

## ▶▶▶ REVIEW OF 2009

Each passing month of 2009 saw the light on consumer confidence dim as housing foreclosures climbed, credit tightened, and unemployment surged. This chain of events led to listless demand for air travel during the year as corporate travel budgets were slashed and consumer spending dried up. In 2009<sup>2</sup> system revenue passenger miles (RPMs) decreased 7.1 percent as enplanements fell 7.3 percent. Commercial air carrier domestic enplanements were down 7.3 percent while international enplanements fell 6.6 percent. The system-wide load factor increased 0.2 points to 79.7 percent. Domestic enplanement market share for low-cost and regional carriers grew in 2009 while network and “other” carrier share decreased. Enplanement market share for the network carriers shrank 1.5 points to 47.6 percent while market share for “other” carriers shrank 0.5 points to 1.4 percent. Low cost carrier<sup>3</sup> share rose 0.9 points to 26.6 percent and regional carrier market share rose 1.0 points to 24.4 percent.

System wide real yield dropped 9.8 percent during 2009 as the Great Recession led to reduction in demand for premium travel and carriers executed fare sales throughout the year to stimulate demand for leisure travel. In spite of the economic environment, the commercial air carrier industry posted an operating profit in 2009. Carrier operating losses during the first half of the year were replaced by operating profits during the second half for total operating profits of \$755 million for the year (compared to a \$2.0 billion operating loss posted for 2008). The network carriers reported operating losses for the three of the four quarters to total losses of \$1.7 billion for the year. All six of the network carriers posted losses for the year, while eight out of nine of the low cost carriers posted operating profits. The net loss for U.S. commercial air carriers in 2009 was \$8.1 billion, with the network, low cost, “other” and cargo carriers posting net losses of \$7.6 billion, \$145.6 million, \$296.0 million, and \$331.2 million, respectively. The regional carriers posted a net profit of \$202.3 million.

The market for general aviation products and services declined sharply in 2009. U.S. manufacturer shipments declined for the 2nd year in a row, a whopping 48.5 percent decrease, while billings fell 32.1 percent compared to 2008. Single engine piston aircraft shipments fell 54.6 percent while turbine jet aircraft shipments decreased by 46.2 percent. The decline in shipments and billings seen in the jet fleet was a direct reflection of the downturn in the U.S. and world economy. Along with the fall in shipments and billings, general aviation activity at FAA and contract tower airports fell 11.7 percent in 2009.

Total operations at FAA and contract towers fell 10.4 percent to their lowest levels since 1982 as activity declined in all user categories. Although the number of flights fell, FAA’s workload didn’t. As the fleet mix changes with increasing numbers of regional and business jets in the nation’s skies, and as carriers consolidate operations in their large hubs, the complexity of activity in the airspace continues to grow, increasing our workload.

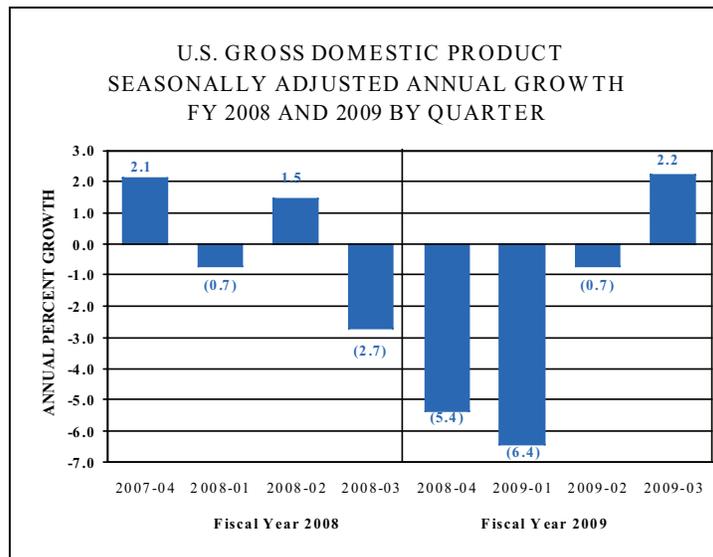
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2 All stated years and quarters for U.S. economic and U.S. air carrier traffic and financial data and forecasts are on a fiscal year (FY) basis (October 1 through September 30). All stated years and quarters for international economic and world traffic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

3 Allegiant Air, AirTran Airways, Frontier Airlines, JetBlue Airways, Southwest Airlines, Spirit Airlines, USA3000, and Virgin America Airlines.

