▷▷▷ REVIEW OF 2008

Each passing month of 2008 saw the light on consumer confidence dim as energy prices spiked, housing foreclosures climbed, credit tightened, and unemployment surged. This chain of events resulted in less than expected growth in air travel demand for the year. In 2008[5] system revenue passenger miles (RPMs) grew 0.7 percent as enplanements fell 1.0 percent. Commercial air carrier domestic enplanements were down 1.5 percent while international enplanements grew 3.3 percent to a record 77.8 million. The system-wide load factor fell 0.4 points from its all-time high in 2007 to be 79.5 percent. Domestic enplanement market share for low-cost carriers shrank in 2008 while network and regional carrier share increased. The network carrier share of domestic enplanements grew 1.1 points to 49.2 percent while regional carrier market share rose 0.5 points to 23.1 percent. The decline in share for low-cost carriers is partially attributed to the cessation of operations by ATA and Skybus.

Systemwide real yield increased 1.6 percent during 2008, but decelerating demand coupled with accelerating costs led to operating losses for the commercial air carrier industry after two years of operating profitably. Industry operating losses mounted in the first part of the year due to costs from soaring fuel prices and totaled $2.0 billion by year end, compared to a $10.1 billion operating profit posted for 2007. The network carriers reported operating losses of $5.1 billion, with six of the seven carriers reporting losses. The remaining passenger carriers reported operating profits of $692.5 million, while the cargo carriers reported operating profits of $2.4 billion. The net loss for U.S. commercial air carriers in 2008 is $18.5 billion. Much of the loss stems from merger related charges at Delta Air Lines and Northwest Airlines. These two carriers recorded goodwill impairment charges totaling $10.0 billion during the second quarter, accounting for over 50 percent of the net loss for the year. Cargo carriers continued to report strong results with net profits of $1.3 billion.

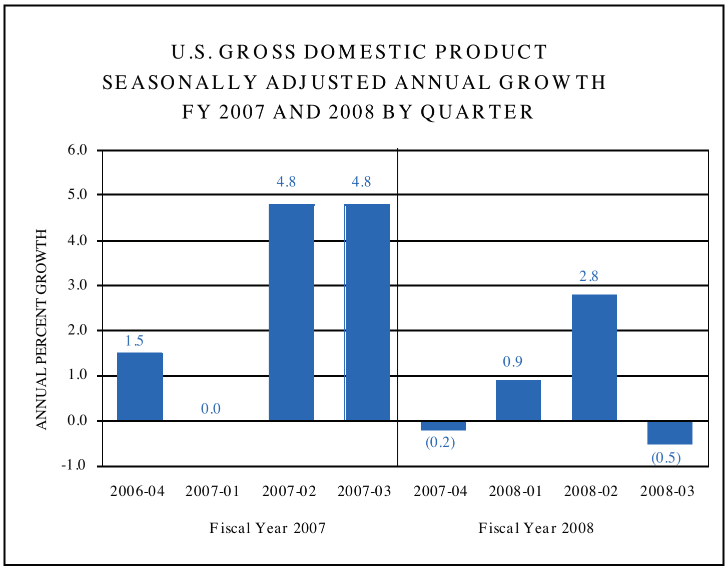
The market for general aviation products and services showed mixed results in 2008. Worldwide shipments declined for the first time since 2002 (down 6.7 percent) but billings were up 14.4 percent compared to 2007. Piston aircraft shipments fell 20.7 percent while turbine aircraft shipments increased by 16.7 percent. The increase in shipments and billings seen in the jet fleet was stimulated by growth in the U.S. and world economy. Despite the higher shipments and billings, general aviation activity fell 5.6 percent in 2008.

Total operations at FAA and contract tower airports fell 4.3 percent as increases in air carrier operations were offset by declines in other user categories and were at their lowest levels since 1985. Although the number of flights fell, the combination of fleet mix changes with more regional and business jets in the nation's skies and carriers consolidate their operations in their large hubs, resulting in increased workload due to the continued growth in the complexity of the airspace FAA must manage.

5 All stated years and quarters for U.S. economic and U.S. air carrier traffic and financial data and forecasts are on a fiscal year (FY) basis (October 1 through September 30). All stated years and quarters for international economic and world traffic and financial data are on a calendar year (CY) basis, unless otherwise stated.

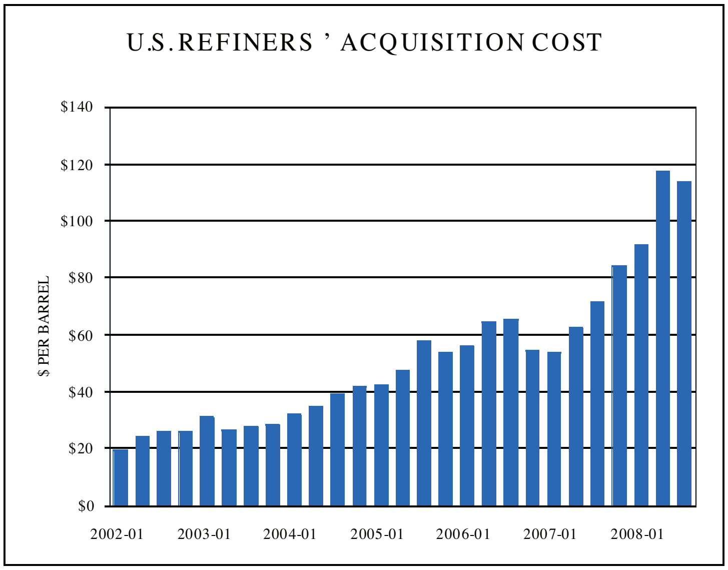
U.S. ECONOMIC ACTIVITY

The U.S. economy slowed in FY 2008, in a year that was marked by large contrasts. After growing 2.1 percent in FY 2007, growth in U.S. Gross Domestic Product (GDP) was 1.9 percent in fiscal year 2008. However, there were wide variations in the seasonally adjusted quarterly growth rates as they ranged from a high of 2.8 percent in the third quarter to a low of -0.5 percent in the fourth quarter. The first part of the year was dominated by the unprecedented rise in the price of oil that led to dampened consumer spending. Partly due to the slowdown in consumer spending, growth in the economy was tepid in the early part of the year, prompting Congress to pass a stimulus plan that included individual tax rebates. The rebates and subsequent jump in spending by consumers was the primary cause of the 2.8 percent growth recorded in the third quarter. By the fourth quarter, the impact of the rebates had waned and consumers retrenched, leading to the fall in output.



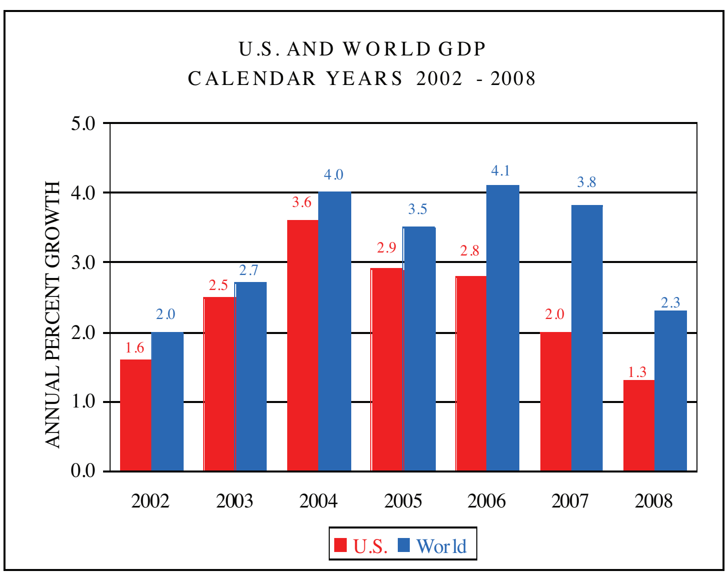
According to the consumer price index (CPI), prices rose 4.4 percent in FY 2008, as surging oil prices made all items in the economy more expensive. The 4.4 percent rise in the CPI in FY 2008 was the highest since 1991, and was 2.1 percentage points higher than in FY 2007.

