



Airline Industry Overview

For the

Regional Airline Association

December 8, 2010

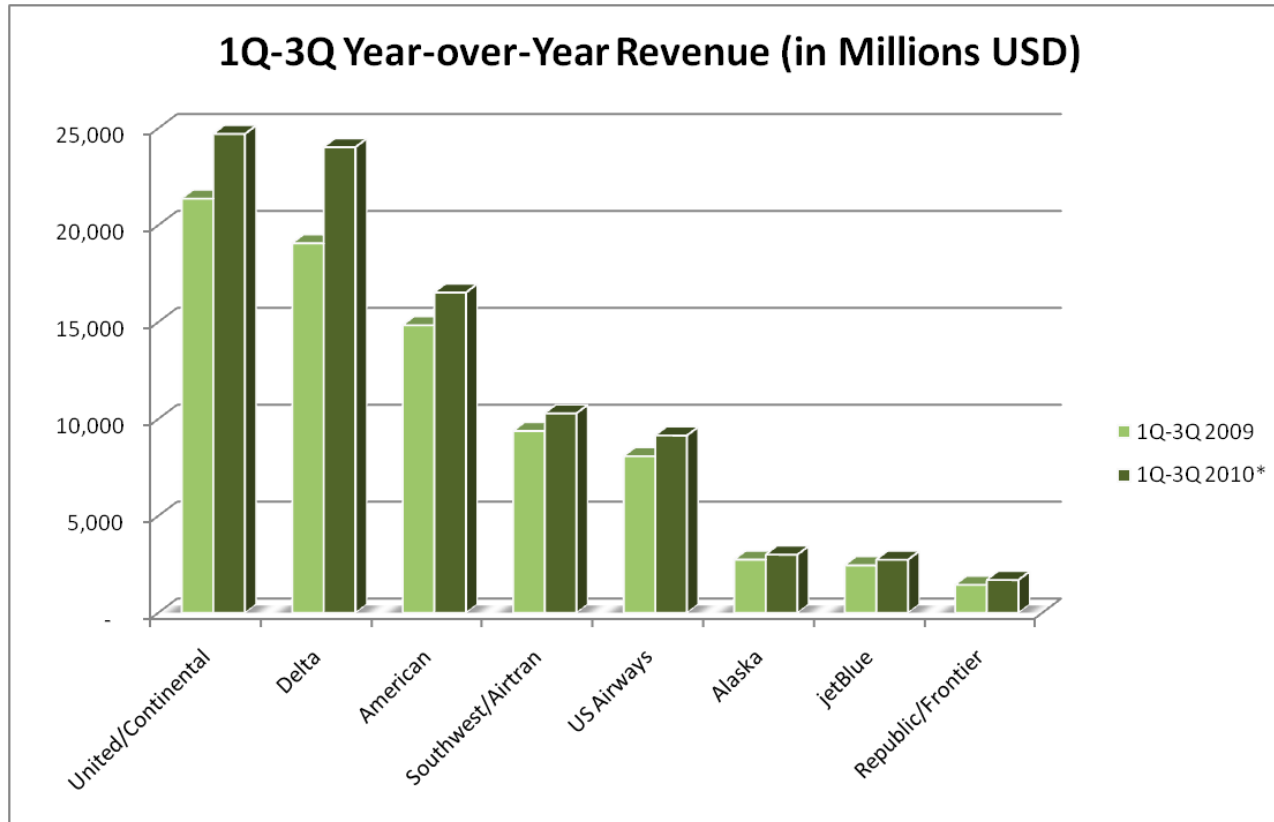
Agenda

- The Airline Industry at Yearend 2010
 - Financial Recovery
 - Return to Growth
- Consolidation
- Alliances
- Regional Service Opportunities

The Airline Industry at Yearend 2010

YTD Revenues Are Up Sharply

- The major airlines added a combined \$12.8 Billion of operating revenues in the first three quarters of 2010



