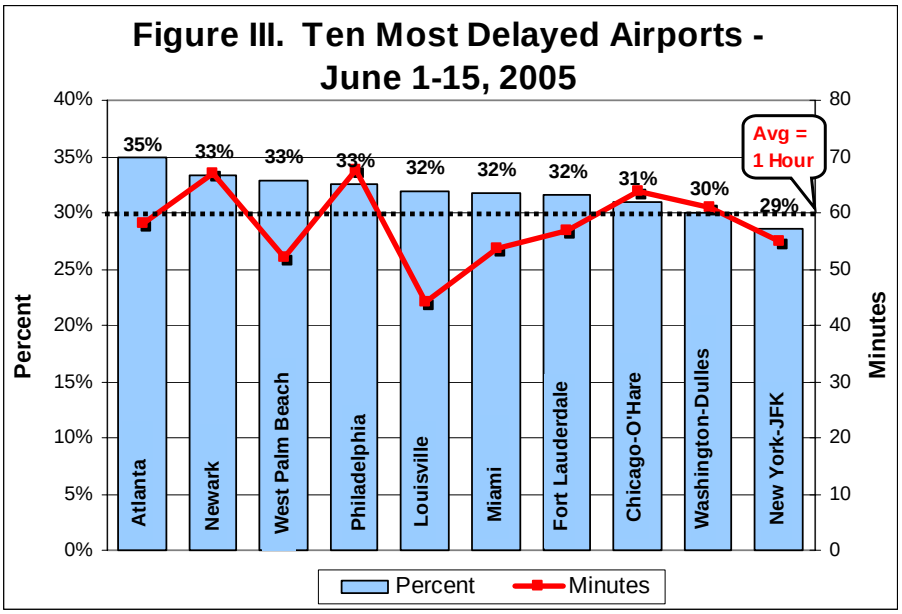
Performance improved in April and May of 2005 with delays down 21 percent in the 2-month period over 2000 levels and down 10 percent over the same 2-month period in 2004. FAA attributes this improvement to very good weather during those two months. However, we expect that the summer travel season will be more problematic. Summer thunderstorms and weather disturbances typically compound congestion caused by seasonally high traffic volumes, especially in hub airports.

Traffic and Delays Are Likely To Grow This Summer and Be Compounded by Summer Storms, Especially in the Northeast and Southeast Regions of the United States

On May 26, 2005, we testified before the Senate Commerce Aviation Subcommittee on aviation system capacity and delays.[3] We noted that at the 15 airports with the highest delay rates in the first quarter of 2005 (all higher than 25 percent), nearly all experienced significant traffic growth, increased rates of delay, and increased average minutes of delay compared to the first quarter of 2004. We projected that those trends would likely continue into the summer and be compounded by summer storms, which are notorious for adding delays in southeast and northeast markets like Atlanta and New York, which are already suffering from capacity-related delays.

Preliminary June data indicates that congestion is returning. Through June 15, 2005, 23 airports had delay rates equal to or greater than 25 percent, and of those, 9 were delayed more than 30 percent of the time. The worst delays were in Atlanta where 35 percent of flights were delayed during the first 15 days of June. Ten airports had average delays that exceeded 1 hour, with the longest delays at LaGuardia, where the average delay exceeded 71 minutes.

The following figure identifies the ten most delayed airports, as measured by percent of delayed flight arrivals, for the first 15 days of June. Nine of the ten airports had delay rates that exceeded 30 percent and 4 had average delays that exceeded 1 hour.



[3] OIG Report Number CC-2005-043, "Outlook for Aviation Delays in the Summer of 2005 and Actions Needed To Mitigate Congestion in the Short- and Long-Term," May 26, 2005.

In our May 26, 2005 testimony, we raised concerns about six airports that had particularly foreboding characteristics: *Philadelphia*, *LaGuardia*, *Newark*, *Washington-Dulles*, *Atlanta*, and *Fort Lauderdale*. All had some or all of the following characteristics:

- Significant delays last summer,
- Substantial projected traffic growth this summer, and
- Consistently elevated delay rates sustained over the past year or longer.

While it is still early in the season, system performance to date tends to validate our concerns. Between June 1 and June 15, five of the six airports we flagged in May had delays on more than 30 percent of all flights. Four of the six airports had delays that averaged more than 1 hour. Table 1 illustrates how the six flagged airports fared during the first two weeks in June.

Table 1. Summer 2005 Airports To Watch
(Delays shown occurred June 1 through June 15)

Rank Based on % Delayed	Airport	Total Arrivals	Delayed Arrivals	Percent Delayed	Average Minutes of Delay
1	**Atlanta**	20,453	7,128	34.85	57.95
2	**Newark**	8,676	2,896	33.38	67.06
4	**Philadelphia**	10,539	3,432	32.56	67.48
7	**Fort Lauderdale**	4,839	1,531	31.64	56.76
9	**Washington-Dulles**	9,830	2,956	30.07	60.92
12	**NY-LaGuardia**	8,198	2,315	28.24	71.41

Delays Were Severe at Chicago-O'Hare in Early June, but May Represent a Weather-related Anomaly.

Through May 2005, delays appeared to be improving at Chicago-O'Hare, an airport which has been plagued by congestion for more than 30 years despite regulatory intervention. In April and May of 2005, only 14 percent and 18 percent, respectively, of flights were delayed—a significant improvement over April and May of 2004 when 25 percent and 36 percent of flights were delayed, respectively. The improvement appears to be, at least in part, a result of the

Department's administrative actions in 2004[4] to cap hourly operations at O'Hare at a level consistent with available capacity.[5]

In the first 2 weeks of June, however; 31 percent of all arrivals were delayed at O'Hare and were delayed an average of 64 minutes; a rate not much improved over 2004 before the Administration implemented hourly operating caps. FAA attributes the early June delays to unusually bad weather. It is possible that the period in question is just a weather anomaly and that operations will normalize as the summer progresses. We would expect the Department to be following O'Hare operations as well as other high-risk airports closely to determine whether and what interventions might be necessary should a market reach critical levels of delay.

The Resurgence in Delays Is Being Driven by Low-Cost Carrier Growth, Network Carrier Hub Consolidation, and Increased Regional Jet Traffic

- **Incursion of low-cost carriers into network carrier hubs spurs traffic and congestion growth.** Low-cost carriers continue to increase the number of scheduled flights and seats, including growth in large hub airports which are more prone to congestion and delays. Systemwide, low-cost carriers now account for one-quarter of all available domestic seats, an increase of 30 percent from July 2000. Compared to July 2000, scheduled seats by low-cost carriers in large hubs have grown from 8.0 million to 11.2 million, an increase of 41 percent.

- **Displaced traffic from de-emphasized network carrier hubs contributes to congestion growth in other hubs.** In an effort to reduce costs and improve efficiency, at least two network carriers have closed or de-emphasized hub operations at some airports and transferred operations into remaining hubs. For example, US Airways downsized its Pittsburgh hub operations by 3,800 flights in the fourth quarter of 2004 and shifted mainline aircraft and operations to its hubs in Philadelphia, Charlotte, and Fort Lauderdale. While delays in Pittsburgh were down minimally in the first quarter of 2005 from the first quarter of 2004, delays increased in each of the other three hubs by more

[4] FAA intervened three times in 2004 to negotiate or impose scheduling caps on carriers operating out of O'Hare. The first intervention in March 2004 reduced schedules by United and American by 5 percent. The second in June 2004 reduced schedules another 2.5 percent. The third and final 2004 intervention occurred in November 2004 and capped scheduled peak-hour departures for all carriers, combined, at 88 per hour.

[5] The Department is currently soliciting comments on whether to continue the administrative controls at O'Hare for another 3 years until, ultimately, the first phase of the O'Hare Modernization Plan is complete and additional capacity could relieve some of the congestion.

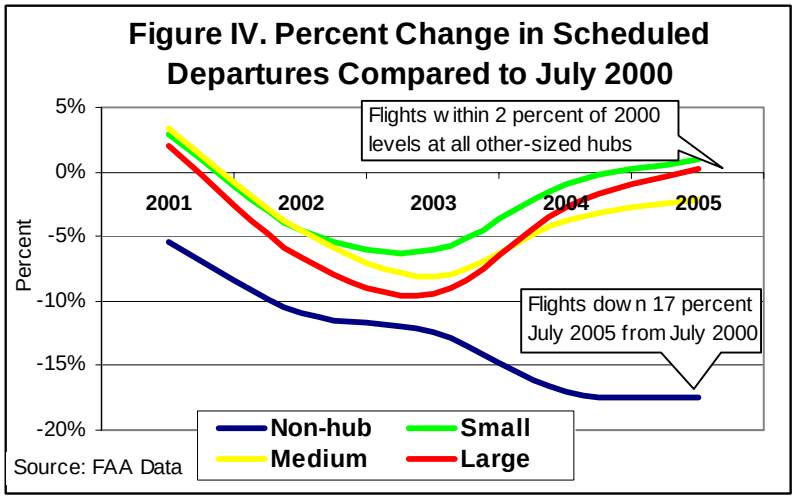
than 60 percent. Delta also eliminated Dallas-Fort Worth as a hub, shifting operations to Atlanta, Cincinnati, and Salt Lake City.

- **Increased regional jet operations are increasing demands on high-altitude airspace and airport runways.** Network carriers continue to shift service to regional jet aircraft. In July 2000, scheduled regional jet flights accounted for 10 percent of all flights. In July 2005, they will account for 32 percent of all flights. In Cincinnati, regional jets account for nearly 80 percent of all traffic. Unlike their turbo-prop-driven predecessors, regional jets occupy the same airspace and require access to the same runways as larger jet aircraft. In the not-too-distant future, jet-powered general aviation aircraft—including micro-jets—will also be competing for similar airspace and airport facilities.

Service to Airports in the Smallest Communities Continues To Decline or Stagnate While Service Is Consistently Rebounding in All Other Airports

One area in the system that is not showing signs of recovery is service to small communities. Travelers in small communities primarily depend on carriers' "hub-and-spoke" operations to connect them to their final destinations. While service has been returning to small, medium, and large airports following a sharp decline between 2001 and 2003, service at non-hub airports—which are the Nation's smallest commercial airports—has continued to decline or stagnate.

As Figure IV illustrates, all categories of airports experienced large percentage decreases in service between July 2001 and July 2003. In July 2003, scheduled departures at large, medium, small, and non-hub airports were down 9.4 percent, 8.1 percent, 6.1 percent, and 12.4 percent, respectively, over July 2000 levels.



In 2004, the real divergence in recovery became apparent. Between July 2003 and July 2004, scheduled departures at small, medium, and large hub airports rebounded to within 4 percent of July 2000 levels. Service at non-hub airports, however, continued to decline, with scheduled departures dropping more than 17 percent from July 2000 levels.

In July 2005, scheduled departures at small, medium, and large hubs will continue to increase while service at non-hub airports is not expected to change materially from July 2004 levels.

The service loss at non-hub airports has manifested itself in connections to airports of all sizes. Compared to July 2000, scheduled flights from non-hub airports in July 2005 are down by 15 percent at large hubs, 29 percent at medium hubs, and 33 percent at small hubs. In the next few months, we will be examining issues related to small community service, including the patterns of cancellations and delays imposed on service to and from airports in small communities.

If you have any questions or if I can be of further assistance, please feel free to contact me at (202) 366-1959, or David A. Dobbs, Assistant Inspector General for Aviation and Special Program Audits at (202) 366-0500.

Attachments (3)

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EXHIBIT A. SUMMARY OF AVIATION INDUSTRY METRICS

I. Air Service Demand and Capacity

- **AIR TRAFFIC DEMAND.** System passenger ridership on U.S. airlines rebounded in 2004 and reached the levels seen during the peak year of 2000. Enplanements in 2004 were 698.7 million, just about 250,000 short of year 2000 enplanements. After enplanements declined in 2001 and 2002 (down 6.6 percent and 8.3 percent, respectively, from 2000), the passenger enplanements leveled off in 2003 and then rebounded strongly in 2004 (up 8 percent over 2003). ***[Figure 1]***

- **CAPACITY VERSUS DEMAND.** Domestic passenger demand, as measured by revenue passenger miles (RPMs), and capacity, as measured by available seat miles (ASMs), increased throughout much of 2004 and the early part of 2005. In recent months, passenger demand has grown more than capacity. In April 2005, passenger demand (RPMs) was 1 percent higher than April 2000 levels, while capacity (ASMs) was still down 5 percent.[6] ***[Figure 2]***

- **FLIGHT OPERATIONS.** FAA's Air Route Traffic Control Centers reported handling 3 percent more flight operations in May 2005 than in May 2000. The recovery in flight operations began in late 2003 and since then has been close to or exceeded the number of flight operations that occurred during comparable months in 2000. ***[Figure 3]***

- **FLIGHT ARRIVALS.** Between May 2000 and May 2005, only 3 of the 9 major airlines reported increases in the number of arrivals at the 55 large airports FAA tracks for delays. Southwest Airlines reported an increase of 14 percent, Alaska Airlines reported an increase of 7 percent, and America West reported an increase of 3 percent. In comparison, the other six airlines reported declines ranging from 5 percent for Northwest to 32 percent for US Airways and United Airlines. These 6 legacy carriers have cut mainline domestic flights by an average of more than 2,000 daily flights. ***[Figure 4]***

- **AIRLINE SCHEDULES—SUMMER 2005.** Domestic flights and seats in July 2005 are scheduled to be down 3 percent and 4 percent, respectively,

[6] Due to the sizable impact that the terrorist attacks had on domestic flight service during the latter part of 2001, we used 2000 as the base year in many of our metrics.

over the same period in 2000. Compared to the same month in 2004, both the number of scheduled flights and seats in July 2005 are up about 2.5 percent. As Figure 5 illustrates, there is a gap between the rates of recovery in scheduled flights and scheduled available seats. This situation is caused by carriers rebuilding service with smaller aircraft than were used in 2000. ***[Figure 5]***

- **REGIONAL DIFFERENCES.** When comparing all airports on a percentage basis, air service declined more in the northeast and midwest regions. For example, between July 2000 and July 2005, scheduled seats in the northeast and midwest regions decreased 9 and 13 percent, respectively, compared to a 4-percent decrease in the west and a 2-percent increase in the south. On an absolute basis, the greatest seat loss was in the midwest region where available seats declined from 18.6 million in July 2000 to 16.2 million in July 2005. The only increase was in the south where available scheduled seats went from 29.7 million in July 2000 to 30.4 million in July 2005. ***[Figure 6]***