Oil prices, as measured by the U.S. Refiners' Acquisition Cost, rose 67.6 percent in FY 2008 to $101.53. Higher prices were spurred by strong global demand for oil, concerns about potential supply disruptions, and also the actions of speculators in the oil market. However, the rise in the average price for the year fails to tell the whole story. Oil prices, which averaged $73.54 in September 2007, rose rapidly to peak at $129.03 in July 2008, dropped to $98.91 by September, and continued to fall through the first quarter of FY 2009 to $39.82 in December.



WORLD ECONOMIC ACTIVITY

As the world's largest economy, the U.S continues to have a prominent role in world economic growth. In recent years much had been written about the "decoupling" of the world economy from the U.S. economy. However, events in 2008 showed that the world and U.S. economies were very much linked together. What started out to be a U.S. slowdown in the beginning of 2008, turned into a full-fledged global slowdown by the end of the year. In calendar year 2008, as has been the case since 2000, U.S. GDP growth lagged that of the rest of the world, with U.S. and world economic growth reaching 1.3 and 2.3 percent, respectively. GDP growth in the rest of the world was driven by the growth in Asian and Latin American markets.



On a calendar year basis, Canadian GDP growth lagged that of the U.S. in 2008, with growth of 0.7 percent. The combined economies of the Asian and Far East nations grew by 3.6 percent in 2008, down from 5.9

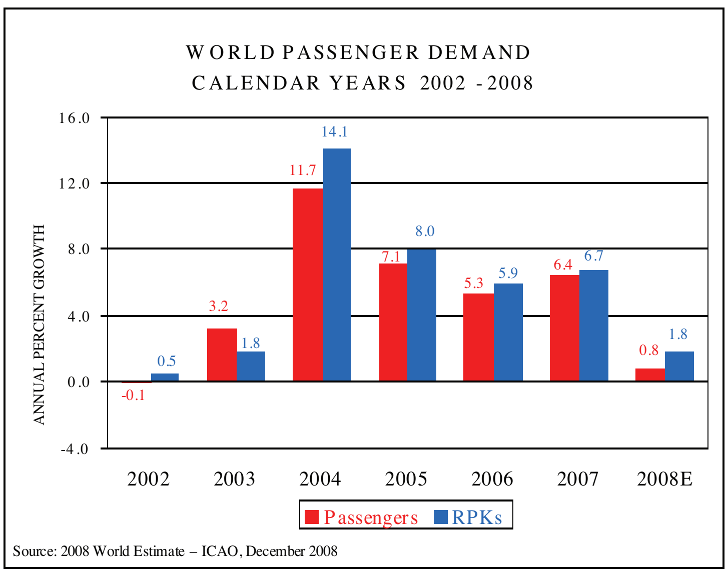
percent a year earlier. This region includes the world's second largest economy, Japan (down 0.1 percent), and the world's most vibrant economy, China (up 9.2 percent). The combined economies of the Europe/Middle East/Africa nations rose just 1.7 percent in 2008, as solid growth in Eastern Europe (up 4.7 percent) offset slow growth in Eurozone[6] countries (up 0.9 percent). GDP in Latin America grew by 3.7 percent with Brazil up 5.1 percent while Mexico grew only 1.3 percent as the U.S. economic slowdown resulted in slower economic growth in Mexico.

COMMERCIAL AVIATION

Commercial aviation hit a slippery slope during 2008. Unpredictable jet fuel prices and a softening global economy hurt the industry. After posting its first net profit since the 9/11 terror attacks in 2007, the U.S. industry posted a net loss in 2008, with a similar outcome predicted for foreign carriers. With the U.S., Europe and Japan reportedly in a recession, global industry net losses for calendar year 2008 are expected to be $5.0 billion, with a vast majority ($3.9 billion, excluding "fresh-start" accounting items) absorbed by the U.S. carriers.[7] U.S. airlines were able to implement moderate fare increases during 2008 through successful capacity management despite increasing uncertainty in their operating environment, tempering the impact of the downturn.

WORLD TRAVEL DEMAND

Based on data compiled by the International Civil Aviation Organization (ICAO), world air carriers transported 2.26 billion passengers (up 6.4 percent) a total of 4.2 trillion revenue passenger kilometers (RPKs) (up 6.7 percent) in CY 2007. Although worldwide traffic results are not available for full year 2008, ICAO estimates that worldwide RPKs and passengers increased 1.8 and 0.8 percent, respectively.[8]

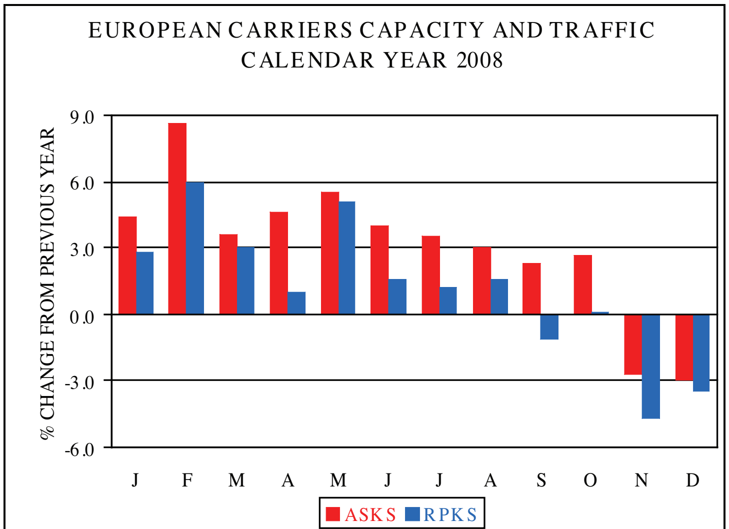


6 Austria, Belgium, Cypress, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Spain, Slovakia, Slovenia

7 IATA Financial Forecast, December 2008.

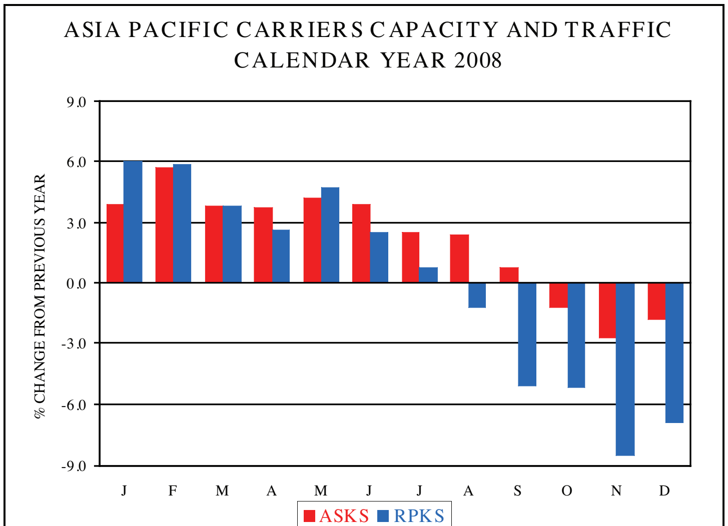
8 ICAO News Release, December 18, 2008.

Statistics from the Association of European Airlines (AEA) show that passengers decreased 1.5 percent and RPKs increased 1.2 percent in CY 2008. Capacity, as measured by available seat kilometers (ASKs), was up 3.0 percent during the same time period. For the year, AEA carrier traffic was strongest in the Middle-East (8.2 percent), followed by the South Atlantic (7.5 percent), and North Africa regions (6.6 percent). Traffic growth in the North Atlantic region was minimal, up 0.2 percent.