## U.S. ECONOMIC ACTIVITY

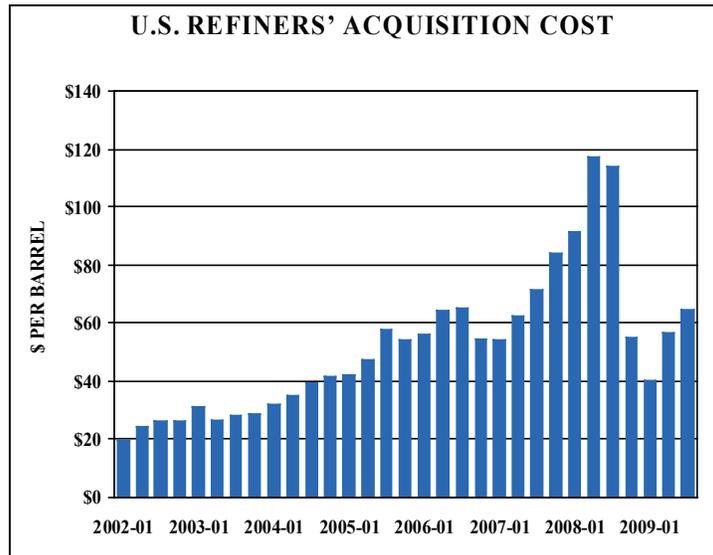
In FY 2009, the U.S. economy experienced the worst recession in the post war era. After growing 1.9 percent in FY 2008, U.S. Gross Domestic Product (GDP) contracted 2.9 percent in fiscal year 2009. The story during the first part of the year was the sharp decline in output that accompanied the financial crisis brought on by the Lehman Bros bankruptcy in September 2008. Real GDP contracted 5.4 percent in the first quarter followed by an even steeper 6.4 percent contraction in the second quarter. As the economic downturn gathered momentum, the new Administration and Congress passed the American Recovery and Reinvestment Act (ARRA) in February 2009. The bill which included a combination of individual tax cuts, investment incentives, aid to people directly hurt by the recession, state fiscal relief, and direct government investment spending was estimated to have a total fiscal impact of \$787 billion. While there has been significant debate about the effectiveness of ARRA, data show that the freefall in economic activity began to temper during the 3Q as output fell by just 0.7 percent. In the 4Q, buoyed by a variety of rebate programs (most notably “cash for clunkers”) the U.S. economy grew for first time in five quarters, with output increasing by 2.2 percent.



One of the most obvious impacts of the recession was the rise in the nation’s unemployment rate. In December 2007 when the recession began, the unemployment rate was 5.0 percent. As the recession intensified the unemployment rate rose and reached 7.4 percent in December 2008. The rate continued to rise throughout 2009 and stood at 9.8 percent in September 2009. All told from the beginning of the recession through the end of FY 2009, approximately 6.9 million jobs have been lost.



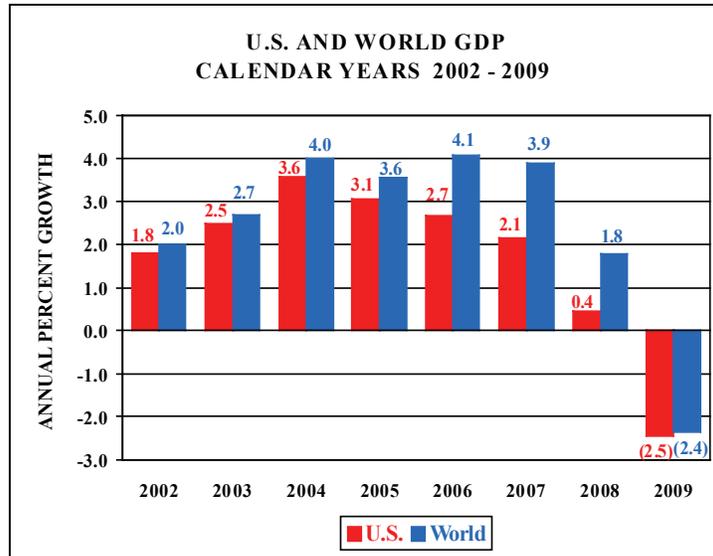
Another impact of the recession was the falling demand for oil and resulting lower oil prices. Oil prices, as measured by the U.S. Refiners' Acquisition Cost, fell by 45.4 percent in FY 2009 to \$55.46. But, as in FY 2008, the average price for the year fails to tell the whole story. Oil prices, which averaged \$98.91 in September 2008, fell rapidly through January 2009, down to \$37.45, then recovered back to \$65.71 by June and remained in the mid \$60 range for the balance of the fiscal year, averaging \$67.74 in September 2009.



The combination of falling demand and falling energy prices resulted in the consumer price index (CPI) declining by 0.3 percent in FY 2009, the first decline in the CPI since 1955. The 0.3 percent fall in the CPI in FY 2009 was 4.7 percentage points lower than in FY 2008.