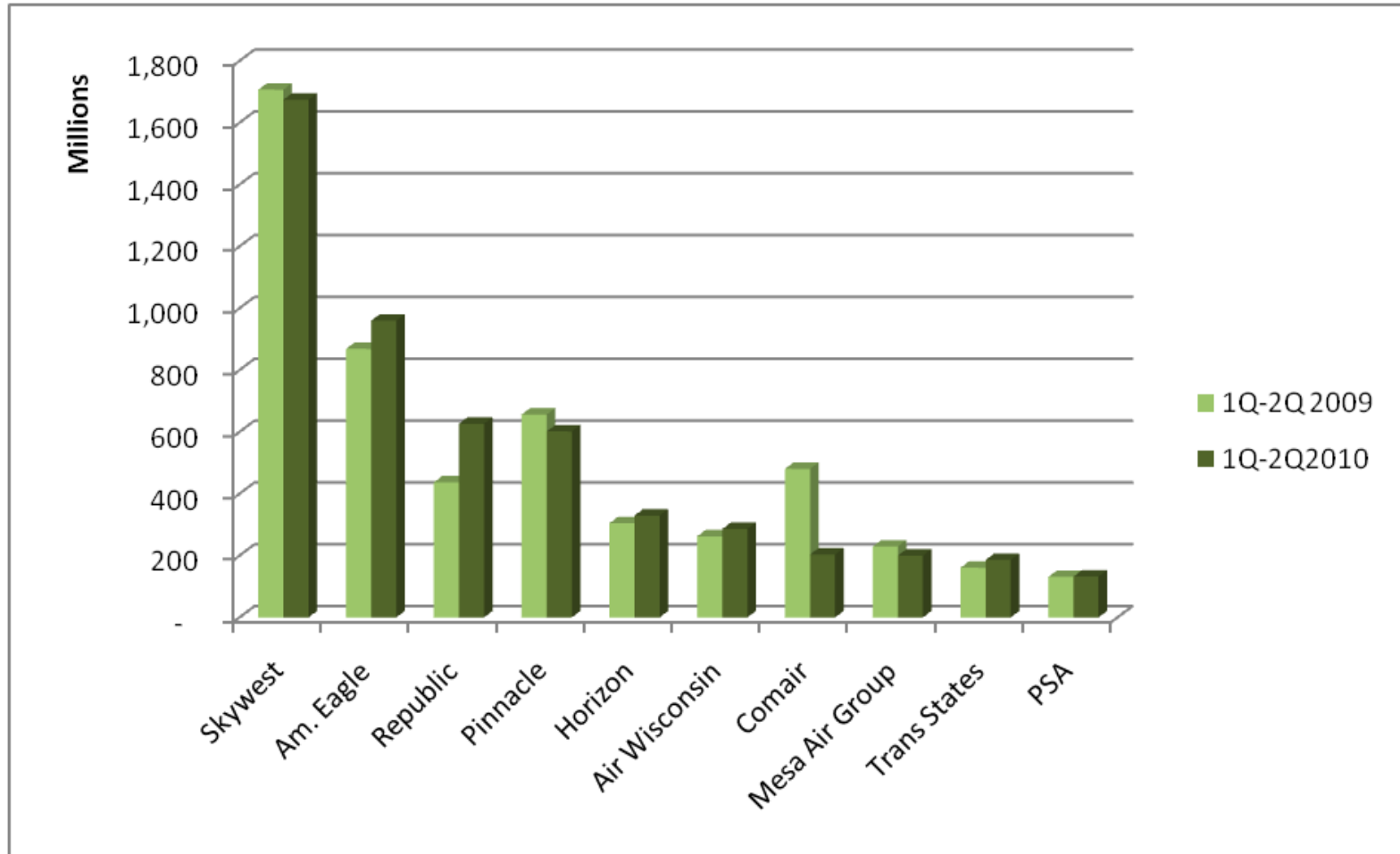
The New United is slightly larger than Delta worldwide and slightly smaller in the U.S.

Sources: OAG Form 41 iNet, Airline Reports

1Q-3Q revenues for the airlines shown grew from \$79.4 billion in the 2009 period to \$92.2 billion in 2010.

Regional Carrier Revenues Were More Stable

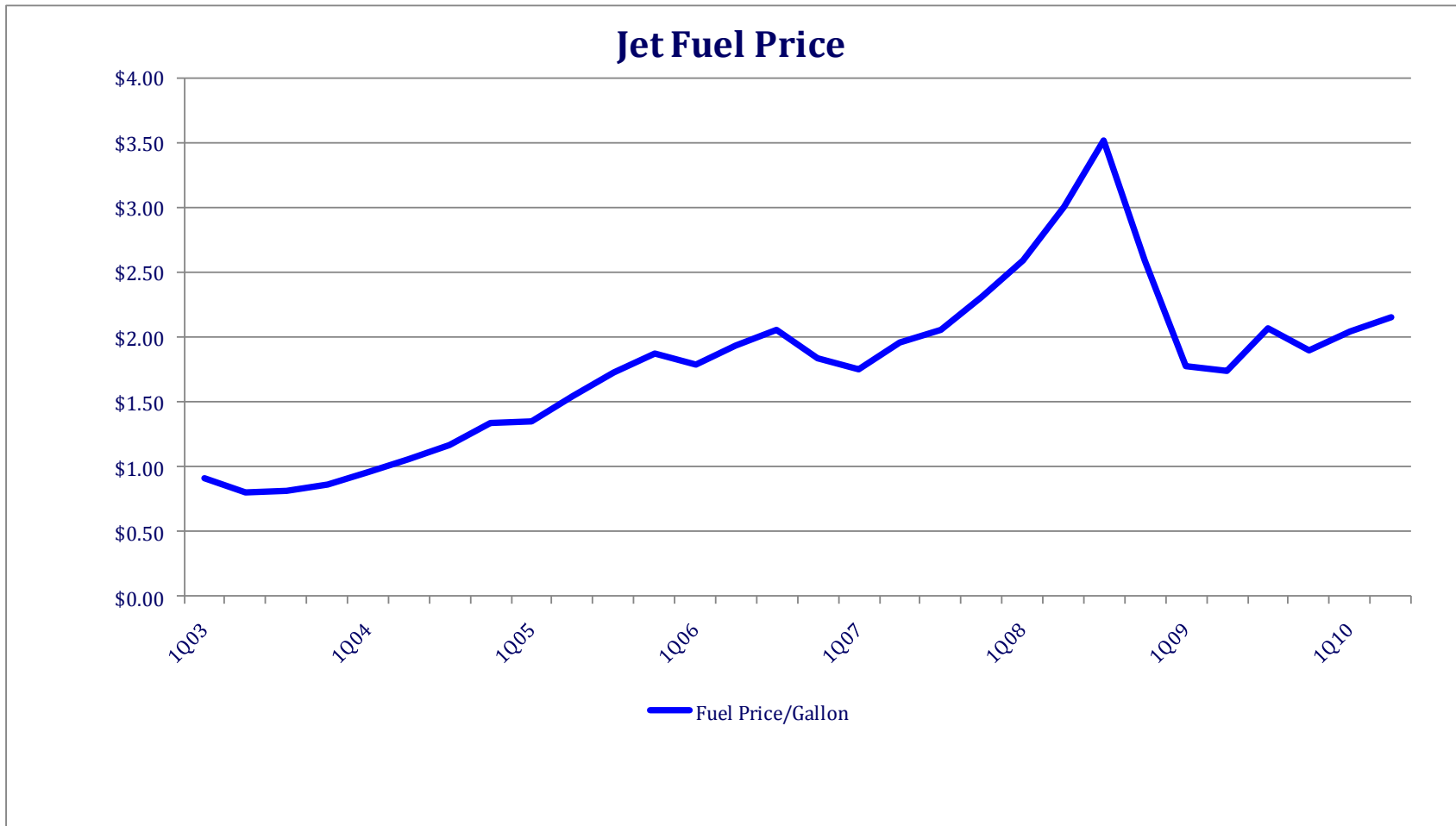
- \$5.24bn in 1H 2010 versus \$5.19bn 1H 2009