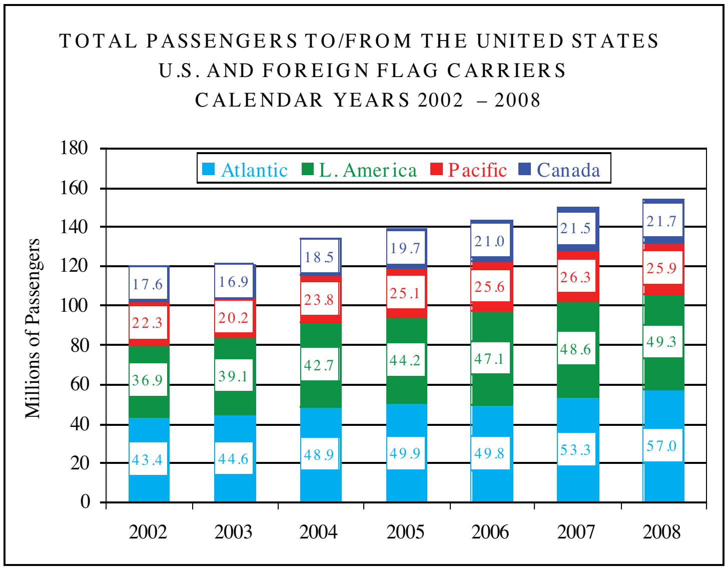
Source: Association of European Airlines (AEA)

The Association of Asia Pacific Airlines (AAPA) reported a decrease of 1.0 percent in RPKs on a 1.7 percent increase in ASKs for 2008. Passengers were down 1.8 percent during the same period.

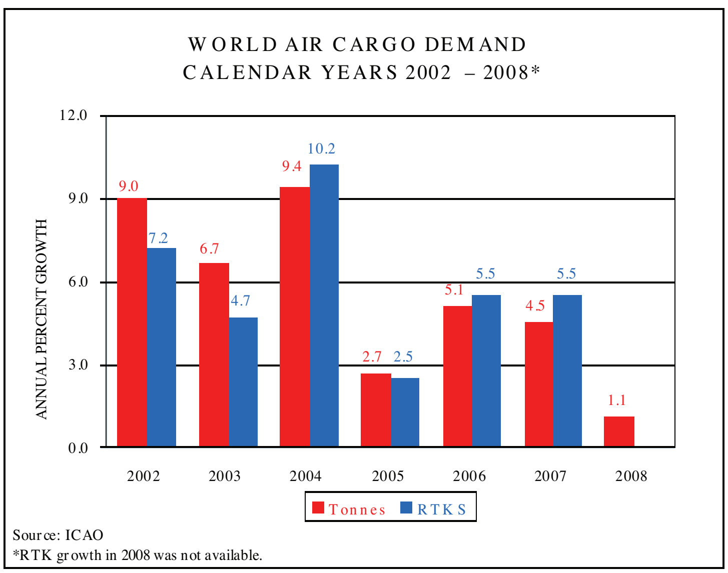


Source: Association of Asia Pacific Airlines (AAPA)

In CY 2008, U.S. and foreign flag carriers will transport an estimated 153.9 million passengers between the United States and the rest of the world, a 2.7 percent increase over 2007. Growth in the Atlantic market was solid (up 7.0 percent) and weak in both the Latin America market (up 1.4 percent) and the Canadian transborder market (up 0.7 percent). Passenger growth fell in the Asia/Pacific market (down 1.7 percent) as declines in Japan and Australia offset gains elsewhere.



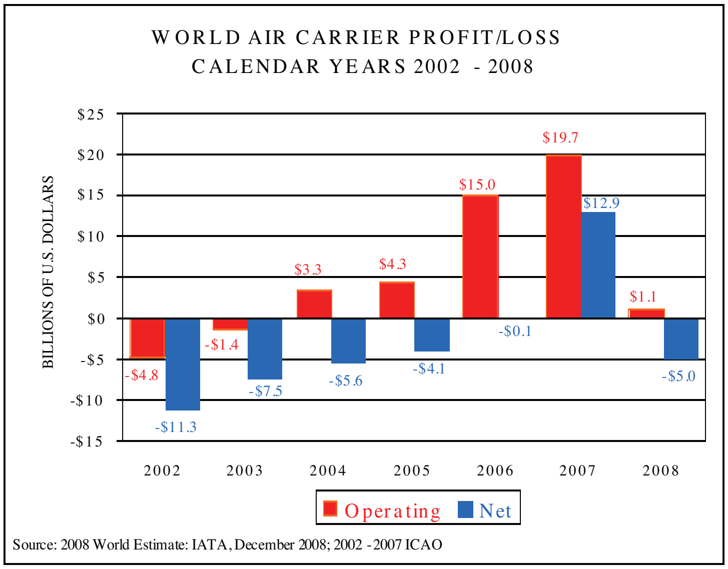
Worldwide air cargo demand was weak in 2008.[9] According to ICAO, worldwide freight tonnes increased about 1.1 percent in 2008 compared to growth of 4.5 percent in 2007. AEA member carriers FTKs were down 2.8 percent for the year while AAPA member carriers FTKs were down 6.1 percent for the same period.



The International Air Transport Association (IATA) reports world air carriers (including U.S. airlines) are expected to register an operating profit of $1.1 billion for 2008. Escalating fuel prices and the collapse of the U.S. housing market and the resulting credit crunch led to deteriorating financial results in 2008, with IATA estimating global airline industry net losses to be $5.0 billion for the year. Based on financial data compiled by ICAO, between 2000 and 2007 world airlines produced cumulative operating profits of $53 billion and net losses of $18 billion.[10]

9 ICAO News Release, December 18, 2008.

10 IATA Financial Forecast, December 2008.



U.S. TRAVEL DEMAND

By year end FY 2008, the U.S. commercial aviation industry consisted of 19 scheduled mainline air carriers that use large passenger jets (over 90 seats) and 67 regional carriers that use smaller piston, turboprop, and regional jet aircraft (up to 90 seats) to provide connecting passengers to the larger carriers. Mainline and regional carriers provide domestic and international passenger service between the U.S. and foreign destinations, although regional carrier international service is confined to border markets in Canada, Mexico, and the Caribbean. During 2008 two passenger carriers started scheduled operations (Air Choice One and Wings Air), while ten discontinued operations.[11] In addition, two carriers merged — Delta Air Lines and Northwest Airlines. Twenty-three all-cargo carriers were providing domestic and/or international air cargo service at the end 2008 — three cargo carriers ceased operations during the year (Focus Air Cargo, Gemini Air Cargo, Kitty Hawk Air Cargo) and two merged (Southern Air and Cargo 360).

Three distinct trends have occurred over the past several years that have helped shape today's U.S. commercial air carrier industry: (1) convergence of the network and low cost carrier business models; (2) rapid growth by network carriers into international markets; and (3) transformation of the domestic air carrier fleet.

Commercial Air Carriers — Passengers

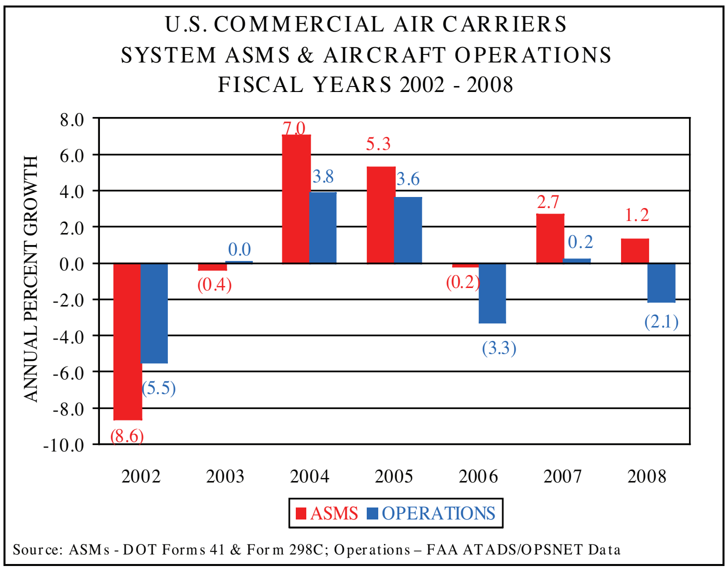
After moderate growth in 2007, U.S. commercial air carriers posted sluggish gains in capacity and traffic during 2008. System (the sum of domestic plus international) capacity rose 1.2 percent to 1.0 trillion ASMs while RPMs grew 0.7 percent to 827.4 billion. During the same period system-wide passenger growth declined 1.0 percent, the first year-over-year decline in passengers since 2002, and only the second decline since the 1991 recession.