## WORLD ECONOMIC ACTIVITY

As the world’s largest economy, the U.S. continues to have a prominent role in world economic growth. The slowdown that began in the U.S. in 2008 spread to all corners of the globe by the end of the year and led to the worst performance in the global economy since the Great Depression. In calendar year 2009, the world economy shrank by an estimated 2.4 percent as the advanced economies (U.S., Western Europe, Japan, Australia, New Zealand, and Canada) contracted 3.3 percent. Most regions saw their economies shrink but data coming out at the end of the year suggested that recovery had begun in most parts of the world with China and the U.S. leading the way.



On a calendar year basis, GDP in Canada contracted at the same rate of the U.S. in 2009, falling 2.5 percent. The combined economies of the Asian and Far East nations grew just 1.2 percent in 2009, down from 3.5 percent a year earlier. This region includes the world’s second largest economy, Japan (down 5.3 percent), and the world’s most vibrant economy, China (up 8.5 percent). The combined economies of Europe were hit particularly hard by the downturn with the economies of Western Europe shrinking 3.9 percent while the combined economies of Central Europe and the former Soviet Union contracted 6.1 percent. GDP in Latin America fell 2.1 percent with Brazil up just 0.2 percent while Mexico shrank by 7.5 percent as the U.S. recession resulted in sharp economic downturn in Mexico.

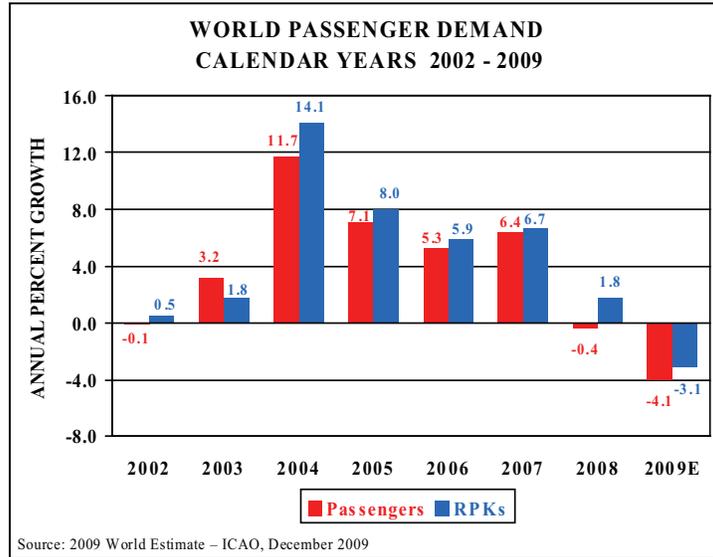
## COMMERCIAL AVIATION

Commercial aviation suffered through a terrible year in 2009. Despite falling jet fuel prices, the downturn in passenger demand as a result of the global recession hurt the industry. Coming off of a year of record losses in 2008, the U.S. industry posted a smaller net loss in 2009, with a similar outcome predicted for foreign carriers. With the U.S., Europe and Japan in recession, global industry net losses for calendar year 2009 are expected to be \$11.0 billion, with large losses in all global regions<sup>4</sup>. Although U.S. airlines had implemented large capacity reductions at the end of 2008, the downturn in demand resulted in a loss of pricing power and fares fell sharply in 2009.

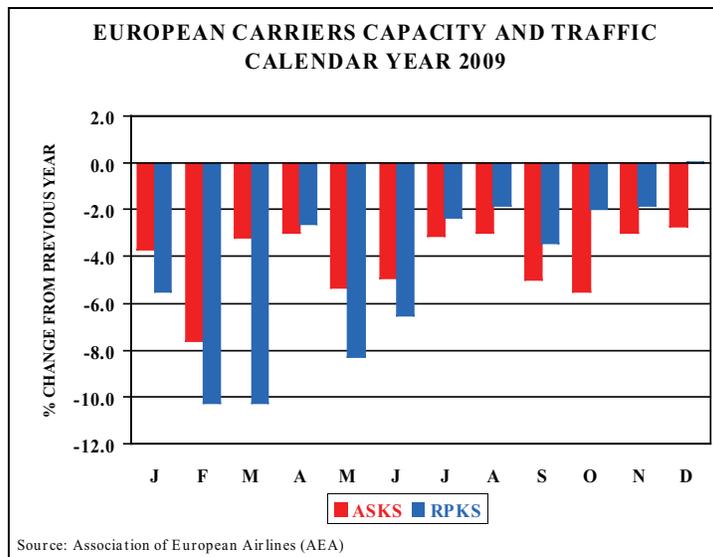
<sup>4</sup> IATA Financial Forecast, December 2009.