- **AIRPORT CAPACITY.** The recovery in offered capacity among the Nation's large hub airports continues to vary significantly between airports. For example, in July 2005, scheduled seats at 15 of the largest U.S. airports are expected to increase over July 2000 levels: Fort Lauderdale (+45 percent), Kennedy (+31 percent), Las Vegas (+24 percent), and Washington Dulles (+18 percent). Scheduled passenger seats also continue to grow at Baltimore, Charlotte, Atlanta, Tampa, Philadelphia, Orlando, Salt Lake City, San Diego, and Houston. Large airports losing seats during this period include St. Louis (-58 percent), Pittsburgh (-48 percent), San Francisco (-28 percent), Los Angeles (-23 percent), Newark (-17 percent), Honolulu (-17 percent), Boston (-17 percent), Miami (-16 percent), Dallas-Fort Worth (-11 percent), and Chicago O'Hare (-10 percent). ***[Figure 7]***

- **LOSS OF SHORT-HAUL AIR SERVICE.** Overall, traffic has rebounded but short-haul air service has not recovered. The number of scheduled flights with stage lengths of less than 250 miles is down 26 percent for July 2005 compared to July 2000. In contrast, flights of 1000 miles or more increased 15 percent. During this 5-year period, the network airlines[7] were more likely to cut their short-haul flights, which declined by 45 percent, than either the

[7] Network airlines include Alaska Airlines, American Airlines, Continental Airlines, Delta Air Lines, Northwest Airlines, United Airlines, and US Airways.

low-cost carriers[8] (11-percent decrease) or other smaller airlines[9] (24-percent decrease). ***[Figures 8 and 9]***

- **LOW-COST AND OTHER AIRLINES GAIN MARKET SHARE.** Many low-cost and other airlines—including regional and commuter operators flying on behalf of the network carriers—have continued to expand their market shares (as measured in scheduled available passenger seats). Between July 2000 and July 2005, low-cost carriers increased their share by 7 percentage points and now represent a quarter of all scheduled available seats. Regional (and other) carriers increased their share by 7 percentage points. In contrast, network carriers reduced capacity and their share of the scheduled domestic available seats declined from 62 percent in July 2000 to 48 percent in July 2005, reflecting a combination of seat reductions and seat transfers to regional partners. ***[Figure 10]***

- **MARKET SHARE AND GROWTH OF LOW-COST CARRIERS.** In July 2005, Southwest Airlines represented 59 percent of the total number of passenger seats scheduled by the low-cost carriers. Southwest Airlines also represented 45 percent of the total growth in low-cost service over the last 7 years, followed by JetBlue (19 percent), Air Tran (17 percent), Frontier Airlines (8 percent), Spirit Airlines (4 percent), and America West Airlines (4 percent). ***[Figures 11 and 12]***

- **GROWTH IN REGIONAL JET FLIGHTS.** Following several years of significant growth, the use of regional jets continued to rise in July 2005.[10] In July 2000, scheduled flights on regional jets totaled 91,960; in July 2005, they totaled 294,698, an increase of 220 percent. Regional jets will account for 32 percent of scheduled domestic flights in July 2005, up from only 10 percent in July 2000. At the same time, scheduled flights on non-jet aircraft—piston and turboprop aircraft—declined by a combined 46 percent. Most of this reduction was in turboprop aircraft. In July 2000, scheduled flights on turboprop aircraft accounted for 28 percent of all scheduled flights; in July 2005, they will account for only 14 percent. Large jets (jets other than regional jets) declined slightly in the share of scheduled flights, declining from a share of 56 percent in July 2000 to a share of

[8] Low-cost airlines include AirTran Airways, American Trans Air, America West Airlines, 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 and November of 2002, respectively.

[9] Other airlines include smaller regional, commuter, and national airlines (many of which are affiliated with the major network carriers).

[10] For this analysis, we defined regional jets as (1) jet aircraft seating 30 to 77 passengers operated by all carriers and (2) jet aircraft seating 78 to 100 passengers operated by regional carriers.

49 percent in July 2005. Overall, jet flights are on the rise, with an increase from 66 percent to 81 percent between 2000 and 2005. ***[Figures 13 and 15]***

- **REGIONAL JET FLIGHTS AT LARGE AIRPORTS.** Regional jets represent a larger percentage of total scheduled flights at the 31 largest U.S. airports. Those airports with the highest percentages of regional jet flights as of July 2005 are: Cincinnati (78 percent), Washington Dulles (65 percent), Chicago O'Hare (50 percent), Salt Lake City (50 percent), Houston (47 percent), Newark (46 percent), St. Louis (43 percent), Charlotte (42 percent), Reagan Washington National (41 percent), and Pittsburgh (40 percent).

  The growth in regional jets is being driven by changes in carriers' strategy and new airlines entering the market. Delta's decision to abandon its hub at the Dallas-Fort Worth airport resulted in a redeployment of aircraft to its other hubs in Cincinnati, Atlanta, and Salt Lake City, significantly increasing the regional jet population in these airports. Additionally, Independence Air's debut at Washington-Dulles in 2004 with a fleet comprised almost entirely of regional jets has resulted in scheduled regional jet flights at Dulles increasing 346 percent in July 2005 over July 2000. ***[Figure 14]***

II. Aviation System Performance

- **FLIGHT DELAYS AND CANCELLATIONS.** In the first quarter of 2005, the number of delayed flights was 11 percent greater than the same period in 2000 and was 17 percent greater than the same period in 2004. However, performance improved in April and May of 2005, resulting in delays either at or below the levels in place during the same months in 2004 and 2000. May 2005 flight delays were 23 percent below those in May 2000 and 18 percent below May 2004 levels. Cancellations followed a similar pattern in the first 5 months of 2005. During the first quarter, the number of canceled flights was 27 percent greater than the first quarter of 2000 and 24 percent greater than the first quarter of 2004. In April and May of 2005, however, cancellations were down 32 and 70 percent, respectively, from April and May 2000 levels. ***[Figures 16 and 17]***

- **OTHER INDICATORS OF DELAYS.** The percent of delayed flights in the first quarter of 2005 (25 percent) was consistent with comparable periods in 2000 and 2004 when 24 percent and 22 percent of flights were delayed, respectively. However, performance improved in April and May 2005 with only 18 and 17 percent, respectively, of flights delayed. The average length of gate arrival delays during the first quarter of 2005 (52 minutes) was

relatively unchanged from early 2004 (49 minutes) and early 2000 (49 minutes). The May 2005 average length of delay (48 minutes) represented an improvement over May 2004 (56 minutes) and May 2000 (53 minutes). ***[Figures 18 and 19]***

- **DELAYS AT SELECTED AIRPORTS.** Arrival delays across the system are at about the same level as they were in 2000. However, within the system, the delay profile varies widely; some airports are experiencing delays at levels significantly higher than 2000 while others' delay levels are significantly lower. For example, in the first 5 months of 2005, arrival delays were up significantly in Fort Lauderdale (+82 percent), Memphis (+56 percent), and Charlotte (+54 percent). In contrast, the three large airports experiencing the greatest percentage reduction in arrival delays between early 2000 and 2005 were St. Louis (-51 percent), San Francisco (-40 percent) and Pittsburgh (-36 percent). The significant decline in delays at these airports followed large reductions in their scheduled flights—St. Louis (-45 percent), San Francisco (-25 percent), and Pittsburgh (-42 percent). ***[Figure 20]***

III. Airline Finances

- **AIRLINE REVENUES AND EXPENSES.** Compared to the quarter ended March 2000, operating revenues of the major passenger airlines in the quarter ended March 2005 were up by 6 percent and operating expenses were up by 16 percent. Combined, expenses of the major airlines exceeded revenues by about $1.5 billion for the first quarter 2005. A sharp rise in fuel costs contributed to the increase in expenses. ***[Figure 21]***

- **AIRLINE OPERATING PROFITS AND LOSSES.** The first quarter of 2005 operating results for 14 selected network and low-cost carriers illustrate the financial troubles of the airline industry. All network carriers posted losses and only a few low-cost carriers realized profits. Of the 11 selected carriers posting losses in the first quarter of 2005, four carriers—Delta, American Trans Air, Northwest, and United—cumulatively lost over $1.32 billion. The total profits of the three carriers posting a profit were $183 million, with Southwest's profit of $106 million accounting for 58 percent of the total. ***[Figure 22]***

- **ACCUMULATED NET LOSSES AND PROFITS.** Network carriers' losses continued into the first quarter of 2005 as each of the seven carriers reported net losses to combine for a total of -$3.2 billion. Between the first quarter of 2001 and the first quarter of 2005, network carriers have accumulated a total of $32.8 billion in net losses. Over the 4-year period, three carriers

accounted for 80 percent of the network carriers' combined losses—United ($11.5 billion), Delta ($7.7 billion), and American ($7.1 billion). The low-cost carriers, as a group, likewise suffered during the first quarter of 2005, posting a net loss of $253 million. Between the first quarter of 2001 and the first quarter of 2005, the low-cost carrier group has accumulated a net loss of $315 million, due mostly to the $854 million in losses reported by ATA Airlines during and following its fourth quarter 2004 bankruptcy. Over the 4-plus year period, only AirTran, JetBlue, and Southwest Airlines have collective positive net incomes. ***[Figure 23]***

- **COST PER AVAILABLE SEAT-MILE (CASM).** Between 2000 and 2003, low-cost carriers were able to show a relatively constant CASM. However, rapidly rising fuel prices, affecting all airlines, has caused even the low-cost carriers (as a group) to experience a rising CASM beginning in 2004. The low-cost carrier group CASM for the first quarter of 2005 was 8.8 cents compared to 7.8 cents in the same quarter of 2000, but it was up from 7.6 cents in the first quarter of 2004. Reorganization expenses related to ATA Airlines' fourth quarter 2004 bankruptcy also affected the low-cost carrier group's unit costs in the last two quarters. In the first quarter of 2005, network carriers posted a CASM of 13.5 cents, compared to 10.8 cents in the first quarter of 2000. While this appears to represent a significant growth in unit costs, the increase primarily reflects a change in financial reporting requirements initiated by the Department of Transportation in early 2003. Excluding the effects of the reporting change, the first quarter 2005 CASM that is comparable to the first quarter 2000 CASM is an estimated 11.6 cents.[11] ***[Figure 24]***

- **AIR FARES AND YIELDS.** One factor stimulating traffic growth is the continued decline in average airfares. For eight major airlines, as tracked by ATA[12], the average airfare for a 1000-mile flight decreased from $147 in May 2000 to $118 in May 2005. Over the same period, yields were reduced by 20 percent. ***[Figure 25]***

- **LONG- AND SHORT-HAUL FARES.** Between 2000 and 2001, the average long- and short-haul airfares dropped significantly as airlines cut fares to hold on to a declining number of passengers—a trend that began well before September 11, 2001. Average fares in long-haul markets (950-1,050 miles)

[11] Partially contributing to increases in the network carriers' CASM starting in 2003 is a change in accounting for the costs of selected affiliated regional carrier services. This reporting change added an estimated $2.1 billion dollars in the first quarter expense not similarly recorded in periods prior to 2003.

[12] The ATA includes eight airlines in its "major passenger airline" classification: American, Continental, Delta, Northwest, United, US Airways, Alaska, and America West.

fell from $177 in the third quarter of 2000 to $155 in the third quarter of 2001. Average short-haul (251-350 miles) fares fell during the same time from $117 to $103. Airfares recovered only slightly from 2002 through 2003, but showed the combined effects of depressed ridership and low-cost competition. Although rising fuel costs and mounting financial losses of the network carriers put additional pressure on airlines to raise fares, the market would not sustain the increases and airfares remained relatively unchanged in 2004 compared to the two previous years. In the third quarter of 2004, (the most recent airfare report available to date) long-haul fares averaged $153, and short-haul fares averaged $110, down 13.6 percent and 6 percent, respectively, from the same period in 2000. While the base fares have gone down, it is important to note that the prices paid by consumers for air travel may not have gone down. Security fees and passenger facility charges (PFC) have increased since 2000 and may result in higher total ticket prices; particularly in the short-haul markets. ***[Figure 26]***

- **BUSINESS AND LEISURE TRAVEL.** The drop in business travel which began before September 11, 2001 has continued through 2004. The percentage of passengers traveling on first-class, business-class, or unrestricted coach tickets declined from 21 percent in the first quarter of 2000 to 12 percent in the fourth quarter of 2004. The decline in usage of typical business fares does not, however, imply that passengers traveling for business reasons have changed by the same percentages. It may indicate that business travelers are changing their travel patterns in order to use less expensive restricted fares and that airlines are changing their fare restrictions (such as Saturday night stay) in order to recapture some of the higher-paying traffic. Recent strength in passenger ridership and load factors may eventually pave the way for larger increases in business fares and reinstatement of fare usage restrictions, although attempts to date have not been successful. ***[Figure 27]***

- **AIRLINE LOAD FACTORS.** Load factors for the major passenger airlines system operations averaged 75 percent for the quarter ending March 2005, compared to 72 percent for the quarter ending March 2004. For the quarter ending March 2005, the break-even load factors (the average percent of paying passengers needed on all flights to cover airline costs) were 85 percent while actual load factors were 75 percent, a gap of 10 percentage points. Seven of the nine largest airlines failed to reach their break-even points. Only Southwest Airlines' and America Wests' load factors exceeded the break-even levels. ***[Figures 28 and 29]***

- **FUEL COSTS.** Since October 2003, jet fuel prices have been steadily rising. In April 2005, jet fuel prices reached $1.56 per gallon, which exceeded the prices for the same period in 2004 ($1.00 per gallon) by 56 percent. ATA

estimates that every penny increase in the price of a gallon of fuel translates into $186 million more in annual operating expense. ATA estimates that jet fuel will cost the industry $6.8 billion more in 2005 than in 2004. ***[Figure 30]***

- **AIRLINE DEBT TO INVESTMENT RATIO.** The debt to investment ratio for major passenger airlines was 107 percent for the quarter ending March 2005—a new 5-year high and more than double the average debt to investment ratio of the airlines in the third quarter of 2000 (48 percent).[13] The debt to investment ratio is one measure of an airline's ability to finance operations in the face of uncertain operating revenues. In the quarter ending March 2005, four of the nine largest airlines had debt to investment ratios above 100 percent, including United Airlines (403 percent), Delta Air Lines (162 percent), US Airways (125 percent), and American Airlines (101 percent). In contrast, Southwest Airline's debt to investment ratio was 25 percent. ***[Figures 31 and 32]***

- **AIRPORT AND AIRWAY TRUST FUND (TRUST FUND).** Before September 11, 2001, the FAA projected overall trust fund revenues of $14.5 billion for FY 2005. FAA now estimates $10.9 billion in revenues in 2005, a reduction of about 25 percent. During the next 4 years (2005 through 2008), Airport and Airway Trust Fund tax revenues are expected to be about $15.3 billion less than projections made in April 2001. ***[Figure 33]***

IV. Air Service at Small Airports

- **CHANGES IN AIR SERVICE.** Non-hub airports still suffer from a considerable loss of capacity (as measured by scheduled seats) compared to 1998 levels of service. Seats scheduled for July 2005 at non-hub airports are down 15 percent from 1998, which, while significant, is an improvement from the 20 percent decline in January 2003. Capacity at large, medium, and small hub airports is showing a stronger pattern of recovery from the declines experienced in the 2001 to 2003 period. Scheduled seats for July 2005 are 5 percent greater than in July 1998. Growth in the most recent 6 months of 2005 (February through July) compared to 1998 have been at a rate of 5 percent or greater. While year-to-date 2005 available seat capacity at large, medium, and small hubs has grown above 1998 levels, it is still below the peak of the 2000 to 2001 level. ***[Figure 34]***

[13] DOT publishes debt to total investment ratios in the Major Airline Quarterly Financial Review. Debt is defined as long-term debt, capital leases, and advances from associated companies, less unamortized debt expenses. Total investment includes all the debt items plus stockholder's equity.