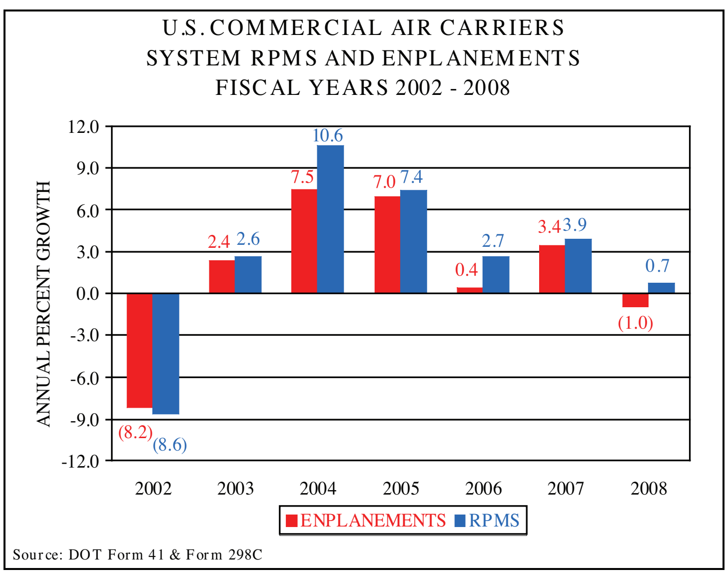
The fall in passenger demand can be characterized as a one-two punch. The first punch came early in the year with an unprecedented rise in fuel prices. To recoup the increasing costs of fuel, carriers curtailed

11 Carriers ceasing operations in 2008: Mainline – Aloha Airlines, ATA Airlines, EOS Airlines, Skybus Airlines; Regional – Air Midwest, Big Sky Airlines, Boston-Maine Airways, L.A.B. Flying Service, Skyway Airline, Vintage Props and Jets

capacity growth and raised fares, resulting in reduced passenger volume. The second blow came from a deepening recession and growing unemployment. As consumer confidence faded, demand for air services by business and leisure travelers alike weakened. For the year, mainline carrier passenger growth contracted 1.5 percent while regional carrier growth was 0.7 percent. In the domestic market mainline passengers fell 2.2 percent from 2007 levels while passenger growth in the international market was up for the sixth consecutive year (up 3.5 percent).

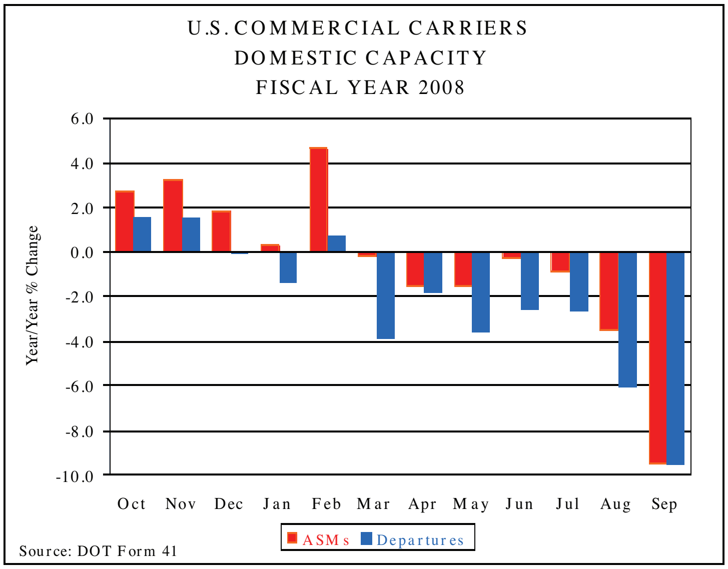
In 2008, system load factor declined for the first time since 2001 as trip length and seats per aircraft mile climbed. The load factor fell 0.4 points to 79.5 percent, down from the all-time high posted in 2007 (79.9 percent), and trip length grew 18.8 miles to 1,092.5 miles. For the third consecutive year, seats per aircraft mile increased (up 1.4 seats) to 138.0 seats per aircraft mile. Mainline carriers continued to shift wide-body flying from domestic to international routes while regional carriers phased out some smaller regional jet (50 seats and below) operations.



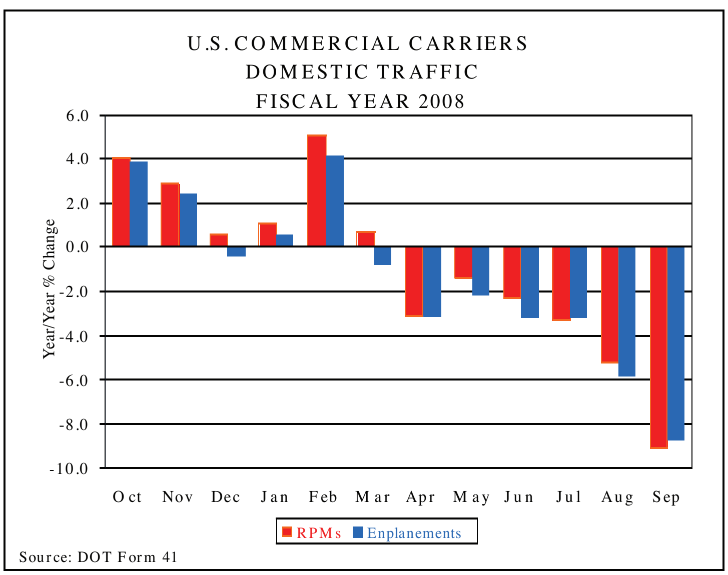


Domestic Passenger Markets

Domestic capacity (50 states, Puerto Rico, and the U.S. Virgin Islands) was down 0.4 percent in 2008 following a 1.7 percent increase in 2007, and departures decreased by 2.3 percent. After growing 2.0 percent in the first half of 2008, ASMs dropped 1.0 percent in the third quarter, and 4.5 percent in the final quarter. Mainline carrier capacity was down 1.2 percent for the year, while regional carrier capacity was up 5.3 percent. At the end of 2008, domestic ASMs were 3.1 percent above pre-9/11 levels while departures remained 6.8 percent below.



Domestic passenger enplanements and RPMs fell at a faster rate than ASMs in 2008. Mainline carrier enplanements were down 2.2 percent for the year while regional carrier enplanements were up 0.7 percent, marking the slowest rate of growth posted by regional carriers since 1995 (0.4 percent growth). Enplanement growth was moderate in the first half of the year, up 1.6 percent, before losing steam and dropping 2.8 and 4.8 percent in the third and fourth quarters, respectively.

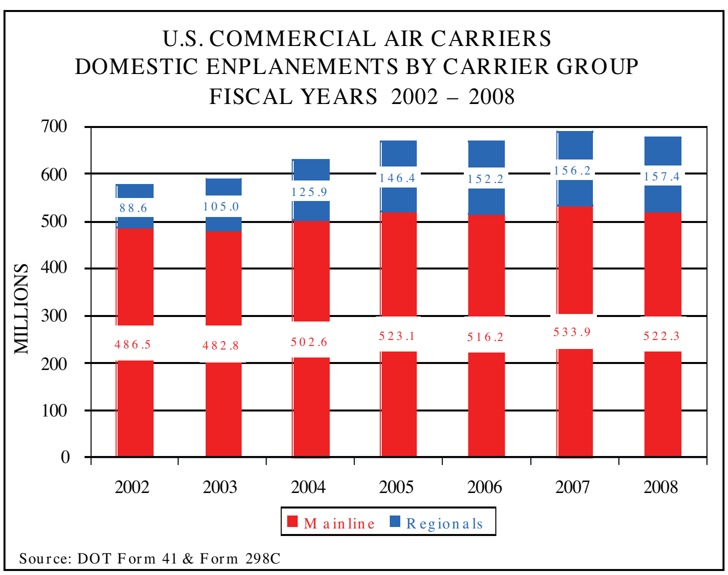


Similar to passengers, domestic RPMs dropped faster than ASMs with domestic RPMs down 1.0 percent in 2008. After growing at a moderate rate of 2.4 percent rate during the first half of the year, traffic fell 2.3 percent in the third quarter, and dropped dramatically for the final quarter of the year (down 5.7%). For the year, mainline carrier RPM growth was down 1.5 percent, while regional carrier growth was up 2.7 percent.