**WORLD TRAVEL DEMAND**

Based on data compiled by the International Civil Aviation Organization (ICAO), world air carriers recorded their “worst-ever” performance in CY 2009, reflecting the first contraction of the global economy since the Great Depression of 1929. Although traffic results are not available for full year 2009, ICAO estimates that worldwide RPKs decreased 3.1 percent. In comparison world passenger traffic declined 2.9 percent during 2001<sup>5</sup>.

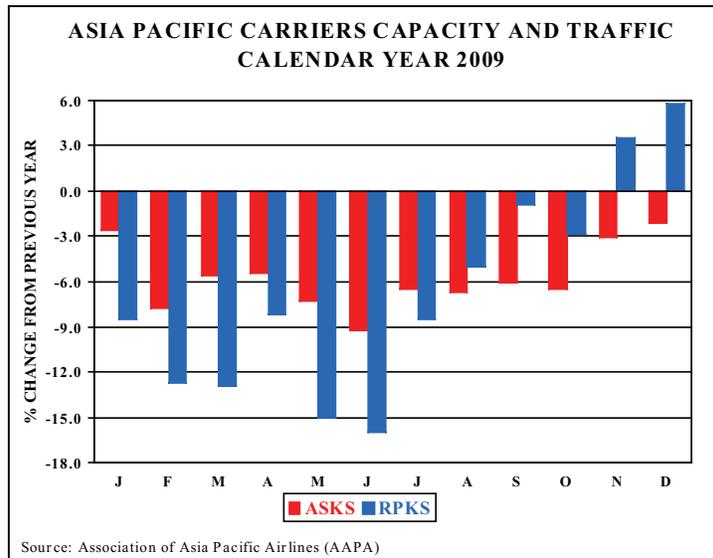


Statistics from the Association of European Airlines (AEA) show that passengers decreased 5.8 percent and RPKs decreased 4.5 percent for CY 2009. Capacity, as measured by available seat kilometers (ASKs), was down 4.2 percent during the same time period. Data available through CY 2009 show that AEA carrier traffic was strongest in the Middle-East (up 6.1 percent), followed by the North Africa (up 4.5 percent), and Sub Saharan Africa regions (up 1.2 percent). Traffic in the North Atlantic region was down 5.6 percent.

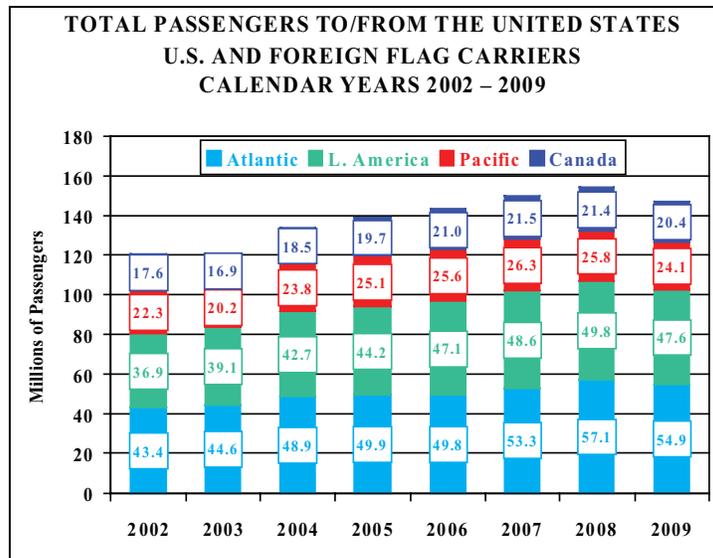


<sup>5</sup> ICAO News Release, December 18, 2009.

The Association of Asia Pacific Airlines (AAPA) reported a decrease of 6.5 percent in RPKs on a 6.1 percent decrease in ASKs in CY 2009. Passengers were down 5.7 percent during the same period.