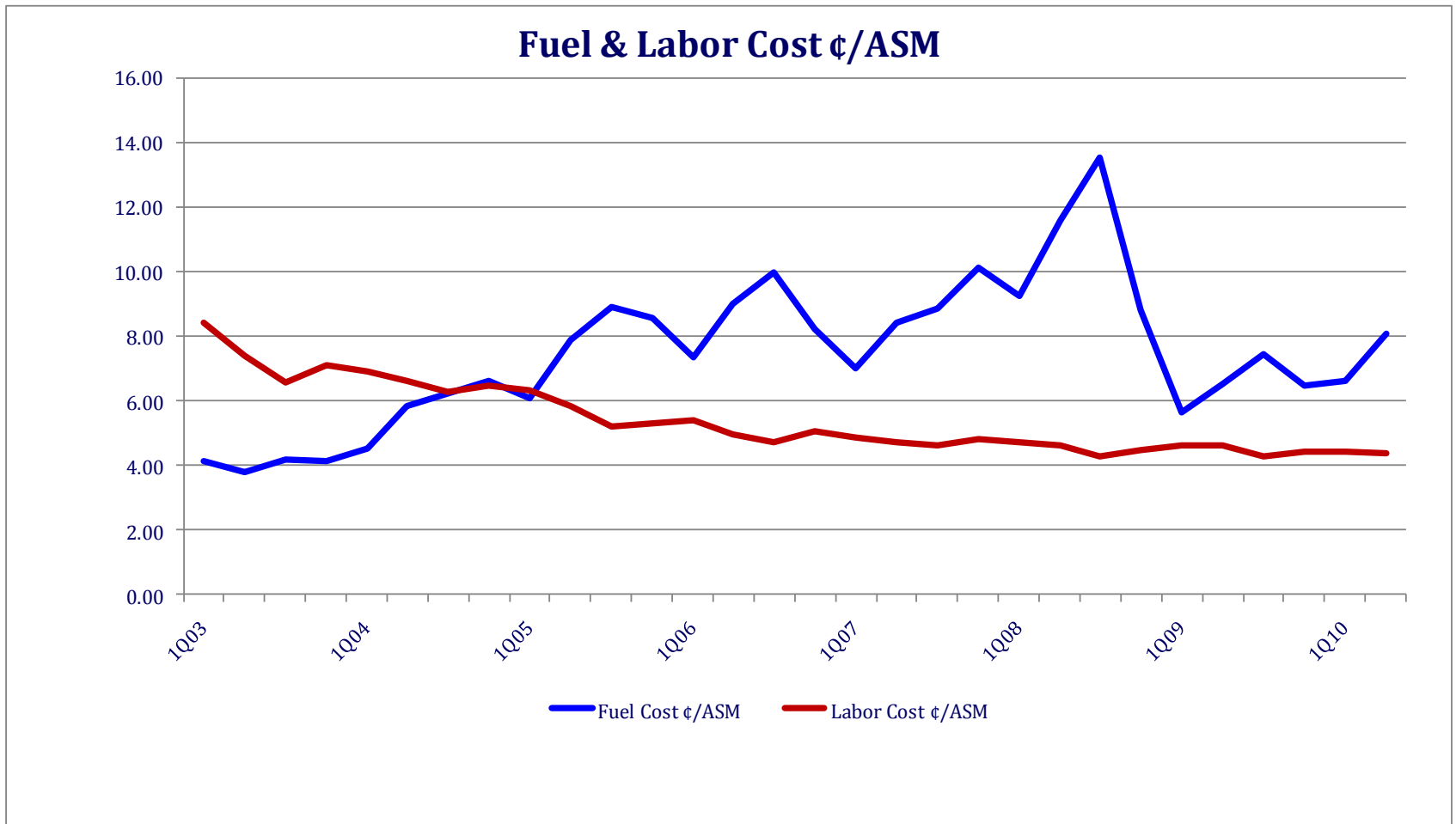
Sources: OAG Form 41 iNet, Airline Reports

Fuel Prices Have Stabilized Above \$2 Per Gallon

- U.S. Airlines have learned how to be profitable at that level but remain wary and vulnerable to higher prices