Domestic carrier load factor dropped for the first time in six years to be 79.3 percent, down from the all-time high of 79.8 percent in 2007. Mainline carrier load factor was 80.2 percent, 0.2 points lower than the previous year, while regional carrier load factor dropped 1.8 points to 73.6 percent.

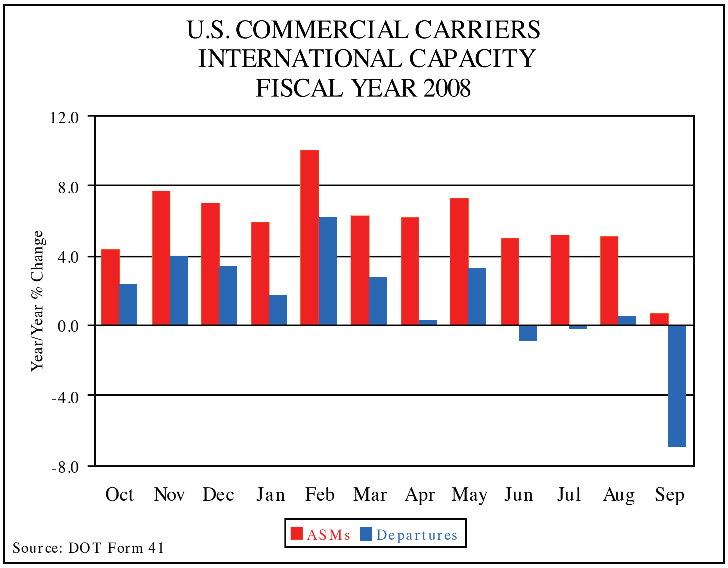
Since 2000, total domestic capacity has increased only 3.1 percent. Mainline carriers have shrunk their domestic capacity by 5.4 percent with cutbacks by network carriers more than offsetting the growth of low-cost carriers. Making up the shortfall from network carrier capacity cuts during this time are the regional carriers. This segment of the industry has greatly increased capacity since 2000 (up 156.6 percent). During the same period, mainline carrier RPMs have increased 6.5 percent, even with capacity reductions, while enplanements have declined by 7.0 percent. In comparison, regional carrier RPMs and enplanements have increased 217.4 and 97.4 percent, respectively. As a result, mainline carrier domestic capacity share has fallen from 94.7 percent in 2000 to 86.9 percent in 2008, while their share of RPMs has dropped from 95.5 percent to 87.8 percent during the same period. Regional carrier enplanement share almost doubled during the same period, going from 12.4 percent in 2000 to 23.2 percent in 2008.

Each year between 2000 and 2007, the percentage share of domestic mainline capacity operated between network and low cost carriers has narrowed, signaling a trend toward convergence of their respective business models. The trend paused in 2008 with the network portion of mainline capacity increasing 2.3 points, going from 65.7 percent to 68.0 percent, while low cost carrier share shrank. This turnabout is partially attributed to the cessation of operations by two low cost carriers during the year (American Trans Air and Skybus Airlines). Prior to 2008, low-cost carrier capacity share rose from 17.0 percent in 2000 to 31.8 percent in 2007.

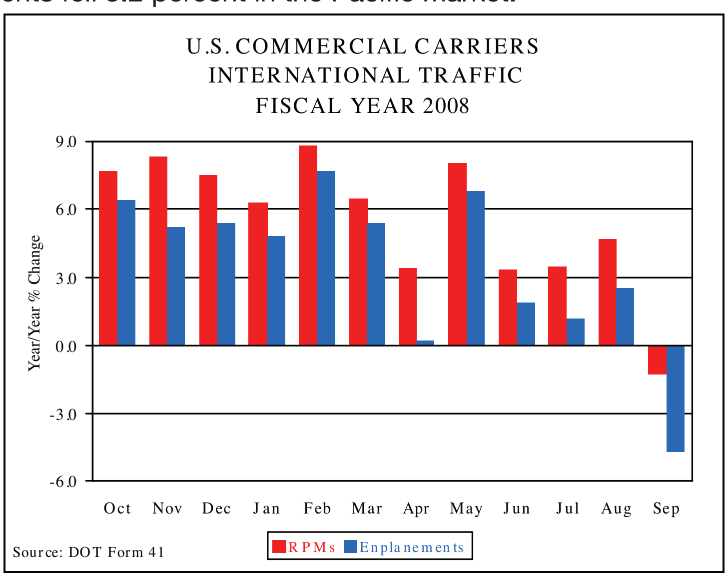


International Passenger Markets

Continuing the recent trend of rapid growth by network carriers into international markets, U.S. carriers posted a fourth consecutive year of gains in international capacity and traffic in 2008. U.S. carrier ASMs and departures were up 5.8 and 1.0 percent, respectively, in 2008. ASM growth was higher in the first half of the year (up 6.9 percent) and then moderated a bit during the second half of the year (up 4.8 percent). ASMs increased in all world travel regions—up 11.4, 0.9, and 1.1 percent, respectively, in Atlantic, Latin American, and Asia/Pacific markets. Strong growth in the Atlantic region was assisted by the European Union-United States Open Skies Agreement which became effective on March 30, 2008.



International RPMs were up 5.3 percent and passenger enplanements were up 3.3 percent in 2008 with faster growth recorded in the first half of the year (up 7.6 percent for the first half versus 3.5 percent during the second half for RPMs; up 6.1 percent versus 1.1 percent for enplanements). The Atlantic market posted the strongest gain, with RPMs up 10.4 percent and enplanements up 8.2 percent. RPMs and enplanements grew 4.0 and 2.7 percent, respectively, in the Latin American market, while RPMs dropped 1.7 percent as enplanements fell 3.2 percent in the Pacific market.



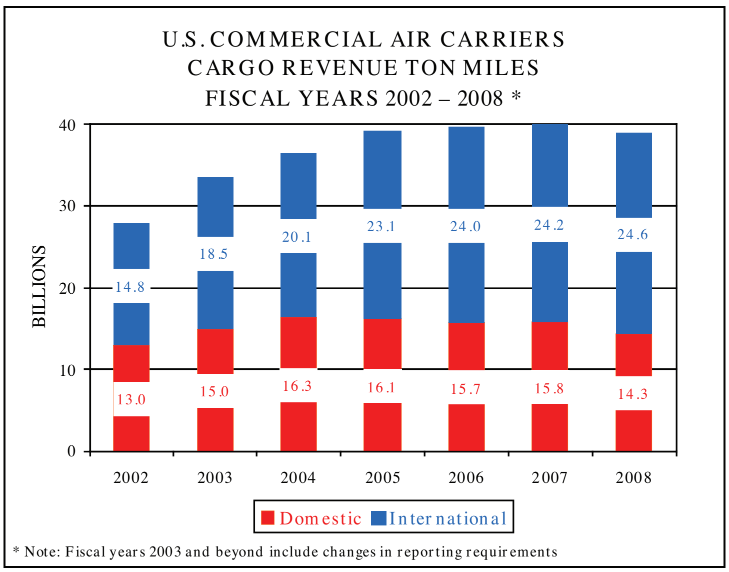
The international load factor dropped 0.3 percentage points to 79.9 percent from its all-time high of 80.2 percent in 2007. Load factor increased in the Latin America market (up 2.4 points to 79.3 percent) and fell in the Pacific market (down 2.3 points to 80.6 percent) and in the North Atlantic market (down 0.7 points to 80.0 percent).