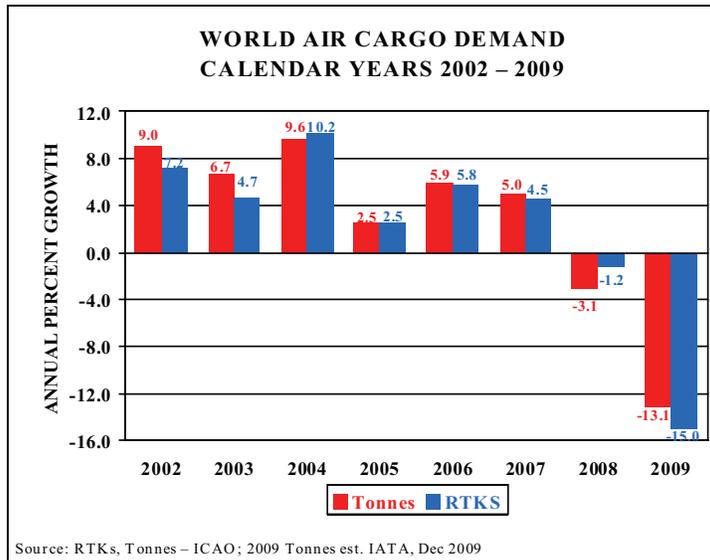


In CY 2009, U.S. and foreign flag carriers will transport an estimated 147.1 million passengers between the United States and the rest of the world, a 4.7 percent decrease from 2008. Year-over-year growth declined in all world markets with the Pacific market posting the largest decline (down 6.4 percent) followed by the Canadian transborder market (down 5.9%), the Latin America market (down 4.3 percent), and the Atlantic market (down 3.9 percent).

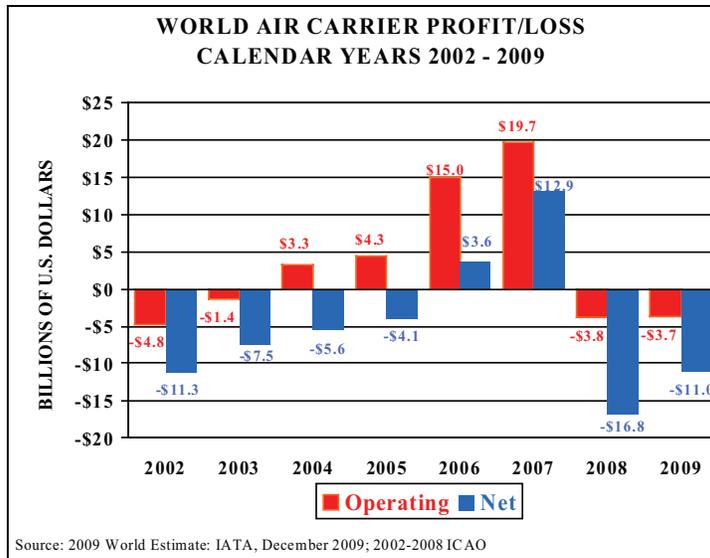


Worldwide air cargo demand plummeted in 2009 as world trade volumes fell due to the global economic downturn.<sup>6</sup> According to ICAO, worldwide freight tonne kilometers fell 15.0 percent in 2009 compared to a drop of 1.2 percent in 2008. AEA member carriers FTK's were down 16.5 percent for the year while AAPA member carriers FTKs were down 11.0 percent for the same period.

<sup>6</sup> ICAO News Release, December 18, 2009.



The International Air Transport Association (IATA) reports world air carriers (including U.S. airlines) are expected to register an operating loss of \$3.7 billion for 2009. Falling yields due to reduced demand combined with an upward trend in fuel prices led to deteriorating financial results for CY 2009, with IATA estimating global airline industry net losses to be \$11.0 billion for the year. Based on financial data compiled by ICAO between 2001 and 2008 world airlines produced cumulative operating profits of \$20.5 billion (with four years out of eight posting gains) and net losses of \$41.8 billion (with two years out of eight posting gains).<sup>7</sup>



7 IATA Financial Forecast, December 2009.

## **U.S. TRAVEL DEMAND**

By year end FY 2009, the U.S. commercial aviation industry consisted of 18 scheduled mainline air carriers that use large passenger jets (over 90 seats) and 66 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. There were no carriers that either started or ceased operations during 2009; however Republic airlines acquired Midwest Airlines in June 2009 and Frontier Airlines (and its wholly owned subsidiary Lynx Aviation) during August 2009. Twenty-seven all-cargo carriers were providing domestic and/or international air cargo service at the end 2009.

Three distinct trends have occurred over the past several years that are shaping today's commercial air carrier industry: (1) convergence of the network and low cost carrier business models; (2) consolidation of activity at a small percentage of the nation's airports, and (3) a delineation of markets served between mainline and regional carriers.

The narrowing of the percentage share of domestic mainline capacity operated between network and low cost carriers resumed in 2009, signaling a trend toward convergence of their respective business models. After losing share in 2008, partially due to the cessation of operations by two low cost carriers during the year (American Trans Air and Skybus Airlines), low cost carrier share grew 1.5 percentage points in 2009. Since 2000, the share of capacity flown by the low cost carriers has more than doubled, going from 17.0 percent in 2000 to 35.8 percent in 2009.