- **SERVICE FROM NON-HUBS TO ALL HUBS.** Service to and from the smallest communities—those with non-hub airports—continue to experience significant degradations in connectivity to carrier networks. Compared to the number flights scheduled in July 2000 from non-hub airports, the number of flights scheduled to large hubs is down 15 percent. Scheduled flights from non-hub airports to medium-sized and smaller airports are down 29 percent and 33 percent, respectively. Finally, flights connecting non-hub airports to other non-hub airports are down 18 percent. ***[Figure 35]***

- **ACCESS TO LARGE AIRPORTS.** Between July 2000 and July 2005, scheduled flights between non-hub airports and the largest airports declined by 15 percent. In contrast to the decline in service between non-hub airports and large hub airports, service connecting other airports to large hubs has increased since 2000. Compared to July 2000, the number of scheduled flights in July 2005 to large hubs from small hubs and medium hubs increased by 12 and 8 percent, respectively. The number of flights scheduled from large hubs to other large hubs declined slightly. ***[Figure 36]***

- **REGIONAL JET GROWTH AT NON-HUB AIRPORTS.** In July 2005, scheduled flights at non-hub airports involving regional jets will exceed July 2000 flights by 199 percent. By comparison, flights involving other aircraft types have experienced sharp declines, including turboprop (-39 percent), large jets (-29 percent), and piston (-17 percent). Despite the gains by regional jets and declines in service by other aircraft types, piston and turboprop aircraft continue to supply the majority of service at non-hub airports (74 percent combined in July 2005). ***[Figure 37]***

- **NON-HUB AIRPORT SERVICE LOSSES BY REGION.** Service declines at non-hub airports have largely been concentrated in the northeast and midwest states. In July 2005, capacity (as measured by available seats) at non-hub airports in these two regions, combined, was 22 percent below the capacity level of July 2000. Capacity at non-hub airports has also declined in the southern and western regions of the United States. However, the drop (on a percentage basis) has not been as pronounced. In July 2005, combined capacity in the southern and western regions declined 6 percent from July 2000 levels. ***[Figure 38]***

- **ESSENTIAL AIR SERVICE (EAS).** Beginning in FY 2002, congressional funding and the number of small communities requesting EAS subsidies increased significantly. Between FY 2001 and FY 2005, funding rose from $50 million to $102 million and the number of communities receiving subsidized service increased from 115 to 151. It is unclear whether or not and to what extent the subsidies will be sustained at this level as the

President's budget for 2006 again requests only $50 million in funding. ***[Figure 39]***

- **CARRIER SERVICE PROFILES AT NON-HUB AIRPORTS.** Service at non-hub airports continues to be dominated by regional carriers flying on behalf of network carriers. The network carriers are increasingly relying on regional partners with their smaller aircraft for more economical connections to less dense markets. Similarly, low-cost carriers continue to avoid non-hub airports, where demand for point-to-point service is insufficient to make it economically feasible to serve with their fleets of larger aircraft. Overall, low-cost airlines scheduled service to only 5 of the more than 500 non-hub airports for July 2005,[14] representing approximately 2 percent of the total available passenger seats at these airports. In comparison, the network and regional/other smaller airlines comprised 17 percent and 81 percent, respectively, of scheduled available seats at non-hub airports. ***[Figure 40]***

[14] These data include only those non-hub airports that receive at least one scheduled flight per week.

Airline Industry Performance Metrics

Figure 1: Passenger Enplanements 2000-2004
(DOT Data)

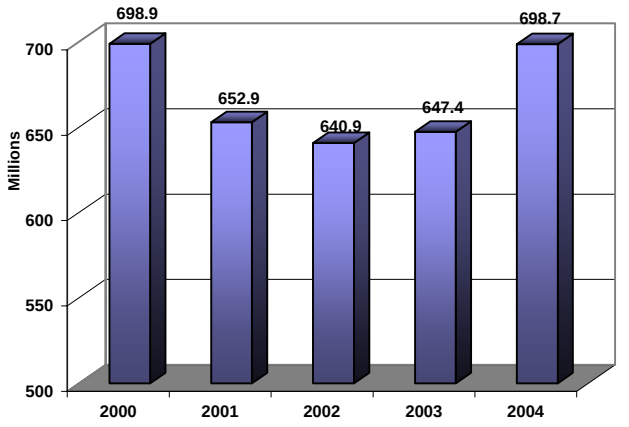


Figure 2: Domestic Passenger Capacity vs. Demand
Percent Change in Scheduled Available Seat Miles (ASM) vs. Revenue Passenger Miles (RPM) From 2000 (ATA Data)

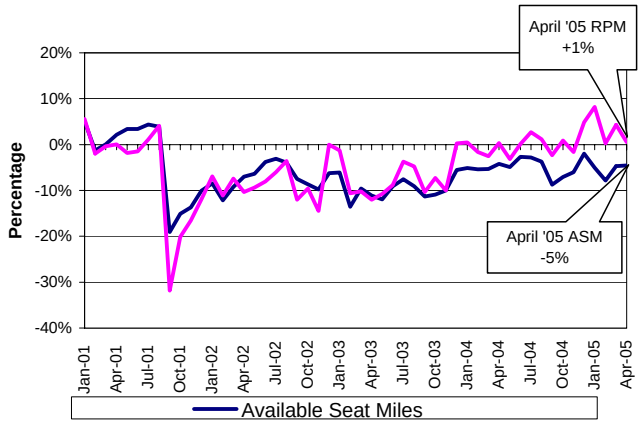


Figure 3: Actual Flight Operations
Percent Change in Air Route Traffic Control Center Operations From 2000 (FAA Data)

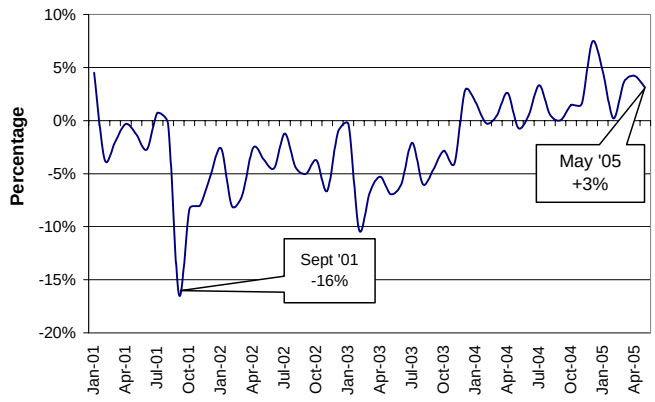


Figure 4: Nine Major Airlines Reported Arrivals
Percent Change in Actual Arrivals by Airline 5/05 vs. 5/00 (FAA Data, 55 Major Airports)

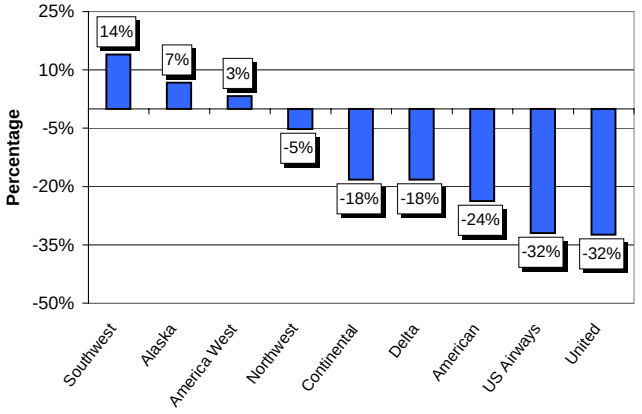


Figure 5: Domestic Scheduled Capacity
Percent Change in Scheduled Flights and Available Seats at All Airports From 2000 (FAA Data)

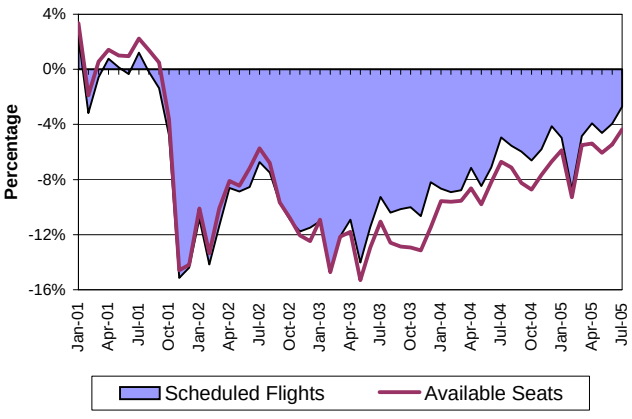
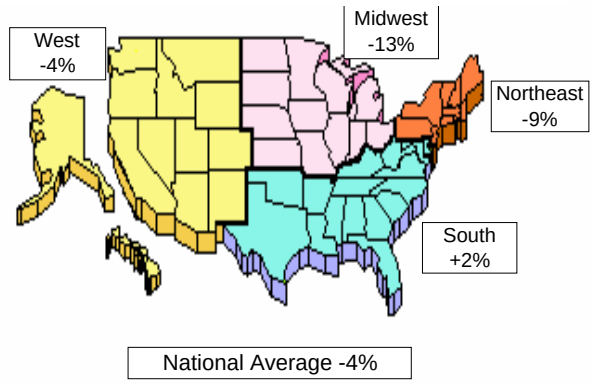


Figure 6: Regional Differences at All Airports
Percent Change in Scheduled Available Seats at All Airports 7/05 vs. 7/00 (FAA Data)



Airline Industry Performance Metrics

Figure 7: Change in Capacity at Large Airports
Percent Change in Scheduled Flights and Available Seats at the 31 Largest Airports 7/05 vs. 7/00 (FAA Data)

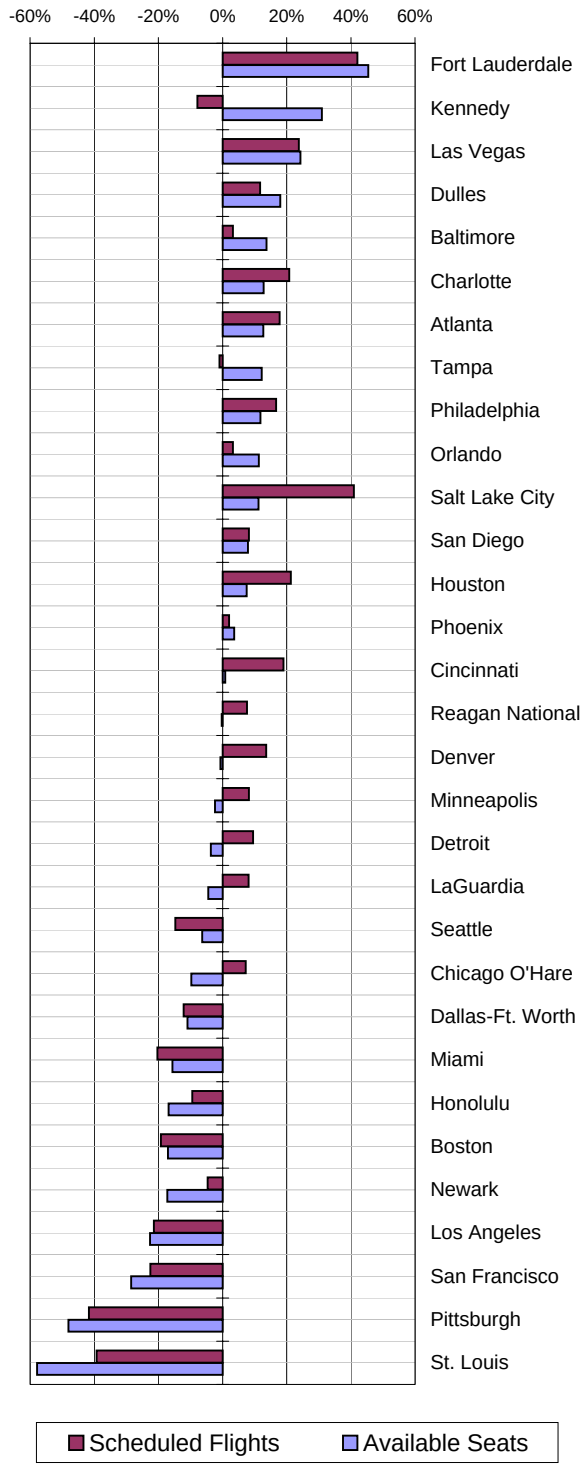


Figure 8: Length of Domestic Flights
Percent Change in Scheduled Flights by Length of Flight 7/05 vs.7/00 (FAA Data)

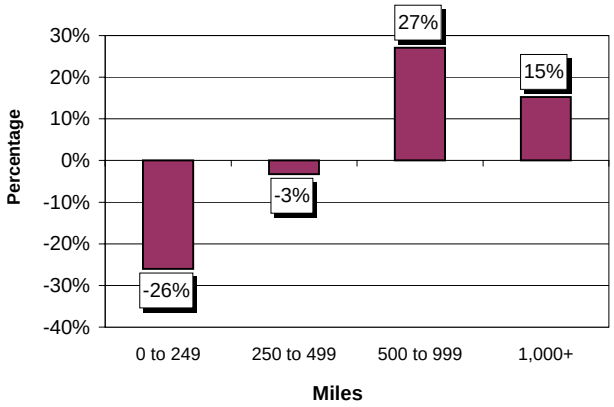


Figure 9: Short-Haul Flights by Type of Airline
Percent Change in Scheduled Flights Less Than 250 Miles by Type of Airline 7/05 vs. 7/00 (FAA Data)