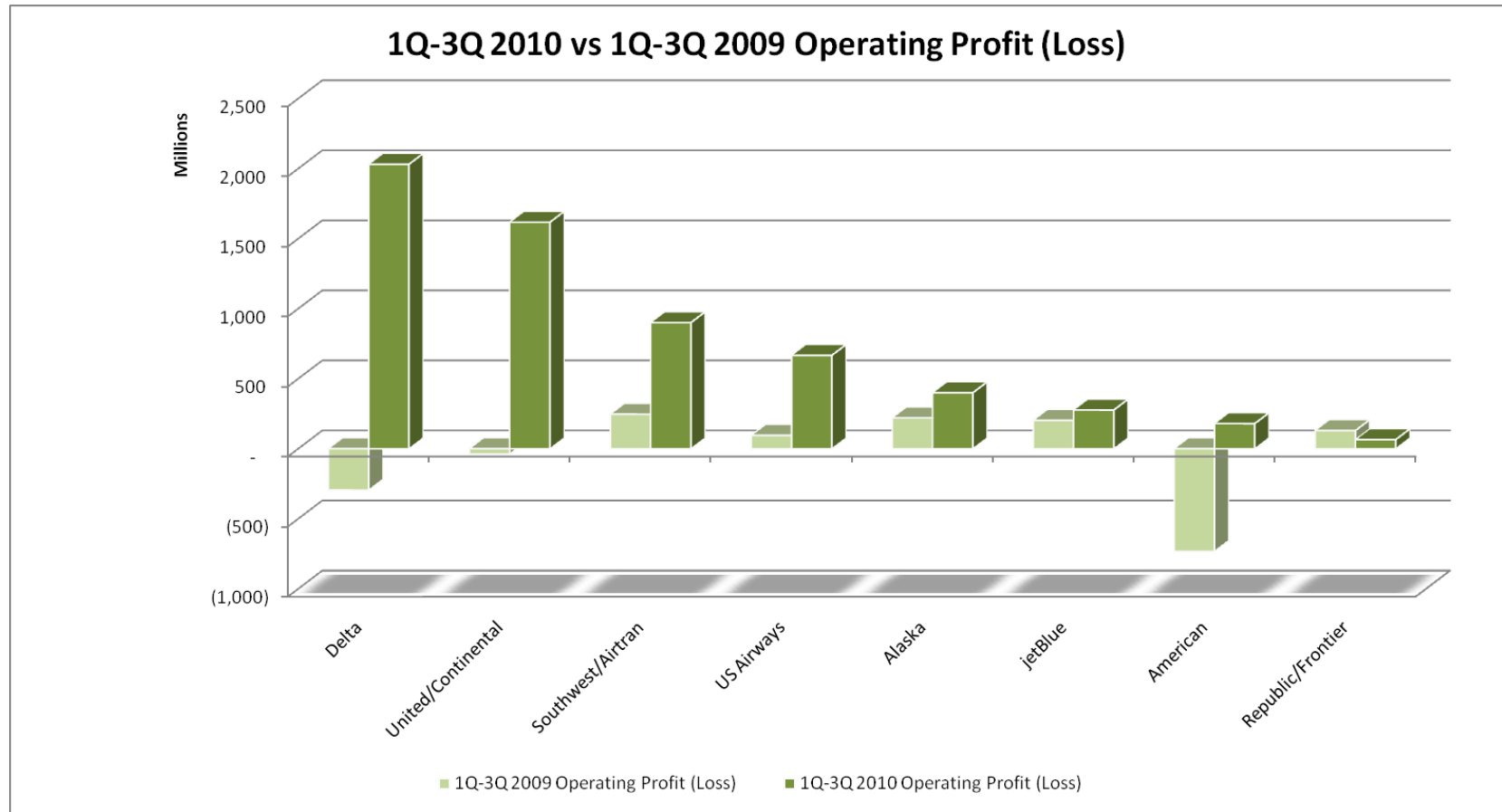


Labor Cost Has Declined as Fuel Cost Spiked and Retreated



Added Revenues → Operating profits

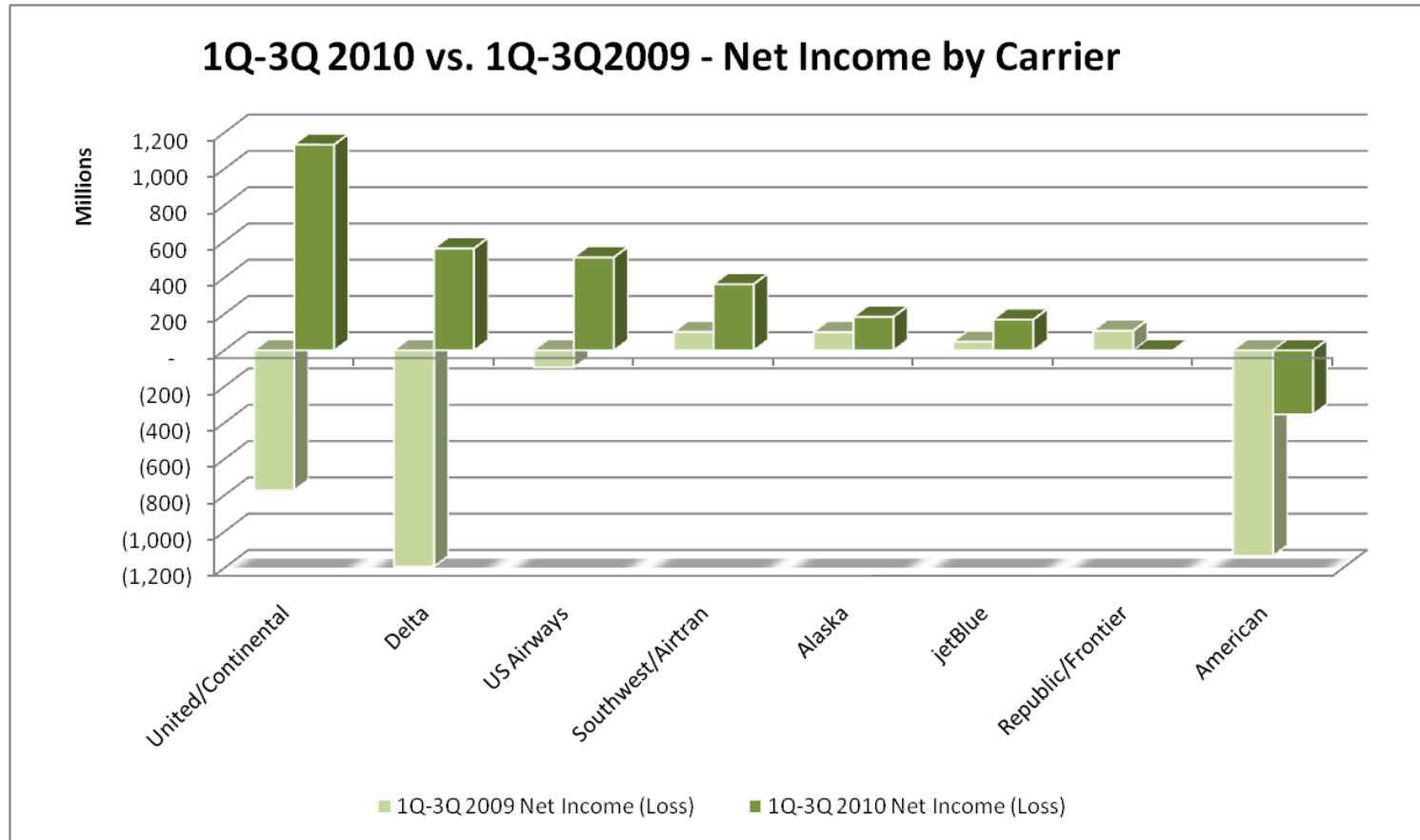
- A \$0.2 Billion Op Loss improved to a \$6.1 Billion Op Profit