Activity at over 400 airports offering commercial service in the 48 contiguous states is consolidated at a small percentage of the airports. Analysis of Department of Transportation origin and destination data for the period 2000 through 2008 shows the percent of originating passengers at the 35 Operational Evolution Partnership (OEP) airports as a share of total domestic originating passengers to be stable. During this period the OEP 35 share ranged from a low of 63.1 percent in 2001 to a high of 64.5 percent in 2006 (in 2008 the share was 63.9 percent). Taking a larger sample, looking at the top 100 airports ranked by O&D passengers, these airports share of total domestic originating passengers has ranged from a low of 91.6 percent to a high of 92.1 percent in 2006 (with the share in 2008 at 91.9 percent), highlighting the concentration of passengers in the system.

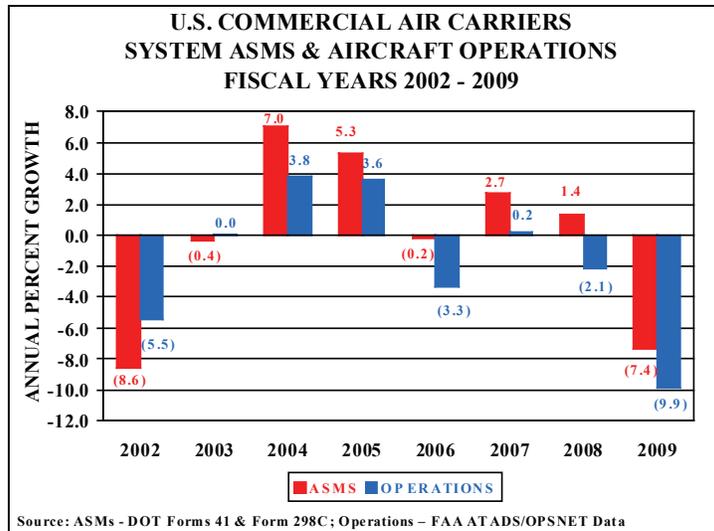
The number of city pairs less than 750 miles apart served by mainline carriers in the contiguous U.S. is shrinking, indicating a concentration of flying by this group of carriers in markets greater than 750 miles. Overall, between 2003 and 2008 the number of city pairs served by mainline carriers increased by 218, going from 3,044 to 3,262. In markets greater than 750 miles apart, city pairs for this carrier group increased by 268 and in markets less than 750 miles city pairs decreased by 50. In 2008, markets greater than 750 miles apart were 59.0 percent of all markets served by mainline carriers, up from a share of 54.4 percent in 2003. In comparison, between 2003 and 2008 the number of city pairs served by regional carriers increased in both distance categories. For distances less than 750 miles, regional carriers flew 182 more markets than in 2003, and for distances greater than 750 miles these carriers flew 380 more markets than in 2003.

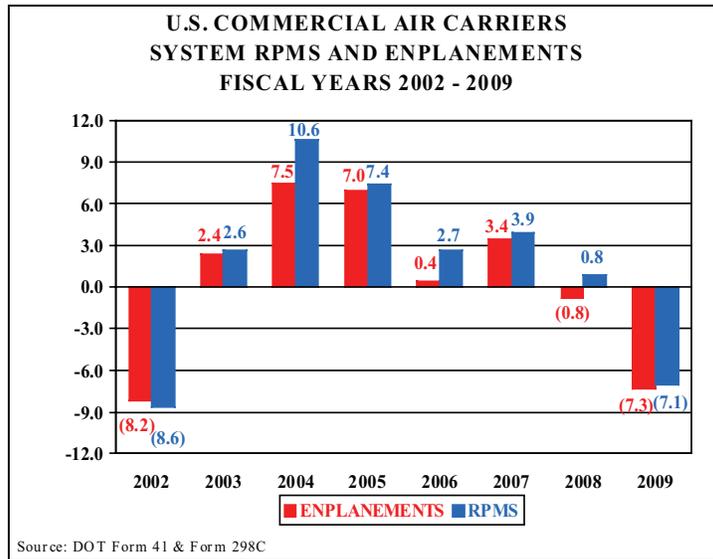
**Commercial Air Carriers – Passengers**

The contraction in growth that crept into the final months of fiscal year 2008, intensified in 2009 as U.S. commercial air carriers posted sharp declines in capacity and traffic during the year. System (the sum of domestic plus international) capacity dropped 7.4 percent to 965.5 billion ASMs while RPMs dropped 7.1 percent to 769.7 billion. During the same period system-wide passenger growth declined 7.3 percent.