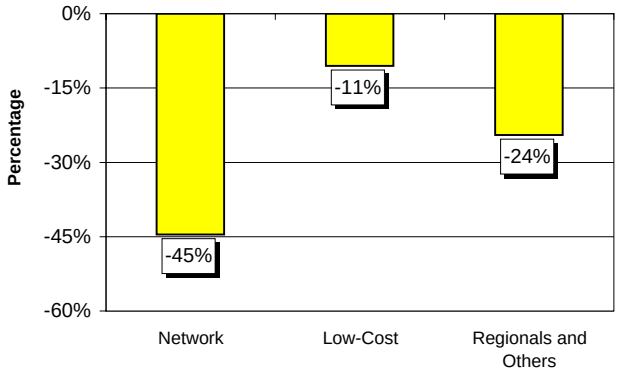
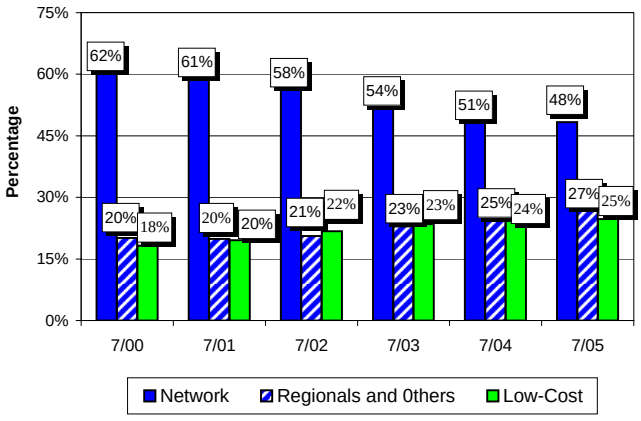


Figure 10: Airline Domestic Market Share
Airline Market Share by Scheduled Available Seats (FAA Data)



Airline Industry Performance Metrics

Figure 11: Market Share of Low-Cost Carrier Service Airline Share of Service by Scheduled Available Seats, 7/05 (FAA Data)

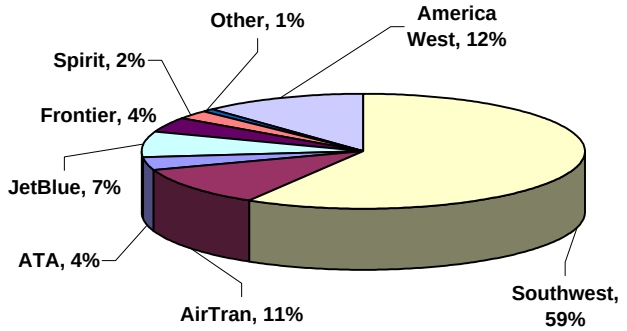


Figure 12: Share of Low-Cost Carrier Service Growth Airline Share of Growth by Scheduled Available Seats, 7/98 vs. 7/05 (FAA Data)

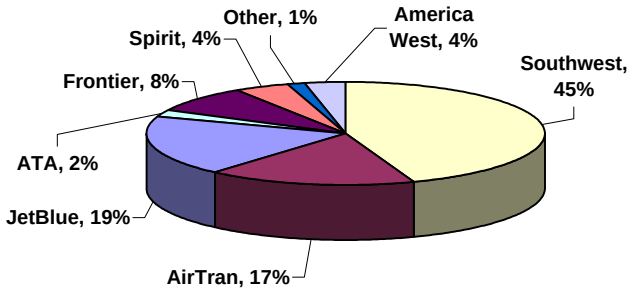


Figure 13: Type of Aircraft
Percent Change in Number of Domestic Scheduled Flights by Type of Aircraft 7/05 vs. 7/00 (FAA Data)

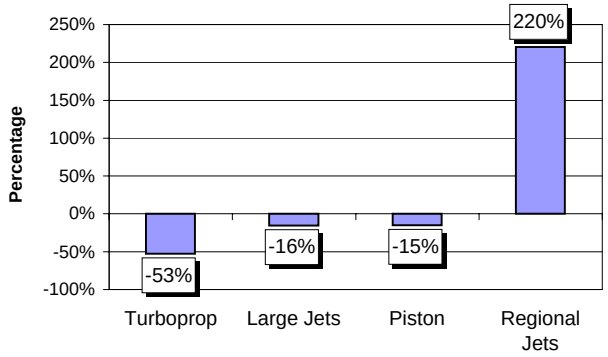
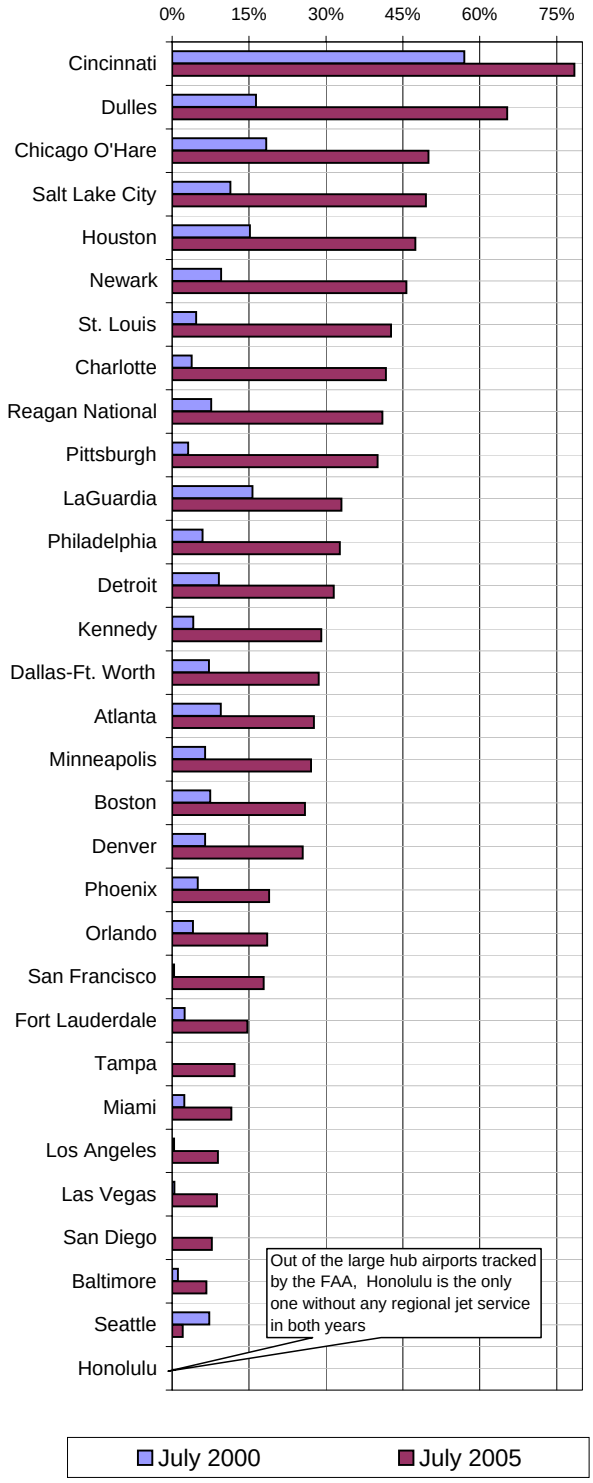


Figure 14: Regional Jets at Large Airports
RJs Share of Scheduled Flights at 31 Largest Airports 7/05 vs. 7/00 (FAA data)



Airline Industry Performance Metrics

Figure 15: Market Share by Aircraft Type
Percent Share of Scheduled Flights by Type of Aircraft
July 2000, 2002, and 2005 (FAA Data)

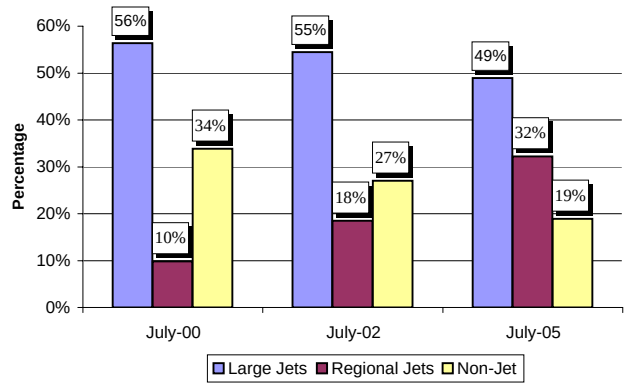


Figure 16: Number of Flights With Delayed Arrivals
(FAA Data - All Airlines, 55 Major Airports)

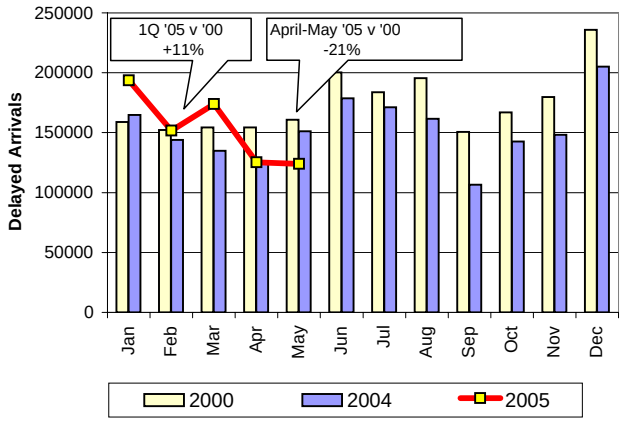


Figure 17: Cancellations
(FAA Data - All Airlines, 55 Major Airports)

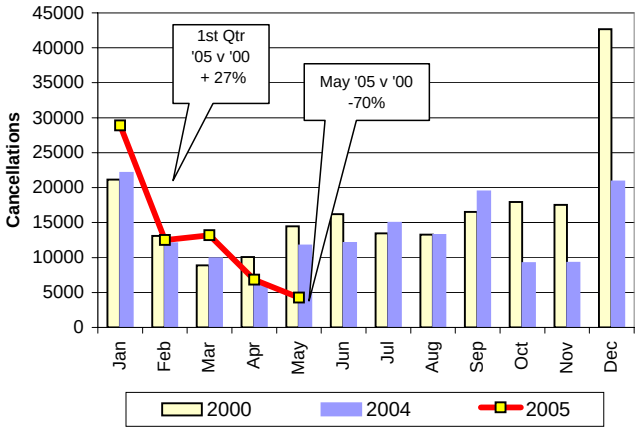


Figure 18: Percent of Flights Arriving Late
(FAA Data - All Airlines, 55 Major Airports)

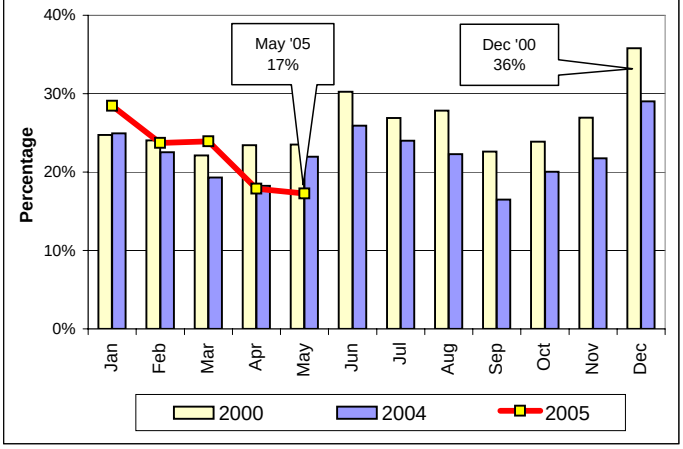


Figure 19: Length of Arrival Delays
(FAA Data - All Major Airlines, 55 Major Airports)

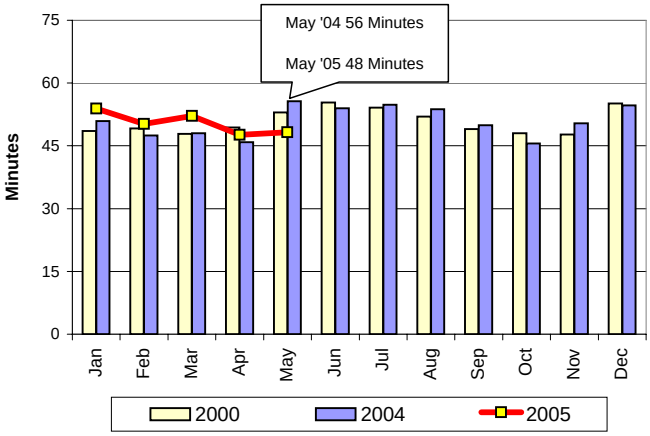
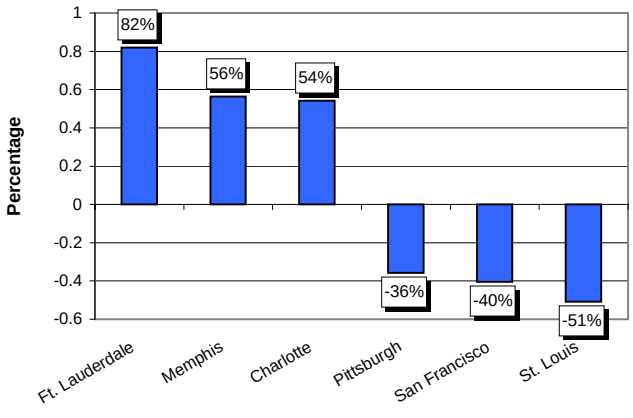


Figure 20: Most Significant Changes in Arrival Delays by Airport - Percent Change in Arrival Delays for Year-to-Date 05/2005 vs. 2000 (FAA Data)



Airline Industry Performance Metrics

Figure 21: Revenues vs. Expenses

Major Passenger Carriers Operating Revenues vs. Operating Expenses 1Q 2000 through 1Q 2005 (DOT Data)