Sources: Airline Reports

Net Profits Have Rebound Considerably

- A \$2.8 Billion Net Loss Improved to a \$2.6 Billion Net Profit



Sources: Form 41 iNet, Airline Reports

Net Income is inclusive of Interest and Tax expense

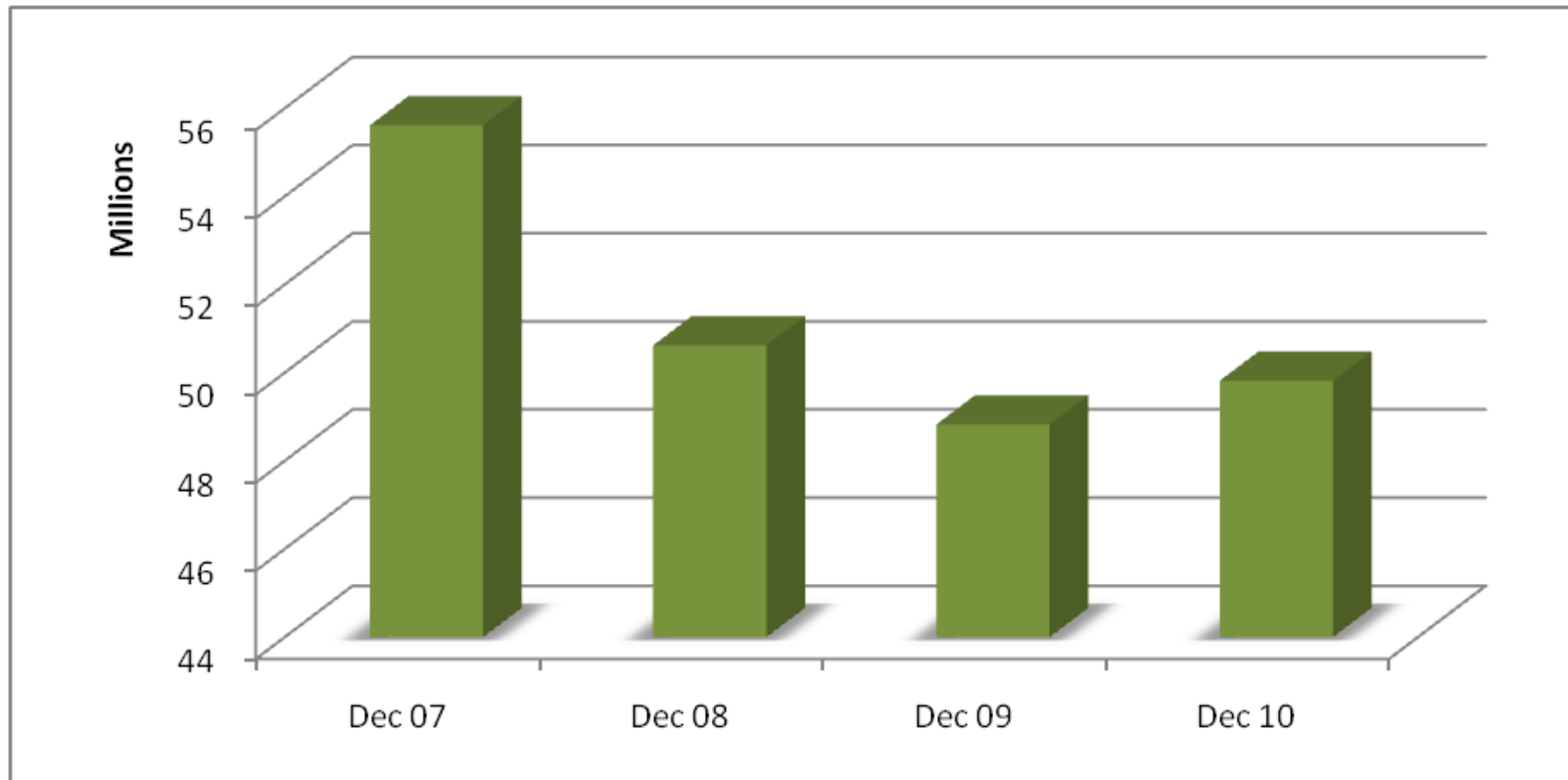
*3Q2010 Net Income statements are unaudited and subject to change.