Two factors attributed toward the decline in demand for air travel during FY 2009. The primary factor reducing demand was the global economic meltdown. The meltdown strained corporate travel budgets and led to double-digit unemployment. Secondary to the economic meltdown was the outbreak of H1N1 flu which resulted in drastically reduced demand to the Latin region (particularly Mexico) during the Spring. In an attempt to stem financial losses, carriers quickly reduced capacity with yield preservation as the goal. These actions were no match for a deepening recession, swelling unemployment lines, and consumer confidence that plummeted to an all-time low in February 2009. For the year, mainline carrier passenger growth contracted 8.2 percent while regional carrier growth dropped 3.9 percent. In the domestic market mainline passengers fell 8.5 percent from 2008 levels (for the sixth time in nine years) while passengers in international markets fell for the first time since 2002 (down 5.6 percent).

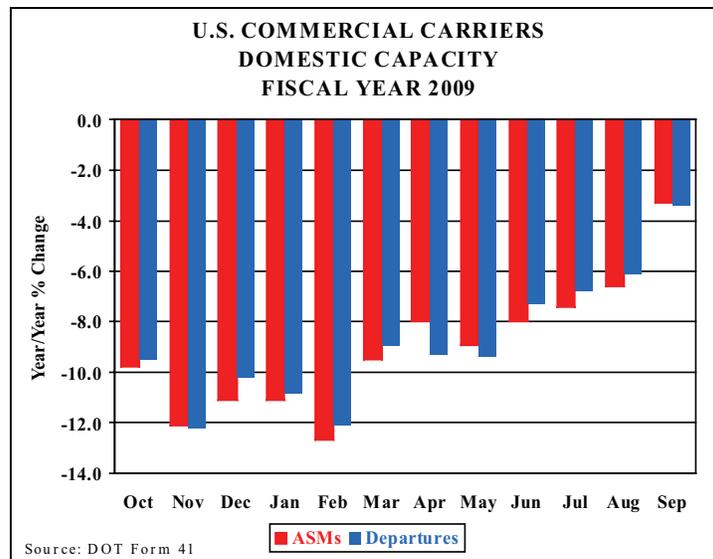
In 2009, system load factor, trip length and seats per aircraft mile climbed. Load factor grew 0.2 points to 79.7 percent, down 0.2 points from the all-time high posted in 2007. For the seventh consecutive year of growth, trip length increased 1.8 miles to 1,093.2 miles. Seats per aircraft mile increased (up 2.0 seats) to 139.8 seats per aircraft mile. In a reversal from recent trends, mainline carriers shifted some larger aircraft traditionally used to fly international routes over to domestic ones, while regional carriers phased out some smaller regional jet (50 seats and below) operations.





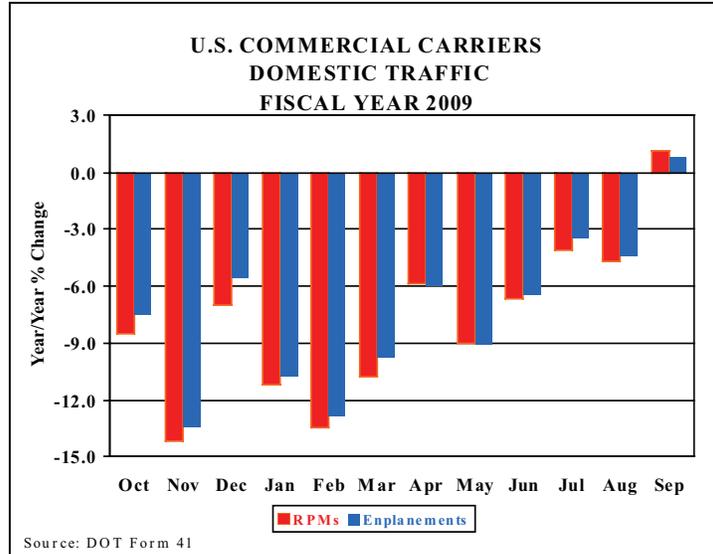
Domestic Passenger Markets

Domestic capacity (50 states, Puerto Rico, and the U.S. Virgin Islands) was down 8.9 percent in 2009 for the steepest decline since deregulation in 1978 (the second deepest decline occurred in 2002 after the terror attacks of 9/11, down 6.9 percent). Departures decreased by 8.7 percent after falling 1.9 percent in FY 2008. Year-over-year declines in capacity were posted each month of FY 2009. After hitting double-digit declines in capacity during the first half of the year (down 11.0 in the first and second quarter of 2009) capacity dropped 8.3 percent and 6.0 percent in the third quarter and fourth quarter, respectively. Mainline carrier capacity was down 9.5 percent for the year, while regional carrier capacity was down 5.1 percent. At the end of 2009, domestic ASMs were 5.9 percent below pre-9/11 levels while departures were 14.6 percent below.