In 2008, 50 percent of the passengers flying abroad on U.S. flag carriers traveled to the Latin America market. The remaining 50 percent of international passengers was split between the Atlantic market (33 percent) and the Pacific market (17 percent).

Commercial Air Carriers—Cargo

Air cargo traffic contains both domestic and international revenue freight/express and mail. The demand for air cargo is a derived demand resulting from economic activity. Cargo moves in the bellies of passenger aircraft and in dedicated all-cargo aircraft, on both scheduled and nonscheduled service.

U.S. air carriers flew 38.9 billion revenue ton miles (RTMs) in 2008, down 2.8 percent from 2007, with domestic cargo RTMs declining by 9.5 percent (14.3 billion) and international RTMs increasing by 1.7 percent (24.6 billion). The decline in domestic RTMs and the sluggish growth in international RTMs reflect many factors including the recession in the U.S. and other world regions, strong price competition from alternative shipping modes, and volatile oil prices.

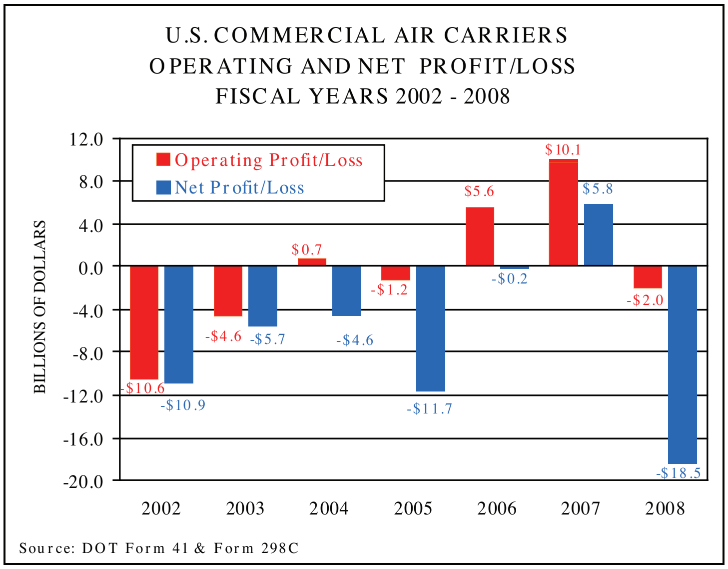


Air cargo RTMs flown by all-cargo carriers was 71.3 percent of total RTMs in 2008, with passenger carriers flying the rest, or 28.7 percent of the total. Total RTMs flown by all-cargo carriers declined 4.1 percent in 2008, from 29.0 billion to 27.8 billion. Total RTMs flown by passenger carriers were 11.2 billion in 2008 (up 0.9 percent).

On August 3, 2007, "Recommendations of the 9/11 Commission Act of 2007" was signed into law. Section 1602 of this Act states that air cargo placed on passenger aircraft will receive the same level of screening as passenger-checked baggage. The legislation calls for the establishment of a system by 2010 that will require 100 percent inspection of cargo transported on passenger aircraft. TSA is developing a system to physically screen 50 percent of air cargo originating in the Unites States carried on passenger aircraft by February 2009 and 100 percent by August 2010. It is anticipated the law will lead to increased cost and time requirements for shipment of cargo on passenger air carriers.

U.S. COMMERCIAL AIR CARRIERS 2008 FINANCIAL RESULTS

After posting a net profit in 2007 ($5.8 billion), financial results for the U.S. commercial airline industry (including regional carriers) turned downward in 2008 as record high oil prices and falling passenger demand took their toll on the industry. In FY 2008, U.S. commercial airlines reported an operating loss of $2.0 billion and a record net loss of $18.5 billion, primarily due to $10.0 billion in losses at Delta and Northwest stemming from a reduction in the value of the airlines due to high fuel prices. Excluding these losses, the industry posted a net loss of $8.5 billion.

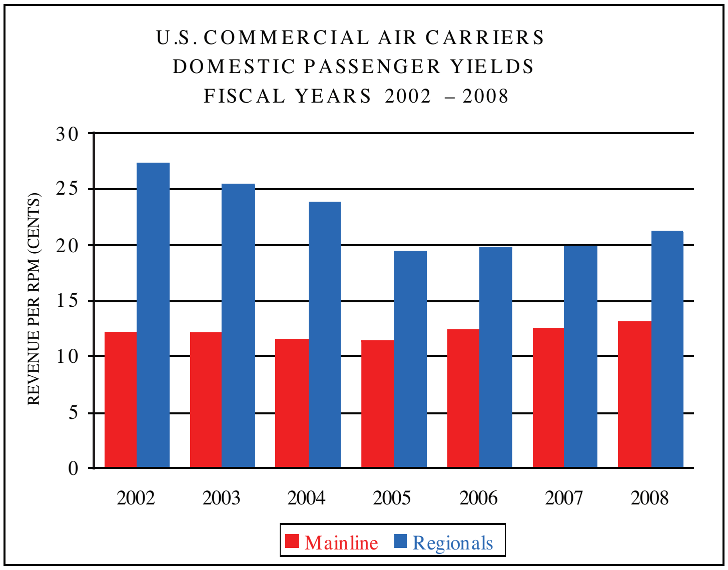


Operating revenues (passenger and cargo) were up 8.8 percent in 2008, reflecting higher fares and increased demand for higher yield cargo. Operating expenses were up 16.9 percent in 2008, as jet fuel prices increased 52.1 percent from $1.97 to $3.00 per gallon.

In 2008, passenger carriers reported operating losses of $4.4 billion and net losses of $19.8 billion, while air cargo carriers reported operating and net profits of $2.4 billion and $1.3 billion, respectively. Passenger carriers generated an operating loss ($4.4 billion) in domestic markets for the first time in three years while international operations remained profitable ($20.8 million). Net losses were reported for passenger carriers in both the domestic ($15.5 billion) and international market ($4.3 billion). Cargo carriers had stronger financial results than the passenger carriers. Domestically, cargo carriers posted operating and net profits of $956.2 million and $503.3 million, respectively. In international markets, these carriers reported operating profits of $1.4 billion and net profits of $790.8 million.

The industry's financial deterioration is largely due to the financial performance of the network carriers. After earning $2.0 billion in FY 2007, the seven network carriers reported a $14.9 billion net loss in FY 2008, a swing of $16.9 billion. Most of the downturn occurred in domestic markets where the seven carriers accounted for 61.3 percent of capacity and 49.2 percent of passengers transported. Between 2000 and 2007, the domestic operations of these carriers reported combined operating and net losses of $25.6 and $37.3 billion, respectively. These losses widened in 2008, with the network carriers reporting operating losses of $5.0 billion and net losses of $10.5 billion. The nine reporting low-cost carriers reported operating profits of $301.4 million and net losses of $83.3 million in 2008. Strong competition from the network carriers, high fuel prices, and falling demand hurt many low-cost carriers' profits.

Strategic capacity cutbacks by the air carriers throughout 2008 coupled with fuel surcharges paid off in strong growth for mainline carrier passenger yield. After a modest increase of 2.4 percent in 2007, mainline carrier passenger yield rose 5.9 percent in 2008.