2010: Recovery of Business Travel

- The worldwide economic recession caused an unprecedented drop in business travel
- Premium-fare travel collapsed in 2009, off by more than 30%, but recovered gradually through 2010
 - This represents passengers traveling in first and business class
- Yields are up but domestic business travel in the U.S. is still down from the pre-recession peak
- The problem: business travelers contribute the highest margins for the airlines
- The opportunity: continuing recovery of the economy can boost both business and leisure travel from current levels

The U.S. Airlines Reduced Domestic Capacity in 2008-2009 and Have Been Slow to Replace It

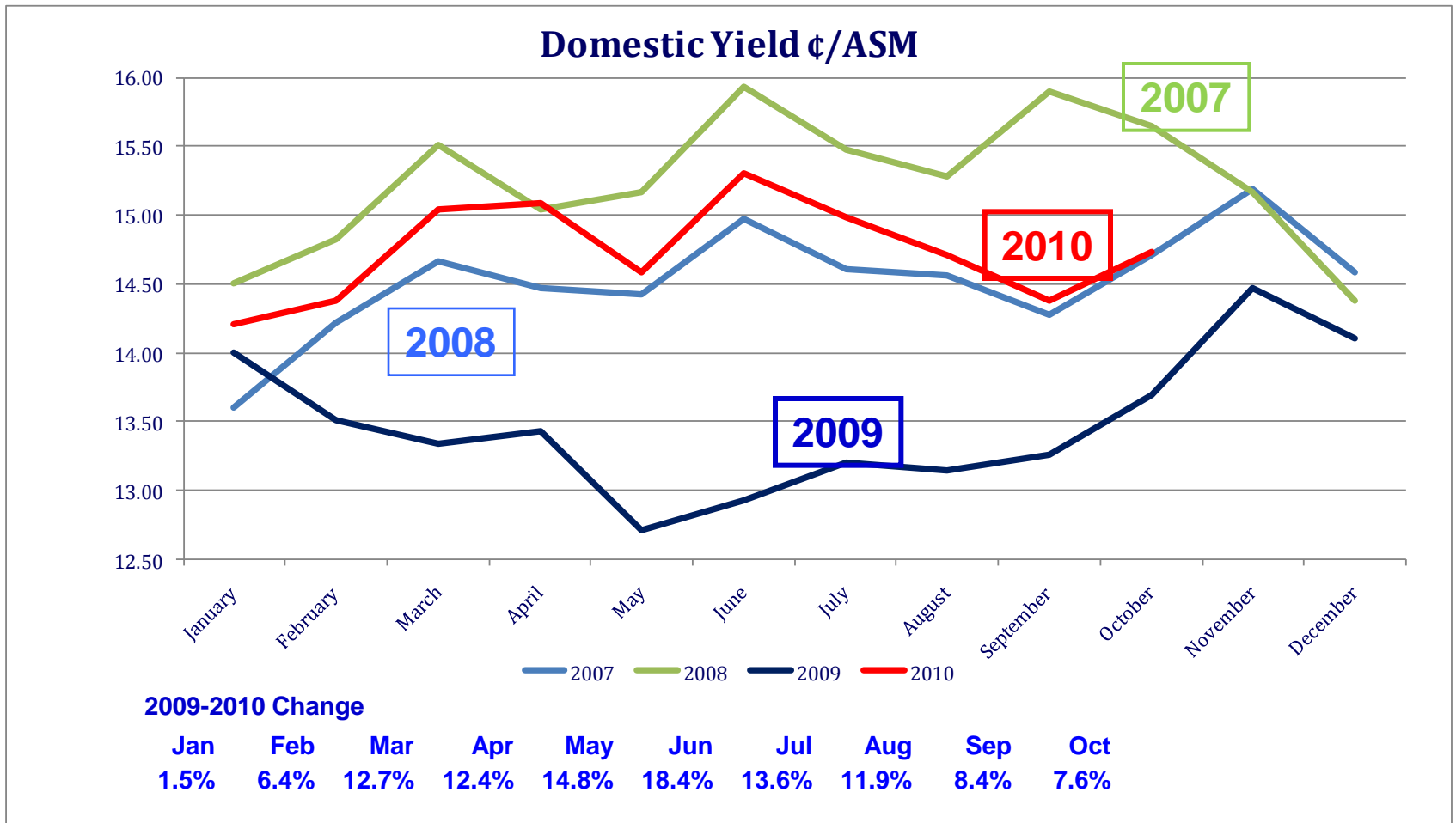
- US Domestic Seats - December Schedules