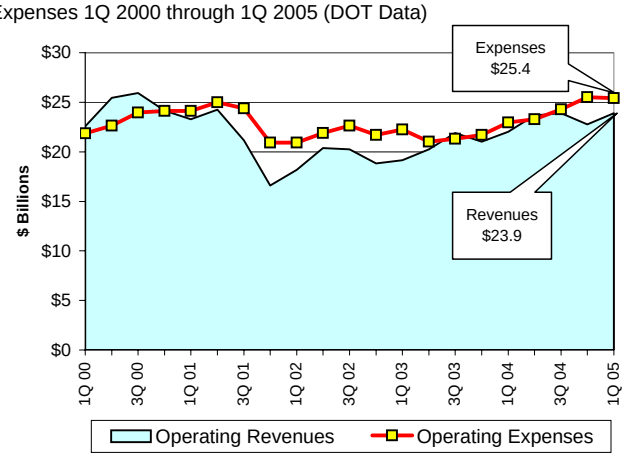


Figure 22: Selected Network and Low- Cost Airlines Operating Profit or Loss

System Operations for Quarter Ending 3/31/05 (DOT Data)

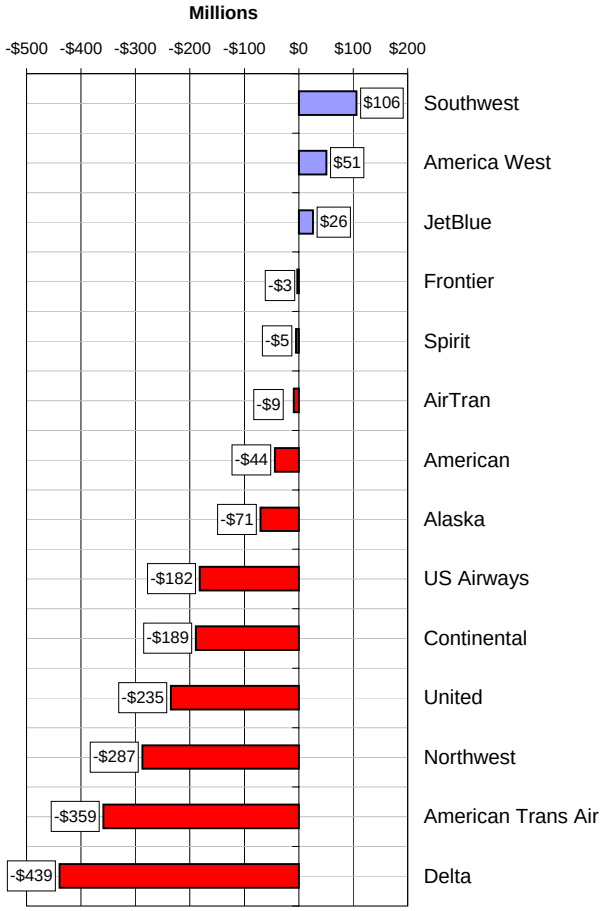


Figure 23: Accumulated Net Losses and Gains

1Q 01 Cumulatively Through 1Q 05 (DOT Data)

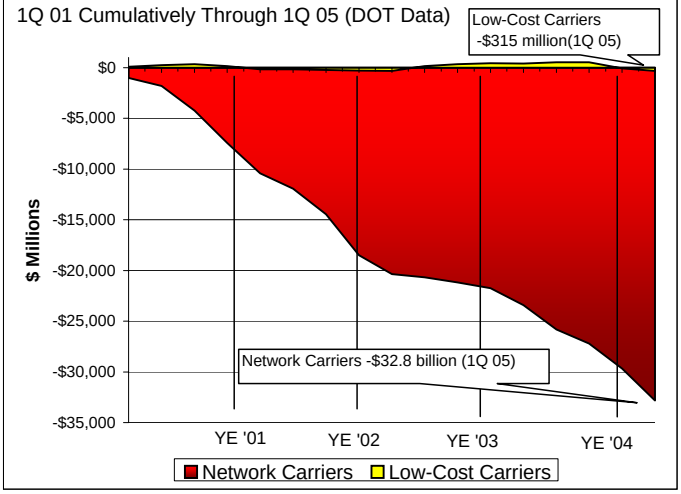


Figure 24: Cost Per Available Seat-Mile (CASM)

1Q 2000 through 1Q 2005 (DOT Quarterly Domestic Data)

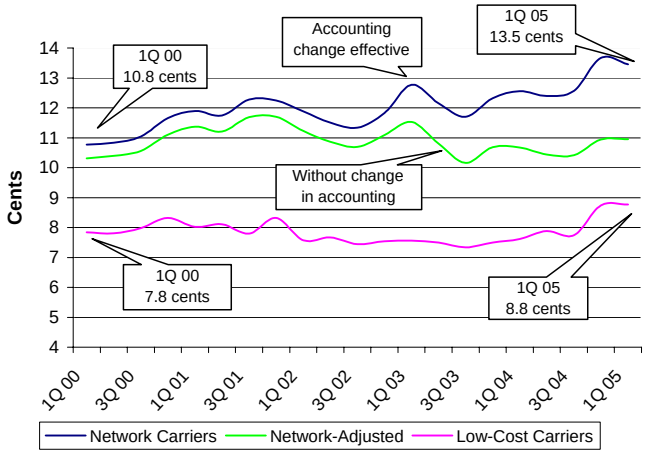
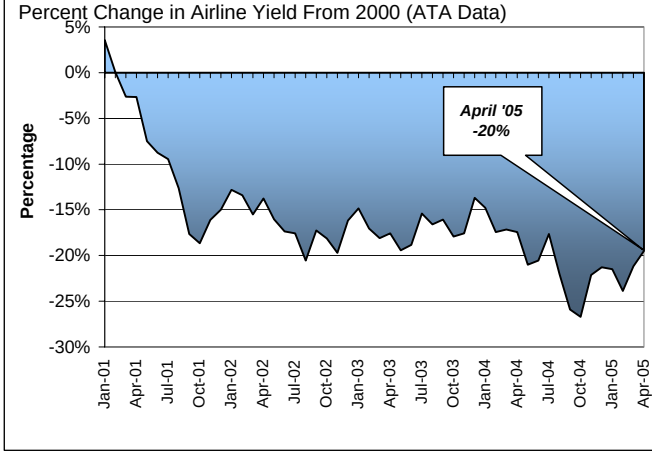


Figure 25: Domestic Yield for Eight Major Airlines

Percent Change in Airline Yield From 2000 (ATA Data)



Airline Industry Performance Metrics

Figure 26: Average Short-and Long-Haul Fares 3rd Quarters 2000 - 2004

DOT Data for 300-mile and 1000-mile Average Distances

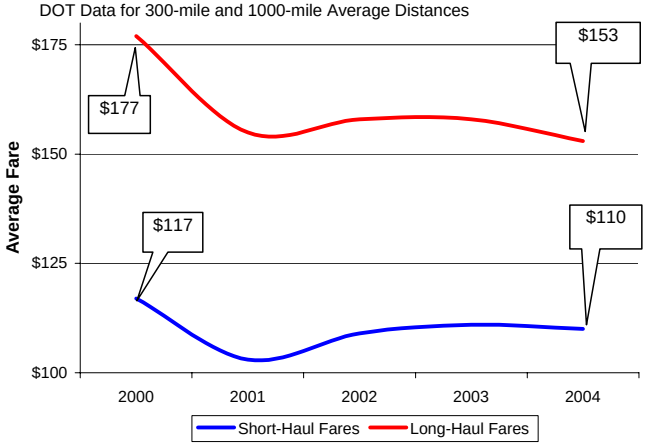


Figure 27: Business Travel Percent of All Passengers Using Business Fares 1Q 2000 Through 4Q 2004 (BTS Data)

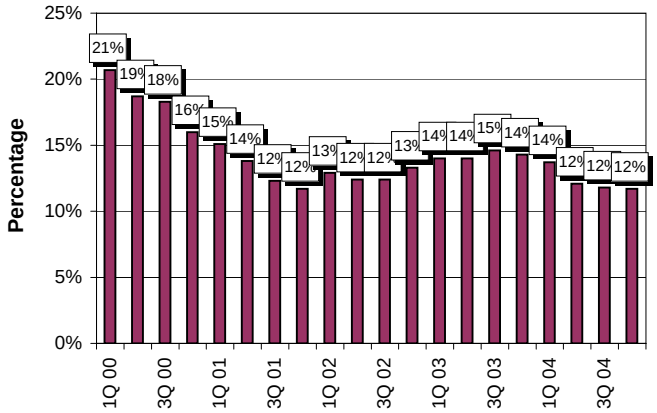


Figure 28: Passenger Load Factors

Actual vs. Break-even Percentages 1Q 2000 Through 1Q 2005 (DOT Data)

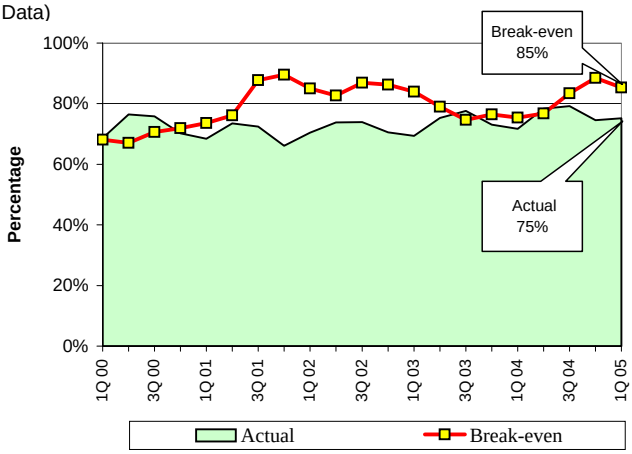


Figure 29: Individual Airline Load Factors

Actual vs. Break-even Percentages for Quarter Ending 3/31/05 (DOT Data)

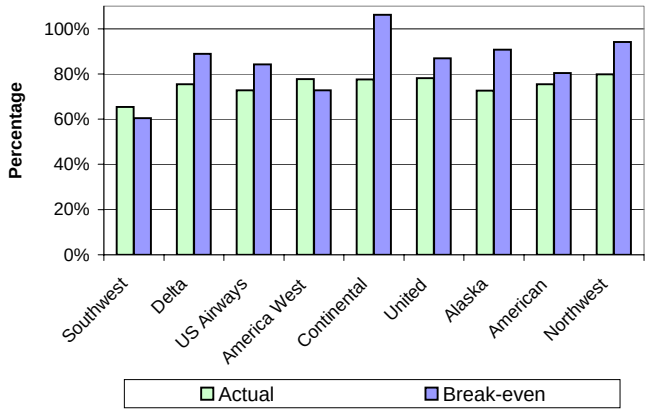
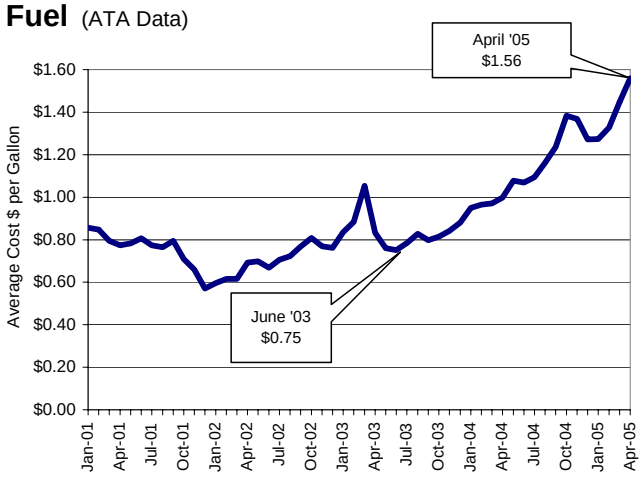


Figure 30: Cost Per Gallon Domestic Jet Fuel (ATA Data)



Airline Industry Performance Metrics

Figure 31: Debt to Investment Ratio

Airline Debt to Investment Ratio for Major Passenger Airlines
1Q 2000 Through 1Q 2005 (DOT Data)

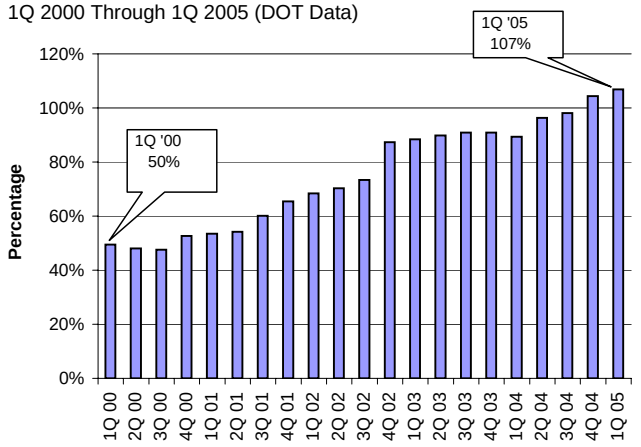


Figure 32: Debt to Investment Ratio by Airline

Airline Debt to Investment Ratio for Quarter Ending 3/31/05
(DOT data)

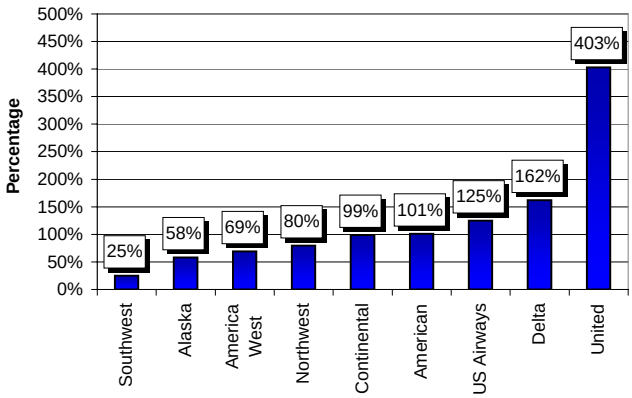


Figure 33: Airport and Airway Trust Fund

Estimated Trust Fund Receipts as of 12/04 vs. Pre-9/11 (FAA Data)

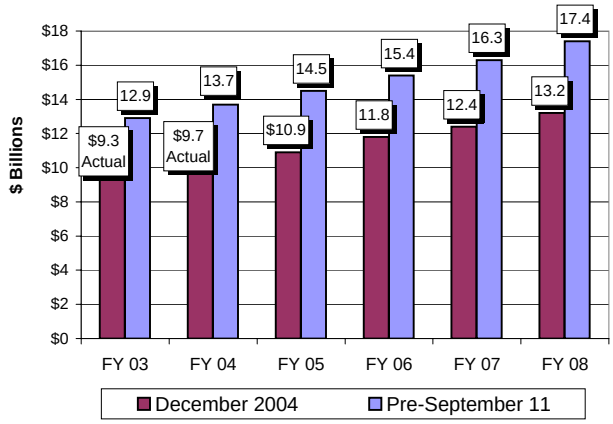


Figure 34: Non-Hub vs. Larger Airports

Percent Change in Scheduled Available Seats From 1998
(FAA Data)