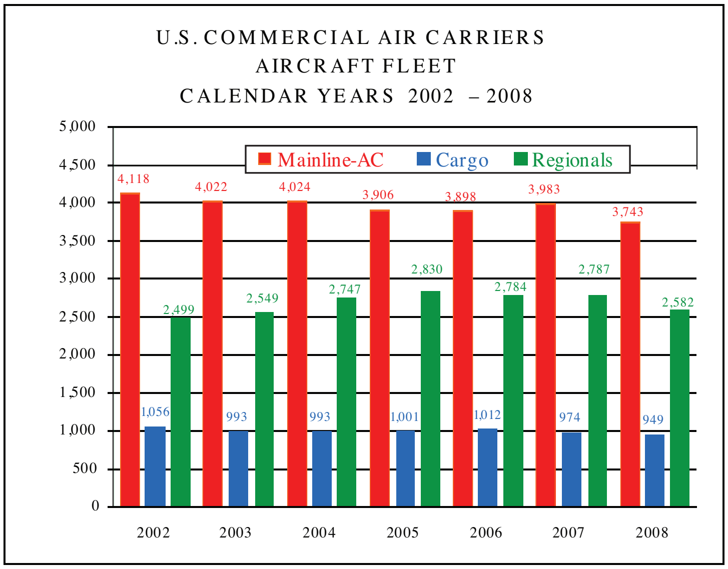


In 2008, regional carriers reported operating profits of $494.5 million and net profits of $138.8 million. The future of regional carriers is closely tied to the fortunes of the larger network carriers for whom they provide feed at mainline air carrier hub airports. Similar to the strong growth in mainline carrier yield, regional carrier passenger yield increased 6.7 percent in 2008. However, reflecting the changing nature of the industry, regional yield is down 43.4 percent in real terms since 2000 (compared to a drop of 19.7 percent since 2000 for mainline yield).

U.S. COMMERCIAL AIR CARRIERS 2008 AIRCRAFT FLEET

The commercial passenger carrier fleet is undergoing transformation. The mainline carriers are retiring older, less fuel efficient aircraft (e.g. 737-300/400/500 and MD-80) and replacing them with more technologically advanced 737-700/800/900 aircraft. The regional carriers are growing their fleet of 70 to 90 seat regional jet aircraft and reducing their fleet of 50-seat jet aircraft.

The total number of aircraft in the U.S. commercial fleet (including regional carriers) is estimated at 7,274 for 2008, a decrease of 470 aircraft from 2007. This includes 3,743 mainline air carrier passenger aircraft (over 90 seats), 949 mainline air carrier cargo aircraft, and 2,582 regional carrier aircraft (jets, turboprops, and pistons).

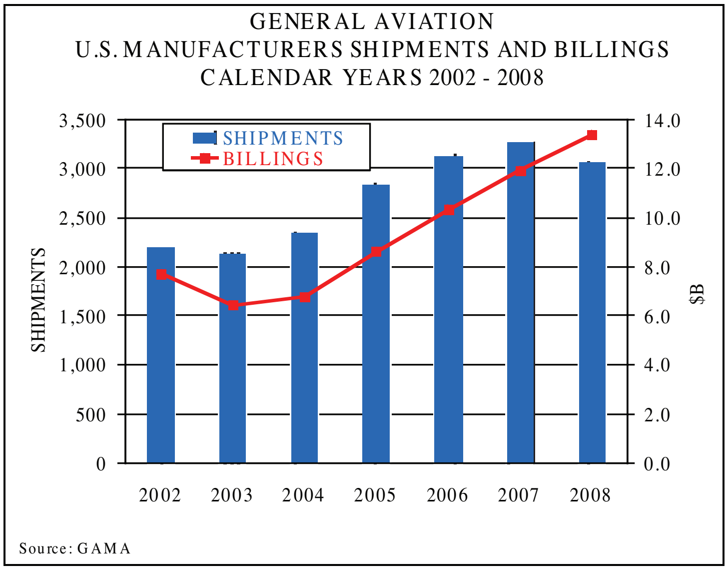


The mainline carriers' passenger jet fleet decreased by 240 aircraft in 2008 as increases in low-cost carrier fleets were offset by large reductions in the network carrier fleet. With the cuts in the fleet in 2008, the mainline carrier fleet now stands at 16.6 percent below (745 aircraft) the level it was in 2000.

The mainline carrier cargo fleet shrank by 25 aircraft to 949. The regional carrier fleet fell by 205 units with declines in both turboprop aircraft and regional jets, the first time since their introduction that the regional jet fleet has declined in size. Despite the reduction in the regional jet fleet in 2008, since 2000, a total of 1,085 regional jets have been added to the regional carriers' fleet while the number of turboprops and pistons has declined by 777 aircraft.

GENERAL AVIATION

According to numbers released by the General Aviation Manufacturers Association (GAMA), U.S. manufacturers of general aviation aircraft delivered 3,079 aircraft in CY 2008, 6.1 percent lower than in CY 2007, the first decrease since 2003. The turbine categories, turbojets and turboprops, were up 17.2 and 14.8 percent, respectively. Overall piston deliveries declined 17.6 percent with single-engine down 18.9 percent and the much smaller multi-engine category up 18.2 percent. Billings in CY 2008 totaled $13.4 billion, up 11.8 percent compared with 2007.



General aviation activity at FAA air traffic facilities fell sharply in 2008. Operations at combined FAA and contract towers declined 5.6 percent in 2008, the steepest decline in activity since 2003. General aviation activity at consolidated traffic facilities (FAA TRACONs) fell 6.3 percent, while the number of general aviation aircraft handled at FAA en route centers decreased by 7.6 percent.

The FAA uses estimates of fleet size, hours flown and utilization from the General Aviation and Air Taxi Activity and Avionics Survey (GA Survey) as baseline figures upon which assumed growth rates can be applied. This survey has been conducted annually since 1977. Beginning with the CY 2004 Survey there were significant improvements to the survey methodology. These improvements included conducting 100 percent samples for turboprops and turbojets, all rotorcraft, all aircraft in Alaska and all aircraft operating on-demand under Part 135. In addition, the sample design was revised to stratify by aircraft type (19 categories), FAA region (9 categories), and whether the aircraft was owned by an entity certified to fly Part 135 operations (2 categories). Furthermore, a large fleet reporting form was incorporated to allow owners/operators of multiple aircraft to report aggregate data for their entire fleet on a single form. In 2005 an additional aircraft category (Light Sport Aircraft) was added. The result of these changes was the sample size nearly doubled. Between 2003 and 2005 large changes in both the number of aircraft (turbojets up by 22.8 percent, total rotorcraft up by 33.7 percent) and hours (single-engine piston down by 17.6 percent) in many categories occurred. The results of the 2007 Survey are consistent with the results of the surveys since 2004. This reinforces our belief the methodological improvements have resulted in superior estimates relative to those in the past and they are used as the basis for our forecast.

Based on the latest FAA assumptions about fleet attrition and aircraft utilization and GAMA aircraft shipment statistics, the active general aviation fleet is estimated to have increased 1.0 percent in 2008, to 234,015. Despite the increase in the active fleet, general aviation flight hours are estimated to have decreased 0.2 percent in 2008 to 27.8 million.

Student pilots are important to general aviation and the aviation industry as a whole. In 2008, according to statistics compiled by the FAA's Mike Monroney Aeronautical Center, the number of student pilots decreased by 4.0 percent. This is the fourth consecutive year of decline in this important pilot category. The industry has, over the past several years, maintained several industry-wide programs designed to attract new pilots to general aviation. The industry is trying to stimulate interest in flying, but the data suggest that more needs to be done.

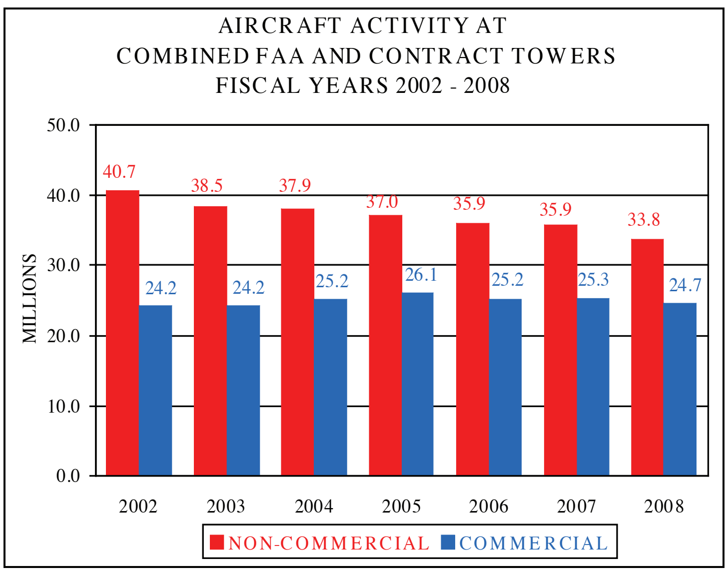
FAA WORKLOAD

The combination of the extreme rise in fuel prices followed by a deteriorating economic environment resulted in a fall in activity at FAA facilities in 2008. This continues a trend that began in 2001 with the last economic downturn and the events of 9/11.