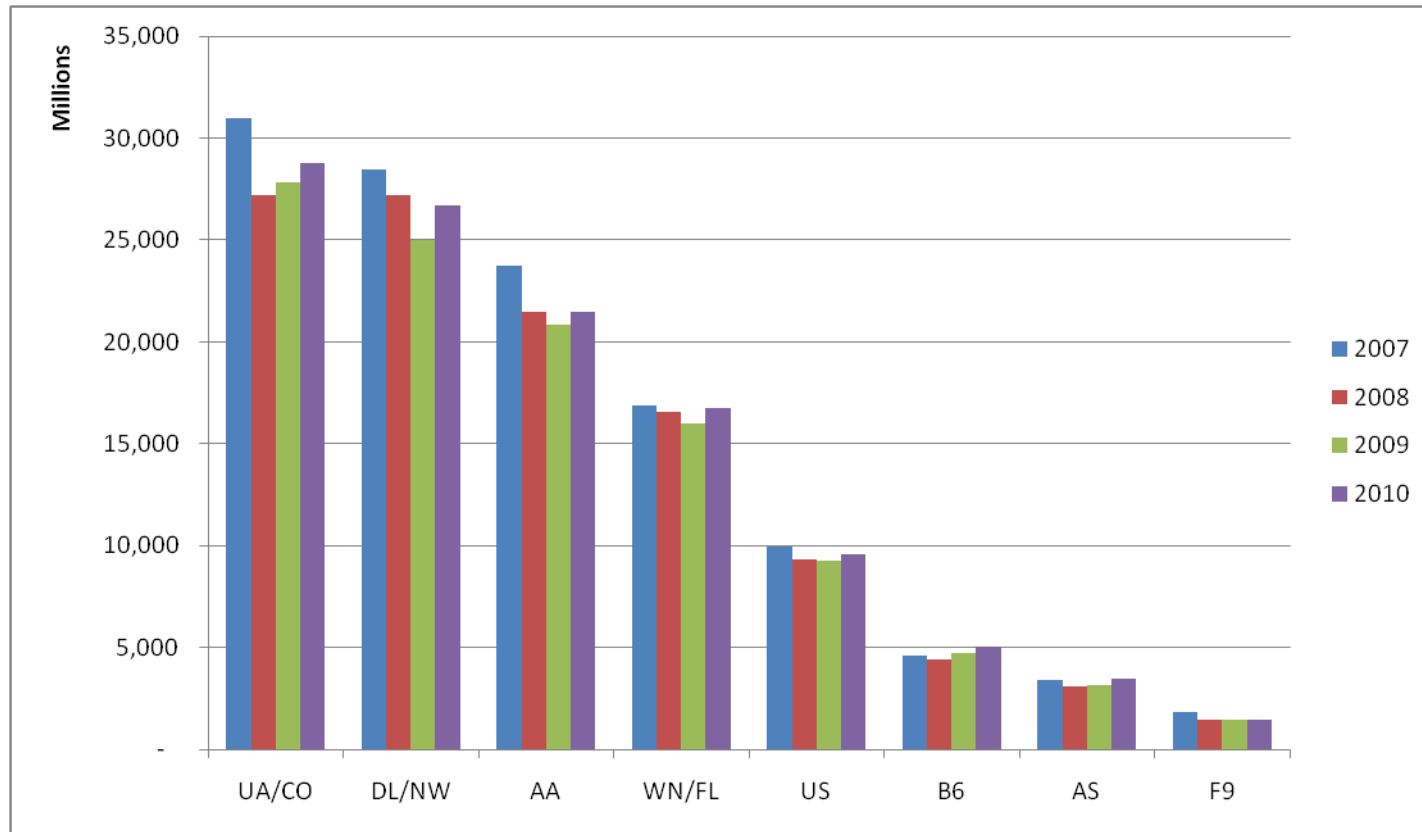
Source: OAG Schedules iNet

Capacity Restraint Helped 2010 Yield Recovery

But yield improvement has slowed

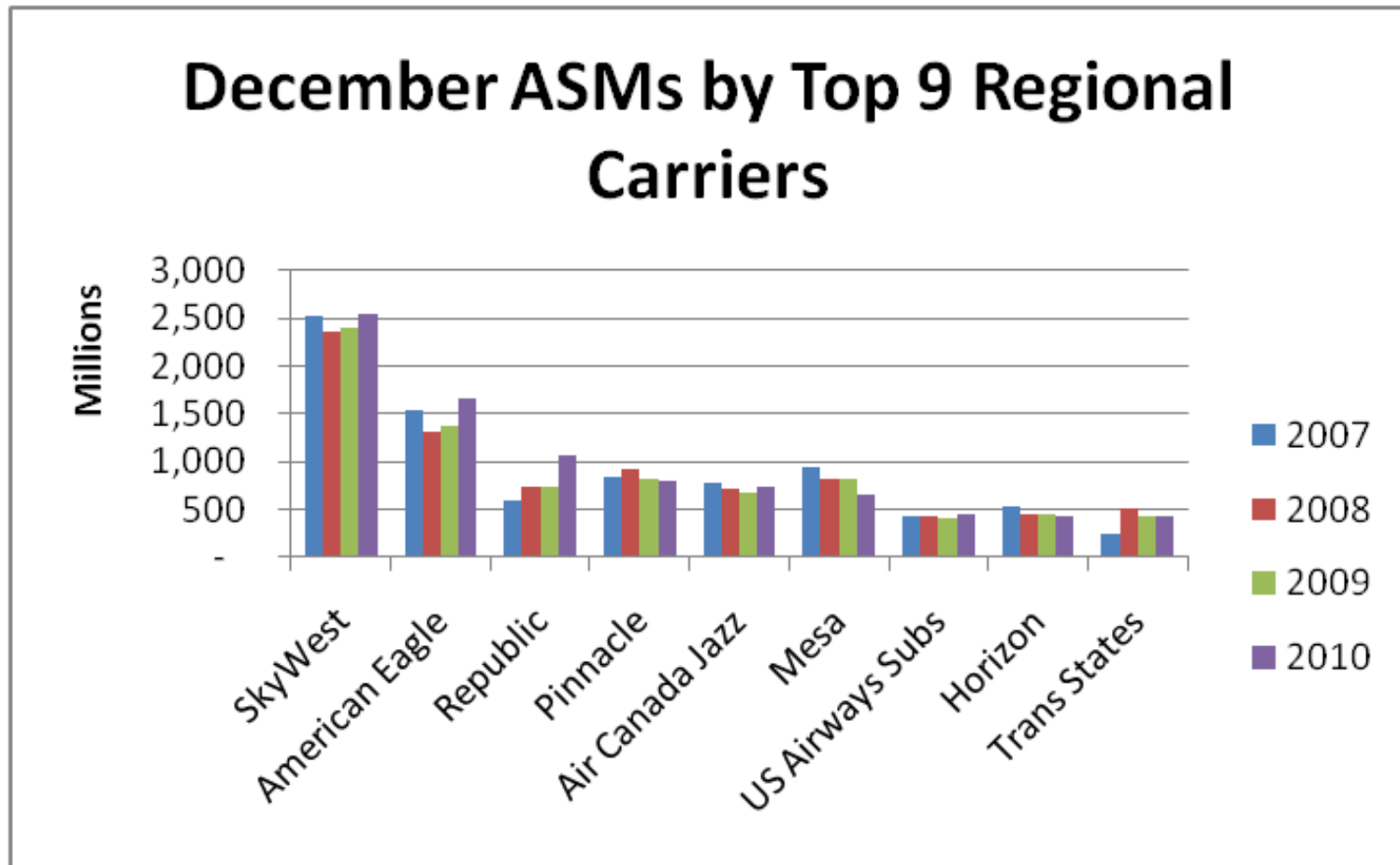


Mainline System Capacity – December ASMs



CO/US, FL/WN and DL/NW are merged in December 2010 schedules. Regional ASMs are excluded from Mainline ASMs.