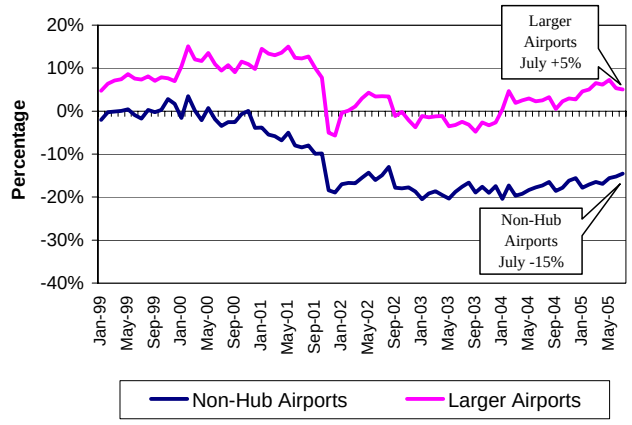


Figure 35: Service From Non-Hub Airports to All Hubs

Percent Change in Scheduled Flights and Available Seats
7/05 vs.7/00 (FAA Data)

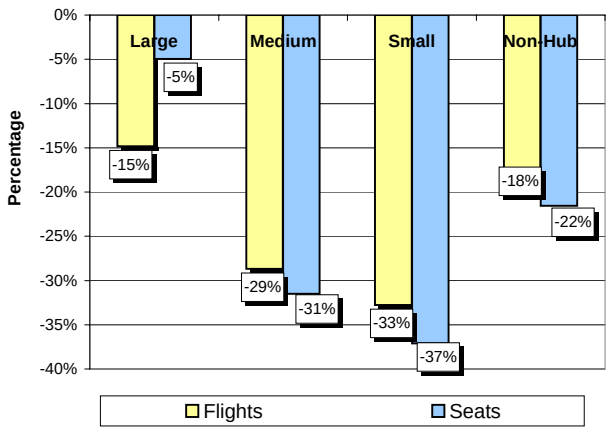
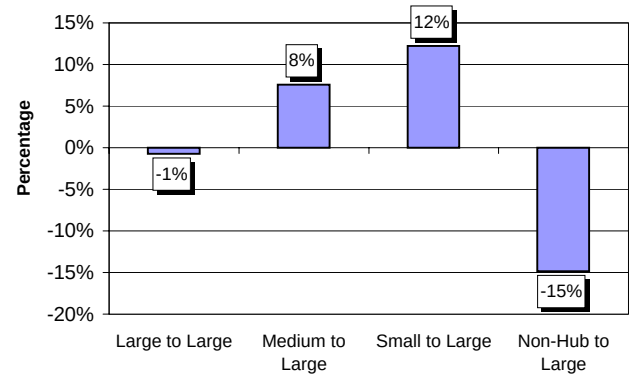


Figure 36: Access to Large Airports

Percent Change in Number of Scheduled Flights 7/05 vs.
7/00 (FAA Data)



Airline Industry Performance Metrics

Figure 37: Type of Aircraft at Non-Hub Airports

Percent Change in Scheduled Flights by Type of Aircraft
7/05 vs. 7/00 (FAA Data)

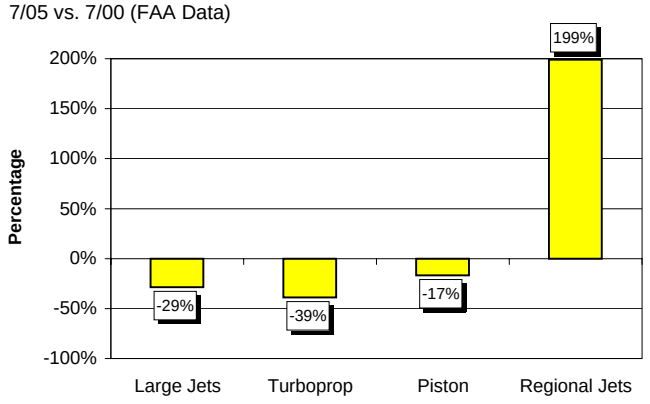


Figure 38: Regional Differences at Non-Hubs

Percent Change in Available Seats at Non-Hub Airports 7/05 vs. 7/00 (FAA Data)

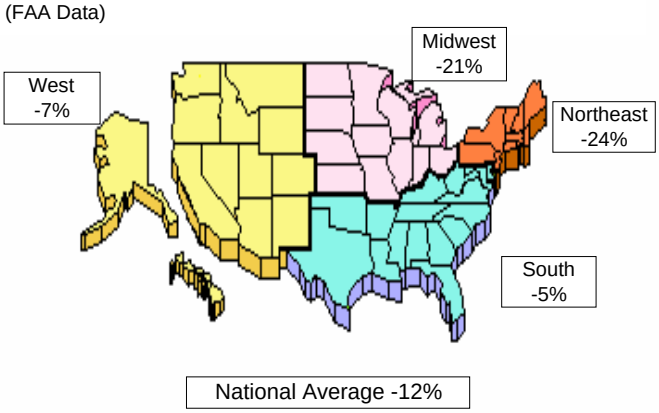
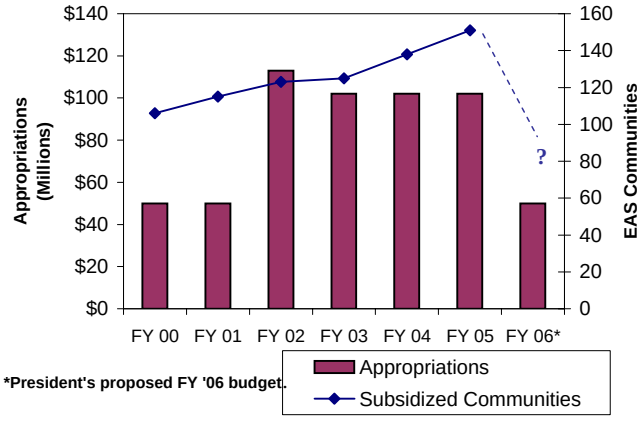


Figure 39: Essential Air Service (EAS)

Congressional Funding and Subsidized Communities (DOT Data)



***President's proposed FY '06 budget.**

Figure 40: Airline Market Share at Non-Hubs

Airline Market Share by Scheduled Available Seats at Non-Hub Airports (FAA Data)

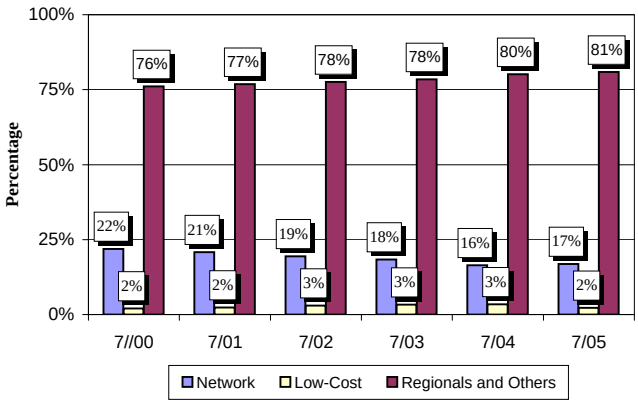


EXHIBIT B. SCOPE AND METHODOLOGY

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 Analysis (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 also reclassified our set of low-cost carriers to eliminate wholly-owned operating units ("Song" by Delta and "Ted" by United) and 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. Analysis Performed With ATA Data

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

1. ATA Monthly Traffic Report. A collection of current and historic airline traffic and capacity statistics. Scope: member airlines of the ATA, 2000 through April 2005.[15]

[15] Data for "Domestic Passenger Capacity vs. Demand" (Figure 2) includes the following air carriers: Alaska Airlines, Aloha Airlines, America West Airlines, American Airlines, ATA (American Trans

2. 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 April 2005.[16]

3. ATA Monthly Fuel Report. A republication 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 April 2005.[17]

B. Analysis Performed With BTS Data

Financial, traffic, operational statistics, and passenger ticket survey information obtained from BTS sources were used in financial and statistical analysis 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 accessible through the BTS TranStats website (http://www.transtats.bts.gov/) 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, 2005.

2. Air Carrier Traffic Statistics. Compilation of traffic and capacity reports submitted by air carriers as required under 14 CFR Part 241 (Form 41) and accessible through the BTS TranStats website. Scope: all certificated U.S. air carriers and commuter air carriers, 2000 through March 2005.

3. Origin and Destination Survey of Passenger Travel (O&D Survey). Compilation of surveyed ticket information submitted quarterly as required under 14 CFR Part 241 (Form 41) and accessible through the BTS TranStats website. Scope: 10-percent sample of tickets used by passengers; 1993 through the fourth quarter 2004.

Air), Continental Airlines (including Micronesia), Delta Airlines, Hawaiian Airlines, JetBlue, Midwest Airlines, Northwest Airlines, Southwest Airlines, United Airlines, and US Airways.

[16] Data for "Domestic Yield for Eight Major Airlines" (Figure 25) includes the following major network air carriers: Alaska Airlines, American West Airlines, American Airlines, Continental Airlines, Delta Airlines, Northwest Airlines, United Airlines, and US Airways.

[17] Data for "Cost per Gallon Domestic Jet Fuel" (Figure 30) include all major, national, and large regional U.S. airlines that report to DOT.

C. Analysis Performed With DOT-OAA Data

Financial, traffic and operational statistics obtained from DOT sources were used in financial and statistical analysis 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 the U.S. Prepared using financial and traffic statistics reported to BTS by the airlines. Scope: 16 major air carriers (14 passenger and 2 all-cargo carriers), second quarter 1995 through the first quarter 2005.

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 1999 through 2005 as well as the Administration's budget proposal for Fiscal Year 2006.

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. Analysis 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 analysis 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 2005.

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 enroute control centers, 1998 through May 2005 and preliminary data for June 2005.

3. Operations Net (OPSNET) – Center. A database of enroute air traffic control center aircraft movement operations handled by the various enroute air traffic control centers. Scope: 22 enroute air traffic control centers, 1990 through May 2005.

4. Aviation Airport and Airway Trust Fund. Actual and estimated revenues for the trust fund were obtained by OIG staff from the FAA. Scope: revenue estimates prepared in April 2001 (i.e. pre-September 11, 2001) and in December 2004; actual revenues for Fiscal Years 2003 and 2004.

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 are adjusted to convert 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 airline 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 airline 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.

Major passenger airline – For the purposes of the airline performance report, the category major passenger airline includes: Alaska Airlines, America West Airlines, American Airlines, American Eagle Airlines, Comair, Continental Airlines, Delta Air Lines, JetBlue, Northwest Airlines, Southwest Airlines, United Airlines, and US Airways.

Network airline – For the purposes of the airline 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 – For the purposes of the airline performance report, the category other airlines includes: all scheduled U.S. airlines not included in the network and low-cost categories, mostly smaller scheduled regional, commuter, and national airlines (many of which are affiliated with the major network carriers).

Regional carrier – We define a regional carrier as 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 serves hub-and-spoke networks, and conducts 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.

EXHIBIT C. MAJOR CONTRIBUTORS TO THIS REPORT

THE FOLLOWING INDIVIDUALS CONTRIBUTED TO THIS REPORT.

Name	Title
Stuart A. Metzger	Program Director
Leila D. Kahn	Project Manager
Ralph W. Morris	Economist
Stephen G. Smith	Transportation Industry Analyst
Gina Ronzello	Analyst

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: Average Short and Long Haul Fares
Third Quarters 2000 to 2004
DOT data for 300 Mile and 1000 Mile Average Distances

Quarter Year	Short-Haul	Long-Haul
Third Quarter 2000	$117	$177
Third Quarter 2001	$103	$155
Third Quarter 2002	$109	$158
Third Quarter 2003	$111	$158
Third Quarter 2004	$110	$153

Figure II: Actual Flight Operations, Percent Change in Air Route Traffic Control Operations from 2000
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
January	5%	-3%	0%	2%	5%
March	-4%	-8%	-10%	0%	0%
March	-2%	-7%	-7%	1%	4%
April	0%	-3%	-5%	3%	4%
May	-1%	-4%	-7%	-1%	3%
June	-3%	-4%	-6%	1%	
July	1%	-1%	-2%	3%	
August	0%	-4%	-6%	1%	
September	-16%	-5%	-5%	0%	
October	-8%	-4%	-3%	1%	
November	-8%	-7%	-4%	2%	
December	-5%	-1%	3%	7%	

Note: September 2001 Actual Flight Operations Down 16 Percent
Note: May 2005 Actual Flight Operations Up 3 Percent
Note: All percentages are rounded

Figure III: Ten Most Delayed Airports – June 1-15, 2005

Airport	Percent Arriving Flights Delayed	Average Minutes of Delay for Delayed Flights
Atlanta	35%	58
Newark	33%	67
West Palm Beach	33%	52
Philadelphia	33%	67
Louisville	32%	44
Miami	32%	54
Fort Lauderdale	32%	57
Chicago – O'Hare	31%	64
Washington – Dulles	30%	61
New York - JFK	29%	55

Table I: Summer 2005 Airports to Watch
Delays Shown Occurred June 1 through June 15, 2005

Rank Based on Percent Delayed	Airport	Total Arrivals	Delayed Arrivals	Percent Delayed	Average Minutes of Delay
1	Atlanta	20,453	7,128	35	58
2	Newark	8,676	2,896	33	67
4	Philadelphia	10,539	3,432	33	67
7	Fort Lauderdale	4,839	1,531	32	57
9	Washington-Dulles	9,830	2,956	30	61
12	LaGuardia	8,198	2,315	28	71

Note: Average time of delay for all six airports is one hour.

Figure IV: Percent Change in Scheduled Departures by Airport Size Compared to July 2000
FAA Data

Percent Change in Scheduled Departures Compared to July 2000				
July Year	**At Large-Hub Airports**	**At Medium-Hub Airports**	**At Small-Hub Airports**	**At Non-Hub Airports**
July 2001	**2%**	**3%**	**3%**	**-5%**
July 2002	**-7%**	**-5%**	**-5%**	**-11%**
July 2003	**-9%**	**-8%**	**-6%**	**-12%**
July 2004	**-3%**	**-4%**	**-1%**	**-17%**
July 2005	**0%**	**-2%**	**1%**	**-17%**

Note: July 2005 Flights at large, medium, and small hubs are within two percent of July 2000 levels.
Note: July 2004 Non-Hub flights down 17 percent compared to July 2000.