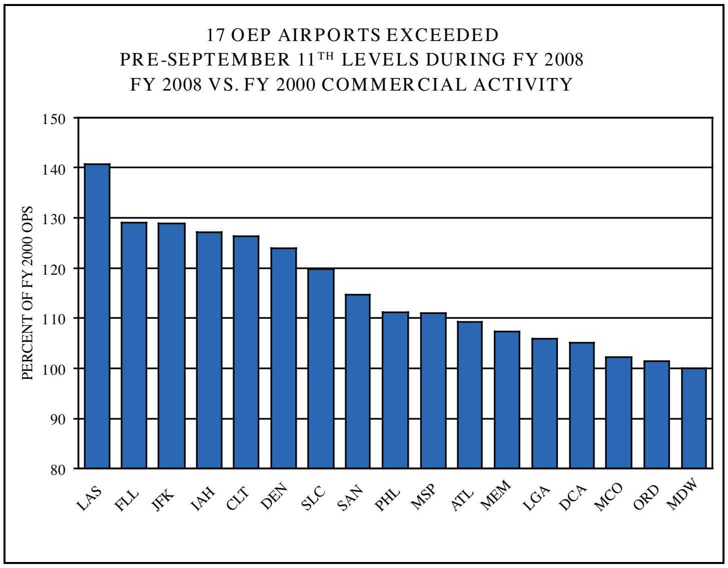
Total activity at combined FAA and contract tower airports totaled 58.5 million operations in 2008, down 4.3 percent from 2007 and 14.8 percent below the peak activity level recorded in 2000. Commercial activity (the sum of air carrier and commuter/air taxi) at combined FAA and contract towers declined by 2.1 percent in 2008. Air carrier operations were up 1.1 percent, but were offset by a 5.9 percent decline in commuter/air taxi operations. Commercial operations are 5.2 percent lower than their peak in 2005.

Non-commercial activity (the sum of general aviation and military) at combined FAA and contract towers fell by 5.8 percent in 2008, with general aviation activity (31.3 million) down 5.6 percent and military activity (2.5 million) down 8.4 percent. General aviation activity has declined eight of the past nine years since 1999.

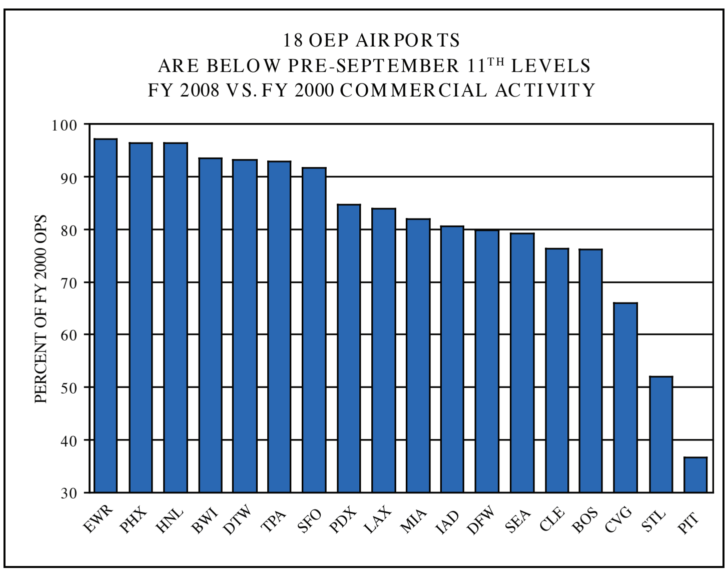
At the end of 2008, non-commercial aircraft activity was 21.0 percent below the activity in 2000, having declined each year since 2002.



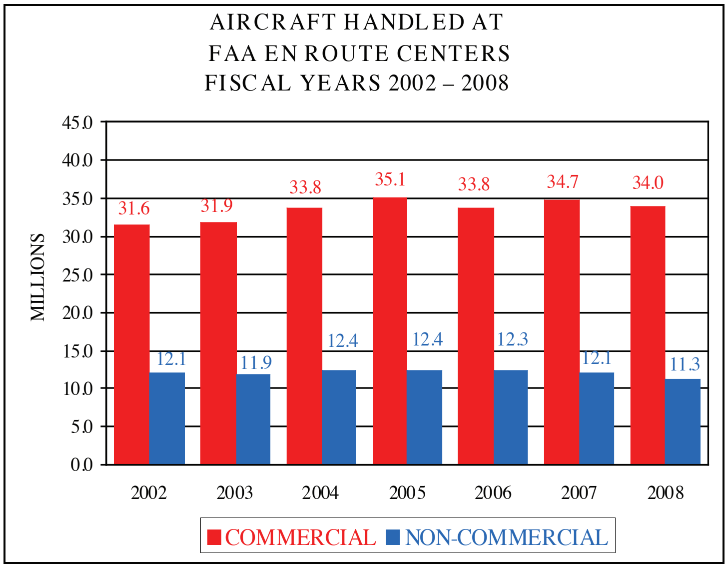
The FAA pays close attention to the trends occurring at the 35 Operational Evolution Partnership (OEP) airports. These airports are the top 35 airports in the country in terms of passenger activity (except MEM and PIT) and account for about 75 percent of commercial passengers. Although commercial activity at the OEP airports exceeded pre-9/11 peak activity levels in 2005, subsequent industry restructuring has resulted in a drop in combined commercial activity at these airports since. In 2008, commercial activity at the OEP airports fell by 1.8 percent and is 4.6 percent below pre-9/11 activity levels. Increases were recorded at only 8 of the 35 airports with the highest rates of growth at San Francisco (up 7.1 percent) and St. Louis (up 5.2 percent). The largest declines occurred at Pittsburgh (down 22.8 percent) and Chicago-Midway (down 9.8 percent). As a result, only 17 airports exceeded 2000 peak activity levels during fiscal year 2008, down from 18 in the previous year.



Reflecting the shift in demand to low-cost and regional carriers, commercial operations at Las Vegas (up 40.7 percent), Fort Lauderdale (up 29.0 percent), and New York Kennedy (up 28.9 percent), are up the greatest relative to their pre-September 11th activity levels. Commercial operations at Pittsburgh (down 63.2 percent) and St. Louis (down 47.7 percent) show the largest declines from pre-9/11 levels. These activity level shifts reflect the impact of the restructuring of the airline industry. American's acquisition of TWA resulted in a consolidation of operations away from TWA's St. Louis hub, while the merger of US Airways and America West has led to a dramatic shrinking of US Airways' operations in Pittsburgh.



During 2008, total activity at FAA en route centers (45.3 million) fell 3.1 percent from the previous year. Commercial activity declined 1.9 percent, with air carrier operations down 4.7 percent while commuter/air taxi operations increased 5.4 percent. Non-commercial activity was down 6.5 percent in 2008 as general aviation and military activity fell 7.6 and 4.1 percent, respectively. In 2008, air carrier operations fell back below their 2000 activity levels while operations for the general aviation and military user groups were 12.4 and 13 percent below their 2000 activity levels, respectively.


AIRCRAFT HANDLED AT
FAA EN ROUTE CENTERS
FISCAL YEARS 2002 – 2008
MILLIONS
45.0
40.0
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
31.6
31.9
33.8
35.1
33.8
34.7
34.0
12.1
11.9
12.4
12.4
12.3
12.1
11.3
2002
2003
2004
2005
2006
2007
2008
COMMERCIAL
NON-COMMERCIAL