Regional Carrier System ASMs



* Trans States includes Compass; US Airways includes PSA and Piedmont; SkyWest includes ExpressJet.

The Airline Industry Has Contracted

- Four mega-carriers are left after DL-NW and UA-CO mergers
- United, Delta, American and US Airways contract for most of the operations by RAA member carriers
- Alaska Airlines is a large network carrier with more limited geographic scope and owns regional Horizon
 - Alaska works effectively with Delta and American
 - JetBlue is following a similar model with interline arrangements
- Southwest Airlines has entered major markets and will accelerate the development of international booking capability with the acquisition of AirTran
- Republic's Frontier Airlines is in its own category as a smaller, lower-cost hub operator with a nationwide route network
- Virgin America uses low costs to offer added amenities but pure LCCs Allegiant and Spirit minimize passenger service

Legacy Hub Operators

Now only the Big ~~Five~~ Four



American Airlines®

U-S AIRWAYS

Low-Cost Carriers (LCCs)

- Most LCC operations are in mass markets
 - Southwest is number one in Orlando and Tampa and will get bigger in Florida with the AirTran acquisition
- LCCs offer simplified services
 - But not always the lowest fares
 - Every airline wants low costs and strong revenue



The Regional Sector Is in Transition

- The hub airlines want fewer 50-seat regional jets
 - Delta's Comair unit will shrink its CRJ200 fleet to 16 by yearend 2012
- Republic bought mainline Frontier and Midwest
- Pinnacle acquired Mesaba and TransStates acquired Compass from Delta
- SkyWest bought ExpressJet
- Bankrupt Mesa is reorganizing with fewer 50-seaters
- Gulfstream is operating in bankruptcy
- Alaska Airlines has taken over market planning for its Horizon subsidiary
- AMR would like to divest American Eagle



Airline Alliances are Getting Stronger



For international services, key members of the alliances have been granted anti-trust immunity. Delta has ATI with Air France, KLM and Alitalia. US Airways is not included in ATI with Star partners UA, CO and LH. DOT recently approved AA-BA-IB, AA-JL and UA-NH. oneworld's LAN is acquiring Star's TAM, making alliance membership uncertain. Mexicana has suspended operations.

Mainline Mergers Are Back in Fashion

- United-Continental integration will be a challenge
- Delta-Northwest seems to be succeeding
- Southwest is buying AirTran
- US Airways says it will merge someday
 - But it's doing well on its own
 - Still has not integrated operations from merger in 2005
- Republic bought Frontier and Midwest
 - The result is uncertain so far but the summer was good
- Alaska Airlines is thriving on its own

The United-Continental merger follows in the footsteps of Delta-Northwest

- The New United is larger than Delta both worldwide and in the U.S.
- Southwest with Airtran will be the third largest domestic carrier

Major U.S. Airline Ranking - Operating Revenues (millions)			
<u>Domestic</u>		<u>System</u>	
Delta/Northwest	19,912	United/Continental	31,209
United/Continental	19,275	Delta/Northwest	29,886
Southwest/Airtran	13,657	American	20,911
American	12,512	Southwest/Airtran	13,678
US Airways	8,768	US Airways	11,474
Alaska	3,077	jetBlue	3,497
jetBlue	3,065	Alaska	3,214
Frontier/Midwest	1,203	Frontier/Midwest	1,266
Virgin America	642	Virgin America	642
Allegiant	581	Allegiant	581

Source: OAG Form 41 Database, YE2Q2010

The US-DL Slot Swap

- Delta wants to grow at LaGuardia Airport and US Airways wants to grow at Washington National.
- The carriers proposed to exchange slots to make each stronger at its preferred airport.
- Delta projected 1 million LGA passengers more than US Airways carries on its small-aircraft services.
- US Airways announced that it would fly seven new DCA routes if the deal were approved. Delta did not reveal its intentions but both mainline carriers planned expanded opportunities for regional carriers.
- The FAA put conditions on approval that led the airlines to sue rather than go ahead.

Regional Service Opportunities

Overview

- Consolidation of the large mainline carriers has reduced the number of customers for regional services.
- Cost has been the main focus
 - Aircraft type is an important part of the cost equation
 - Reliability is also important
- Customer service quality may be an increasing priority

More Regional Subs to Be Spun Off?

- US Airways
- AMR
- Alaska

Federal Subsidy

Essential Air Service

- EAS is an important revenue source, but specialized
 - Ten carriers participate
 - Four carriers earn 76% of the subsidy
 - DOT now accepts a range of aircraft sizes
 - Smaller models are out of production

<u>Carrier</u>	<u>Subsidy Amount</u>
Great Lakes	\$62,704,567
Cape Air	\$21,062,146
Mesaba	\$20,542,329
Colgan	\$19,510,097
SeaPort	\$9,145,618
Gulfstream	\$8,279,198
SkyWest	\$8,072,058
Pacific Wings	\$6,947,714
Air Choice One	\$6,059,813
ASA	\$686,489
Total	\$163,010,029

<u>Aircraft Size</u>	<u>Subsidy Amount</u>	<u>% Share</u>
50	\$5,054,218	3%
30-34	\$44,119,466	27%
19	\$73,241,156	45%
7-9	\$40,595,189	25%
Total	\$163,010,029	100%

Source: DOT, US Subsidized EAS Report, May 2010

Other Public Revenue Sources

- Federal Small Community Air Service Development
 - SCASD Program Grants totaled just \$7 million for 19 communities
- Airport and Community Subsidies
 - Subsidies are illegal
 - Incentives have become important but many focus on larger aircraft and international services

Thank You

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