Figure 1: Domestic Passenger Enplanements 2000-2004 (DOT Data)

Year	Number of Enplanements (millions)
2000	698.9
2001	652.9
2002	640.9
2003	647.4
2004	698.7

Figure 2: Domestic Passenger Capacity versus Demand Percent Change in Available Seat Miles (ASM) versus Revenue Passenger Miles (RPM) from 2000 (ATA Data)

Month	2001 Change in Available Seat Miles	2002 Change in Available Seat Miles	2003 Change in Available Seat Miles	2004 Change in Available Seat Miles	2005 Change in Available Seat Miles
January	5%	-8%	-6%	-5%	-5%
February	-1%	-12%	-14%	-5%	-8%
March	0%	-9%	-10%	-5%	-5%
April	2%	-7%	-11%	-4%	-5%
May	3%	-6%	-12%	-5%	
June	3%	-4%	-9%	-3%	
July	4%	-3%	-8%	-3%	
August	4%	-4%	-9%	-4%	
September	-19%	-8%	-11%	-9%	
October	-15%	-9%	-11%	-7%	
November	-14%	-10%	-10%	-6%	
December	-10%	-6%	-6%	-2%	

Month	2001 Change in Revenue Passenger Miles	2002 Change in Revenue Passenger Miles	2003 Change in Revenue Passenger Miles	2004 Change in Revenue Passenger Miles	2005 Change in Revenue Passenger Miles
January	6%	-7%	-1%	0%	8%
February	-2%	-11%	-11%	-2%	0%
March	0%	-7%	-10%	-3%	4%
April	0%	-10%	-12%	0%	1%
May	-2%	-9%	-11%	-3%	
June	-1%	-8%	-9%	0%	
July	1%	-6%	-4%	3%	
August	4%	-4%	-5%	1%	
September	-32%	-12%	-10%	-2%	
October	-20%	-10%	-7%	1%	
November	-17%	-14%	-10%	-2%	
December	-12%	0%	0%	5%	

Note: April 2005 Revenue Passenger Miles (RPM) Up 1 Percent
Note: April 2005 Available Seat Miles (ASM) Down 5 Percent
Note: All percentages are rounded

Figure 3: Actual Flight Operations
Percent Change in Air Route Traffic Control Center Operations from 2000 (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
January	5%	-3%	0%	2%	5%
March	-4%	-8%	-10%	0%	0%
March	-2%	-7%	-7%	1%	4%
April	0%	-3%	-5%	3%	4%
May	-1%	-4%	-7%	-1%	3%
June	-3%	-4%	-6%	1%	
July	1%	-1%	-2%	3%	
August	0%	-4%	-6%	1%	
September	-16%	-5%	-5%	0%	
October	-8%	-4%	-3%	1%	

November	**-8%**	**-7%**	**-4%**	**2%**	
December	**-5%**	**-1%**	**3%**	**7%**	

Note: September 2001 Actual Flight Operations Down 16 Percent
Note: May 2005 Actual Flight Operations Up 3 Percent
Note: All percentages are rounded

Figure 4: Nine Major Airlines Reported Arrivals
Percent Change in Actual Arrivals by Airline May 2005 versus May 2000 (FAA Data 55 major airports)

Airline	2005 Percentage Change
Southwest	**14%**
Alaska	**7%**
America West	**3%**
Northwest	**-5%**
Continental	**-18%**
Delta	**-18%**
American	**-24%**
US Airways	**-32%**
United	**-32%**

Note: All percentages are rounded

Figure 5: Domestic Scheduled Capacity
Percent Change in Scheduled Flights and Available Seats at All Airports from 2000 (FAA Data)

Month	Percent Change in Flights	Percent Change in Seats
January 2001	**2%**	**3%**
February 2001	**-3%**	**-2%**
March 2001	**-1%**	**1%**
April 2001	**1%**	**1%**
May 2001	**0%**	**1%**
June 2001	**0%**	**1%**
July 2001	**1%**	**2%**
August 2001	**0%**	**1%**
September 2001	**-1%**	**0%**

October 2001	**-5%**	**-4%**
November 2001	**-15%**	**-15%**
December 2001	**-14%**	**-14%**
January 2002	**-11%**	**-10%**
February 2002	**-14%**	**-13%**
March 2002	**-11%**	**-10%**
April 2002	**-9%**	**-8%**
May 2002	**-9%**	**-8%**
June 2002	**-9%**	**-7%**
July 2002	**-7%**	**-6%**
August 2002	**-8%**	**-7%**
September 2002	**-10%**	**-10%**
October 2002	**-11%**	**-11%**
November 2002	**-12%**	**-12%**
December 2002	**-12%**	**-12%**
January 2003	**-11%**	**-11%**
February 2003	**-15%**	**-15%**
March 2003	**-12%**	**-12%**
April 2003	**-11%**	**-12%**
May 2003	**-14%**	**-15%**
June 2003	**-11%**	**-13%**
July 2003	**-9%**	**-11%**
August 2003	**-10%**	**-13%**
September 2003	**-10%**	**-13%**
October 2003	**-10%**	**-13%**
November 2003	**-11%**	**-13%**
December 2003	**-8%**	**-11%**
January 2004	**-9%**	**-10%**
February 2004	**-9%**	**-10%**
March 2004	**-9%**	**-10%**
April 2004	**-7%**	**-9%**
May 2004	**-9%**	**-10%**
June 2004	**-7%**	**-8%**
July 2004	**-5%**	**-7%**
August 2004	**-6%**	**-7%**
September 2004	**-6%**	**-8%**
October 2004	**-7%**	**-9%**
November 2004	**-6%**	**-8%**
December 2004	**-4%**	**-7%**

January 2005	**-5%**	**-6%**
February 2005	**-9%**	**-9%**
March 2005	**-5%**	**-6%**
April 2005	**-4%**	**-5%**
May 2005	**-5%**	**-6%**
June 2005	**-4%**	**-6%**
July 2005	**-3%**	**-4%**

Note: All percentages are rounded

Figure 6: Regional Differences at All Airports
Percent Change in Available Seats at All Airports July 2005 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)	**-9%**
Midwest (includes Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin)	**-13%**
West (includes Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming)	**-4%**
South (includes Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia)	**+2%**
National Average	**-4%**

Figure 7: Change in Capacity at Large Airports
Percent Change in Scheduled Flights and Available Seats at the 31 Largest Airports July 2005 versus July 2000 (FAA Data)

Largest Airports	Percent Change in Flights	Percent Change in Available Seats
Fort Lauderdale	42%	45%
Kennedy	-8%	31%
Las Vegas	24%	24%
Dulles	12%	18%
Baltimore	3%	14%
Charlotte	21%	13%
Atlanta	18%	13%
Tampa	-1%	12%
Philadelphia	17%	12%
Orlando	3%	11%
Salt Lake City	41%	11%
San Diego	8%	8%
Houston	21%	7%
Phoenix	2%	4%
Cincinnati	19%	1%
Reagan National	8%	0%
Denver	14%	-1%
Minneapolis	8%	-2%
Detroit	9%	-4%
LaGuardia	8%	-4%
Seattle	-15%	-6%
Chicago O'Hare	7%	-10%
Dallas-Ft. Worth	-12%	-11%
Miami	-20%	-16%
Honolulu	-9%	-17%
Boston	-19%	-17%
Newark	-5%	-17%
Los Angeles	-21%	-23%
San Francisco	-22%	-28%
Pittsburgh	-42%	-48%
St. Louis	-39%	-58%

Figure 8: Length of Domestic Flight
Percent Change in Scheduled Flights by Length of Flight
July 2005 versus July 2000 (FAA Data)

Range in Miles	2005 Percent Change in Flights
0 to 249 miles	-26%
250 to 499 miles	-3%
500 to 999 miles	27%
1,000 miles or more	15%

Figure 9: Short Haul Flights by Type of Airline
Percent Change in Scheduled Flights Less Than 250 Miles by Type of Airline July 2005 versus July 2000 (FAA Data)

Type of Air Carrier	2005 Percent Change by Type
Network	-45%
Low-Cost	-11%
Regional and Others	-24%

Figure 10: Airline Domestic Market Share
Airline Market Share by Scheduled Available Seats (FAA Data)

Carrier Type	July 2000	July 2001	July 2002	July 2003	July 2004	July 2005
Network	62%	61%	58%	54%	51%	48%
Low-Cost	18%	20%	22%	23%	24%	25%
Regionals And All Others	20%	20%	21%	23%	25%	27%

Note: All percentages are rounded.

Figure 11: Market Share of Low Cost Carrier Service
Airline Share of Service by Scheduled Available Seats, July 2005 (FAA Data)

Low-Cost Airline	Market Share Percentage
Southwest	59%
America West	12%
AirTran	11%
JetBlue	7%
American Trans Air	4%
Frontier	4%
Spirit	2%
Other	1%

Note: All Percentages are rounded.

Figure 12: Share of Low-Cost Carrier Service Growth
Airline Share of Growth by Scheduled Available Seats July 2005 versus July 1998 (FAA Data)

Low- Cost Airline	Service Growth Percentages
Southwest	45%
JetBlue	19%
AirTran	17%
Frontier	8%
America West	4%
Spirit	4%
American Trans Air	2%
Other	1%

Note: All percentages are rounded.

Figure 13: Type of Aircraft
Percent Change in Number of Domestic Scheduled Flights by Type of Aircraft July 2005 versus July 2000 (FAA Data)

Type of Aircraft	Percent Change in Flights
Turboprop	-53%
Large Jets	-16%
Piston	-15%
Regional Jets	220%

Figure 14: Regional Jets at Large Airports
Regional Jets Share of Scheduled Flights at 31 Largest Airports July 2005 versus July 2000 (FAA Data)

Largest Airports	July 2000 Percentage Share of Flights	July 2005 Percentage Share of Flights
Cincinnati	57%	78%
Dulles	16%	65%
Chicago O'Hare	18%	50%
Salt Lake City	11%	49%
Houston	15%	47%
Newark	10%	46%
St. Louis	5%	43%
Charlotte	4%	42%
Reagan National	8%	41%
Pittsburgh	3%	40%
LaGuardia	16%	33%
Philadelphia	6%	33%
Detroit	9%	32%
Kennedy	4%	29%
Dallas-Ft. Worth	7%	29%
Atlanta	9%	28%
Minneapolis	6%	27%
Boston	7%	26%
Denver	6%	25%
Phoenix	5%	19%
Orlando	4%	19%
San Francisco	0%	18%
Fort Lauderdale	2%	15%
Tampa	0%	12%
Miami	2%	12%
Los Angeles	0%	9%
Las Vegas	0%	9%
San Diego	0%	8%
Baltimore	1%	7%
Seattle	7%	2%
Honolulu	0%	0%

Note: Out of the 31 large hub airports tracked by the FAA, Honolulu is the only one without regional jet service in both years.

Figure 15: Market Share by Aircraft Type
Percent Share of Scheduled Flights by Type of Aircraft July 2000, 2002 and 2005 (FAA Data)

Aircraft Type	July 2000	July 2002	July 2005
Large Jets	56%	55%	49%
Regional Jets	10%	18%	32%
Non-Jet	34%	27%	19%

Note: All percentages are rounded.

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

Month	2000 Arrival Delays	2004 Arrival Delays	2005 Arrival Delays
January	158,982	164,810	193,526
February	152,326	143,833	151,830
March	154,507	134,957	173,810
April	154,472	123,980	125,135
May	160,781	151,277	123,959
June	200,301	178,637	
July	183,866	171,222	
August	195,624	161,461	
September	150,585	106,489	
October	167,005	142,732	
November	179,700	148,235	
December	235,929	205,213	

Note: First Quarter 2005 versus First Quarter 2000 Down 11 Percent
Note: April-May 2005 versus April-May 2000 Down 21 Percent

Figure 17: Cancellations
(FAA Data) All major airlines 55 major airports)

Month	2000 Cancellations	2004 Cancellations	2005 Cancellations
January	21,170	22,105	28,892
February	13,074	12,020	12,494
March	8,859	9,899	13,191
April	10,050	6,329	6,827
May	14,474	11,729	4,270
June	16,214	12,085	
July	13,458	14,958	
August	13,284	13,226	
September	16,507	19,463	
October	17,943	9,202	
November	17,511	9,237	
December	42,675	20,885	

Note: First Quarter 2005 versus First Quarter 2000 up 27 percent
Note: May 2005 versus May 2000 down 71 percent

Figure 18: Percent of Flights Arriving Late
(FAA All major airlines 55 major airports)

Month	2000	2004	2005
January	25%	25%	28%
February	24%	23%	24%
March	22%	19%	24%
April	23%	18%	18%
May	23%	22%	17%
June	30%	26%	
July	27%	24%	
August	28%	22%	
September	23%	16%	
October	24%	20%	
November	27%	22%	
December	36%	29%	

Note: May 2005 17 Percent of Flights Arrived Late
Note: December 2000 36 Percent of Flights Arrived Late

Figure 19: Length of Arrival Delays
(FAA Data All airlines 55 major airports)

Month	2000 (In Minutes)	2004 (In Minutes)	2005 (In Minutes)
January	49	51	54
February	49	47	50
March	48	48	52
April	49	46	48
May	53	56	48
June	55	54	
July	54	55	
August	52	54	
September	49	50	
October	48	46	
November	48	50	
December	55	55	

Note: May 2004 Arrivals Delayed 56 Minutes
Note: May 2005 Arrivals Delayed 48 Minutes

Figure 20: Changes in Arrival Delays by Airport
Percent Change in Arrival Delays
Year to Date May 2005 versus 2000 (FAA Data)

Airport	Percent Change
Ft. Lauderdale	82%
Memphis	56%
Charlotte	54%
Pittsburgh	-36%
San Francisco	-40%
Saint Louis	-51%

Figure 21: Revenues versus Expenses
Major Passenger Carriers Operating Revenues
versus Operating Expenses (DOT Data)

Quarter	Operating Revenues In Billions	Operating Expenses In Billions
First Quarter 2000	$22.6	$21.8
Second Quarter 2000	$25.4	$22.6
Third Quarter 2000	$25.9	$24.0
Fourth Quarter 2000	$24.2	$24.1
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	$23.7	$23.3
Third Quarter 2004	$23.9	$24.3
Fourth Quarter 2004	$22.8	$25.5
First Quarter 2005	$23.9	$25.4

Note: First Quarter 2005 Operating Revenues Were $23.9 Billion
Note: First Quarter 2005 Operating Expenses Were $25.4 Billion
Note: Numbers are rounded

Figure 22: Selected Network and Low Cost Airlines
Operating Profit or Loss
System Operations for Quarter Ending March 31 2005 (DOT Data)

Airline	Profit or Loss (In Millions)
Southwest	$106
America West	$51
JetBlue	$26

Frontier	**-$3**
Spirit	**-$5**
Air Tran	**-$9**
American	**-$44**
Alaska	**-$71**
US Airways	**-$182**
Continental	**-$189**
United	**-$235**
Northwest	**-$287**
American Trans Air	**-$359**
Delta	**-$439**

Figure 23: Accumulated Net Losses and Gains
First Quarter 2001 Cumulatively through First Quarter 2005
(DOT Data)

Quarter Year	Network Carriers Cumulative Sum Dollars in Millions	Low-Cost Carriers Cumulative Sum Dollars in Millions
First Quarter 2001	**-$1,019**	**$99**
Second Quarter 2001	**-$1,811**	**$239**
Third Quarter 2001	**-$4,223**	**$344**
Fourth Quarter 2001	**-$7,422**	**$157**
First Quarter 2002	**-$10,408**	**-$177**
Second Quarter 2002	**-$11,927**	**-$179**
Third Quarter 2002	**-$14,473**	**-$228**
Fourth Quarter 2002	**-$18,485**	**-$295**
First Quarter 2003	**-$20,373**	**-$337**
Second Quarter 2003	**-$20,675**	**$153**
Third Quarter 2003	**-$21,177**	**$345**
Fourth Quarter 2003	**-$21,758**	**$418**
First Quarter 2004	**-$23,427**	**$398**
Second Quarter 2004	**-$25,806**	**$516**
Third Quarter 2004	**-$27,211**	**$535**
Fourth Quarter 2004	**-$29,655**	**-$61**
First Quarter 2005	**-$32,836**	**-$315**

Note: First Quarter 2005 - Since the first quarter of 2001 Network Carriers Have Accumulated Net Losses of 33 billion Dollars
Note: First Quarter 2005 - Since the first quarter of 2001 Low-Cost Carriers Have Accumulated 315 million Dollars in Net Losses
Note: Numbers are rounded

Figure 24: Cost Per Available Seat-Mile (CASM)
First Quarter 2000 Through First Quarter 2005 DOT Domestic Data

Quarter Year	Network Carriers	Network Carriers Without Accounting Change	Low-Cost Carriers
First Quarter 2000	10.8 cents	10.3 cents	7.8 cents
Second Quarter 2000	10.8 cents	10.4 cents	7.8 cents
Third Quarter 2000	11 cents	10.6 cents	8.0 cents
Fourth Quarter 2000	11.7 cents	11.1 cents	8.3 cents
First Quarter 2001	11.9 cents	11.4 cents	8.0 cents
Second Quarter 2001	11.8 cents	11.2 cents	8.1 cents
Third Quarter 2001	12.3 cents	11.7 cents	7.8 cents
Fourth Quarter 2001	12.3 cents	11.7 cents	8.3 cents
First Quarter 2002	11.9 cents	11.2 cents	7.6 cents
Second Quarter 2002	11.5 cents	10.9 cents	7.7 cents
Third Quarter 2002	11.3 cents	10.7 cents	7.4 cents
Fourth Quarter 2002	11.8 cents	11.1 cents	7.5 cents
First Quarter 2003	12.8 cents	11.5 cents	7.6 cents
Second Quarter 2003	12.2 cents	10.8 cents	7.5 cents
Third Quarter 2003	11.7 cents	10.2 cents	7.3 cents
Fourth Quarter 2003	12.3 cents	10.7 cents	7.5 cents
First Quarter 2004	12.6 cents	10.7 cents	7.6 cents
Second Quarter 2004	12.4 cents	10.4 cents	7.9 cents
Third Quarter 2004	12.6 cents	10.4 cents	7.7 cents
Fourth Quarter 2004	13.7 cents	10.9 cents	8.7 cents
First Quarter 2005	13.5 cents	11.0 cents	8.8 cents

Note: First Quarter 2000 Network Carrier Cost Per Available Seat-Mile 10.8 cents
Note: First Quarter 2005 Network Carrier Cost Per Available Seat-Mile 13.5 cents
Note: First Quarter 2000 Low-Cost Carrier Cost Per Available Seat-Mile 7.8 cents
Note: First Quarter 2005 Low-Cost Carrier Cost Per Available Seat-Mile 8.8 cents
Note: Numbers are rounded

Figure 25: Domestic Yield for Eight 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
Jan	4%	-13%	-16%	-15%	-22%
Feb	0%	-14%	-18%	-18%	-24%
Mar	-3%	-16%	-19%	-17%	-21%
Apr	-3%	-14%	-19%	-18%	-20%

May	**-7%**	**-16%**	**-20%**	**-21%**	
June	**-9%**	**-18%**	**-19%**	**-21%**	
July	**-10%**	**-18%**	**-16%**	**-18%**	
Aug	**-13%**	**-21%**	**-17%**	**-22%**	
Sept	**-18%**	**-17%**	**-16%**	**-26%**	
Oct	**-19%**	**-18%**	**-18%**	**-27%**	
Nov	**-16%**	**-20%**	**-18%**	**-22%**	
Dec	**-15%**	**-16%**	**-14%**	**-21%**	

Note: April 2005 Yield Down 20 Percent

Figure 26: Average Short-and Long-Haul Fares 3 Quarters 2000 – 2004
DOT Data for 300-mile and 1000-mile Average Distances

Third Quarter	Short Haul Fare	Long Haul Fare
2000	**$117**	**$177**
2001	**$103**	**$155**
2002	**$109**	**$158**
2003	**$111**	**$158**
2004	**$110**	**$153**

Figure 27: Business Travel
Passengers Using Business Fares as a Percent of All Passengers First Quarter 2000 through Fourth Quarter 2004 (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	**15%**
Fourth Quarter 2003	**14%**
First Quarter 2004	**14%**
Second Quarter 2004	**12%**
Third Quarter 2004	**12%**
Fourth Quarter 2004	**12%**

Figure 28: Passenger Load Factors
Actual versus Breakeven Percentages (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%**	**89%**
First Quarter 2005	**75%**	**85%**

Note: First Quarter 2005 Actual Load Factor 75 Percent
Note: First Quarter 2005 Breakeven Load Factor 85 Percent

Figure 29: Individual Airline Load Factors
Actual versus Breakeven Percentages for Quarter Ending March 31 2005
(DOT Data)

Airline	Actual Load Factor	Breakeven Load Factor
Southwest	65%	60%
Delta	76%	89%
America West	78%	73%
American	75%	80%
Continental	78%	106%
Northwest	80%	94%
United	78%	87%
US Airways	73%	84%
Alaska	73%	91%

Figure 30: Jet Fuel Cost Per Gallon (ATA Data Domestic Fuel Costs)

Month	2001 Average Cost	2002 Average Cost	2003 Average Cost	2004 Average Cost	2005 Average Cost
January	$0.86	$0.60	$0.84	$0.95	$1.27
February	$0.85	$0.62	$0.88	$0.97	$1.33
March	$0.80	$0.62	$1.05	$0.97	$1.45
April	$0.77	$0.69	$0.83	$1.00	$1.56
May	$0.78	$0.70	$0.76	$1.08	
June	$0.81	$0.67	$0.75	$1.07	
July	$0.77	$0.71	$0.78	$1.09	
August	$0.77	$0.72	$0.83	$1.16	
September	$0.79	$0.77	$0.80	$1.24	
October	$0.71	$0.81	$0.82	$1.38	
November	$0.66	$0.77	$0.84	$1.37	
December	$0.57	$0.76	$0.88	$1.27	

Note: April 2005 Jet Fuel Cost Was $1.56
Note: June 2003 Jet Fuel Cost Was $0.75
Note: Numbers are rounded

Figure 31: Debt to Investment Ratio
Airline Debt to Investment Ratio for All Major Airlines (DOT Data)

Quarter	Ratio (Percentage)
First Quarter 2000	50%
Second Quarter 2000	48%
Third Quarter 2000	48%
Fourth Quarter 2000	53%
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	90%
Third Quarter 2003	91%
Fourth Quarter 2003	91%
First Quarter 2004	89%
Second Quarter 2004	96%
Third Quarter 2004	98%
Fourth Quarter 2004	104%
First Quarter 2005	107%

Note: First Quarter 2000 Debt to Investment Ratio was 50%
Note: First Quarter 2005 Debt to Investment Ratio was 107%
Note: Numbers are rounded

Figure 32: Debt to Investment Ratio by Airline
Airline Debt to Investment Ratio for Quarter Ending March 31, 2005 (DOT Data)

Airlines	Ratio (Percentage)
Southwest	25%
Alaska	58%

America West	**69%**
Northwest	**80%**
Continental	**99%**
American	**101%**
US Airways	**125%**
Delta	**162%**
United	**403%**

Figure 33: Airport and Airway Trust Fund
Estimated Trust Fund Receipts of June 2005
versus Pre-September 11, 2001 (FAA Data)

Fiscal Year	June 2005 (In Billions)	Pre-September 11 (In Billions)
2003	**$9.3**	**$12.9**
2004	**$9.7**	**$13.7**
2005	**$10.9**	**$14.5**
2006	**$11.8**	**$15.4**
2007	**$12.4**	**$16.3**
2008	**$13.2**	**$17.4**

Figure 34: Non-Hub versus Larger Airports
Percent Change in Scheduled Available Seats from 1998 (FAA Data)

Month	Non-Hub Airports	Larger Airports
January 1999	**-2%**	**5%**
February 1999	**0%**	**6%**
March 1999	**0%**	**7%**
April 1999	**0%**	**7%**
May 1999	**0%**	**9%**
June 1999	**-1%**	**8%**
July 1999	**-2%**	**7%**
August 1999	**0%**	**8%**
September 1999	**0%**	**7%**
October 1999	**0%**	**8%**
November 1999	**3%**	**8%**
December 1999	**2%**	**7%**

January 2000	**-2%**	**10%**
February 2000	**4%**	**15%**
March 2000	**0%**	**12%**
April 2000	**-2%**	**12%**
May 2000	**1%**	**14%**
June 2000	**-2%**	**11%**
July 2000	**-3%**	**9%**
August 2000	**-3%**	**11%**
September 2000	**-3%**	**9%**
October 2000	**-1%**	**12%**
November 2000	**0%**	**11%**
December 2000	**-4%**	**10%**
January 2001	**-4%**	**14%**
February 2001	**-5%**	**13%**
March 2001	**-6%**	**13%**
April 2001	**-7%**	**14%**
May 2001	**-5%**	**15%**
June 2001	**-8%**	**12%**
July 2001	**-8%**	**12%**
August 2001	**-8%**	**13%**
September 2001	**-10%**	**10%**
October 2001	**-10%**	**8%**
November 2001	**-18%**	**-5%**
December 2001	**-19%**	**-6%**
January 2002	**-17%**	**0%**
February 2002	**-17%**	**0%**
March 2002	**-17%**	**1%**
April 2002	**-15%**	**3%**
May 2002	**-14%**	**4%**
June 2002	**-16%**	**3%**
July 2002	**-15%**	**4%**
August 2002	**-13%**	**3%**
September 2002	**-18%**	**-1%**
October 2002	**-18%**	**0%**
November 2002	**-18%**	**-2%**
December 2002	**-19%**	**-4%**
January 2003	**-21%**	**-1%**
February 2003	**-19%**	**-1%**
March 2003	**-19%**	**-1%**
April 2003	**-20%**	**-1%**
May 2003	**-20%**	**-4%**

June 2003	**-19%**	**-3%**
July 2003	**-18%**	**-2%**
August 2003	**-17%**	**-3%**
September 2003	**-19%**	**-5%**
October 2003	**-18%**	**-3%**
November 2003	**-19%**	**-3%**
December 2003	**-17%**	**-3%**
January 2004	**-20%**	**0%**
February 2004	**-17%**	**5%**
March 2004	**-20%**	**2%**
April 2004	**-22%**	**2%**
May 2004	**-18%**	**3%**
June 2004	**-18%**	**2%**
July 2004	**-17%**	**3%**
August 2004	**-16%**	**3%**
September 2004	**-19%**	**1%**
October 2004	**-18%**	**2%**
November 2004	**-16%**	**3%**
December 2004	**-16%**	**3%**
January 2005	**-18%**	**5%**
February 2005	**-17%**	**5%**
March 2005	**-16%**	**7%**
April 2005	**-17%**	**6%**
May 2005	**-16%**	**7%**
June 2005	**-15%**	**5%**
July 2005	**-15%**	**5%**

Note: July 2005 Larger Airports Up 5 Percent
Note: July 2005 Non-Hub Airports Down 15 Percent

Figure 35: Service From Non-Hub Airports to All Hubs
Percent Change in Scheduled Flights and Available Seats July 2005 versus July 2000 (FAA Data)

From Non-Hub to	Flights	Seats
Large	**-15%**	**-5%**
Medium	**-29%**	**-31%**
Small	**-33%**	**-37%**
Non-Hub	**-18%**	**-22%**

Figure 36: Access to Large Airports
Percent Change in Number of Scheduled Flights July 2005 versus July 2000 (FAA Data)

Hub Access	Percent Change In Flights
Large to Large	-1%
Medium to Large	8%
Small to Large	12%
Non-Hub to Large	-15%

Figure 37: Type of Aircraft at Non-Hub Airports
Percent Change in Scheduled Flights by Type of Aircraft July 2005 versus July 2000 (FAA Data)

Aircraft Type	Percent Change
Large Jets	-29%
Turboprop	-39%
Piston	-17%
Regional Jets	199%

Figure 38: Regional Differences at Non-Hubs
Percent Change in Available Seats at Non-Hub Airports July 2005 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)	-24%
Midwest (includes Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin)	-21%
South (includes Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia)	-5%
West (includes Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming)	-7%
National Average	-12%

Figure 39: Essential Air Service
Congressional Funding and Subsidized Communities (DOT Data)

Fiscal Year	Appropriations In Millions	Number of Communities Subsidized
1999	$50	100
2000	$50	106
2001	$50	115
2002	$113	123
2003	$102	125
2004	$102	138
2005	$102	151
President's proposed 2006 budget	$50	90

Figure 40: Airline Market Share at Non-Hubs
Airline Market Share by Scheduled Available Seats at Non-Hub Airports (FAA Data)

Airline Market	July 2000	July 2001	July 2002	July 2003	July 2004	July 2005
Network	22%	21%	19%	18%	17%	17%
Low-Cost	2%	2%	3%	3%	3%	2%
Regionals and all Others	76%	77%	78%	79%	80%	81%

Note: All Percentages are rounded.