Domestic passenger enplanements and RPMS fell at a slower rate than ASMs in 2009. The decline in passenger growth accelerated from the first to the second quarter, going from down 8.1 percent to down

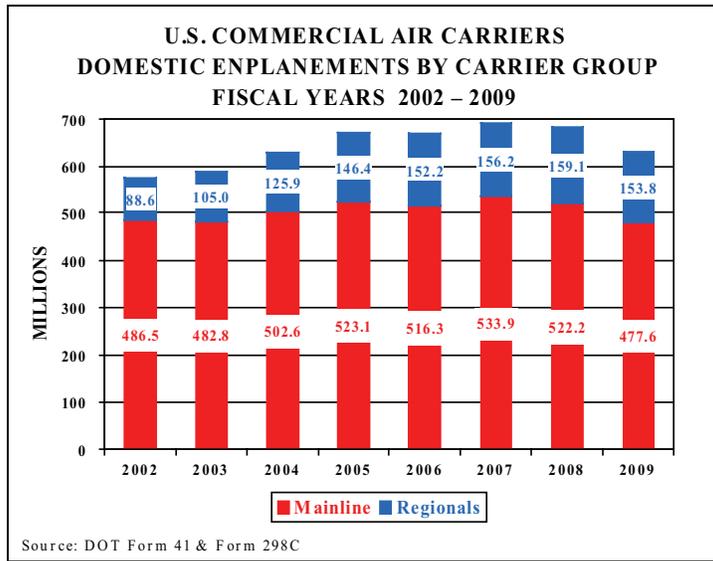
11.0 percent. During the last half of the year, the decline in growth slowed to down 5.0 percent, with September 2009 posting a slight increase of 0.2 percent over the same 2008 period. Mainline carrier enplanements were down 8.5 percent for the year, while regional passengers fell 3.4 percent, marking the first decline in passenger growth for regional passengers during the post-deregulation era.



Similar to passengers, domestic RPMs dropped faster than ASMs with domestic RPMs down 7.7 percent in 2009. After falling dramatically during the first and second quarter of the year, down 9.9 percent and 11.8 percent, respectively, the last half of the year was only down 5.1 percent with September posting year-over-year growth of 0.5 percent. For the year, mainline carrier RPM growth was down 8.2 percent, while regional carrier growth was down 4.3 percent.

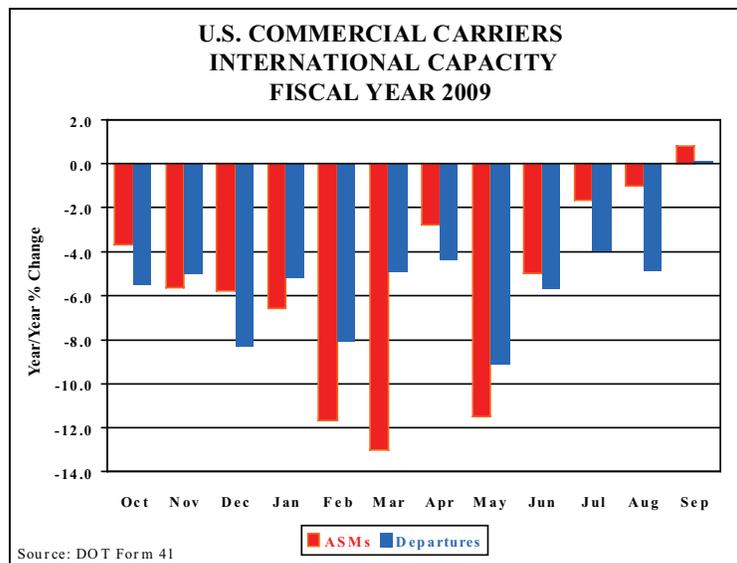
Domestic carrier load factor increased 1.0 points to 80.4 percent, setting an all-time high. Mainline carrier load factor increased 1.1 points to an all time high of 81.3 percent, while regional carrier load factor increased 0.6 points from 2008 to be 74.3 percent.

Since 2000, total domestic capacity has decreased by 5.9 percent. Mainline carriers have shrunk their domestic capacity by 14.4 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 146.3 percent). During the same period, mainline carrier RPMs have decreased 2.2 percent, while enplanements have fallen by 14.9 percent. In comparison, regional carrier RPMs and enplanements have increased 207.5 and 93.04 percent, respectively. As a result, mainline carrier domestic capacity share has fallen from 94.7 percent in 2000 to 86.2 percent in 2009, while their share of RPMs has dropped from 95.5 percent to 87.2 percent during the same period. Regional carriers now carry 1 in every 4 passengers, up from 1 in every 7.8 in 2000.

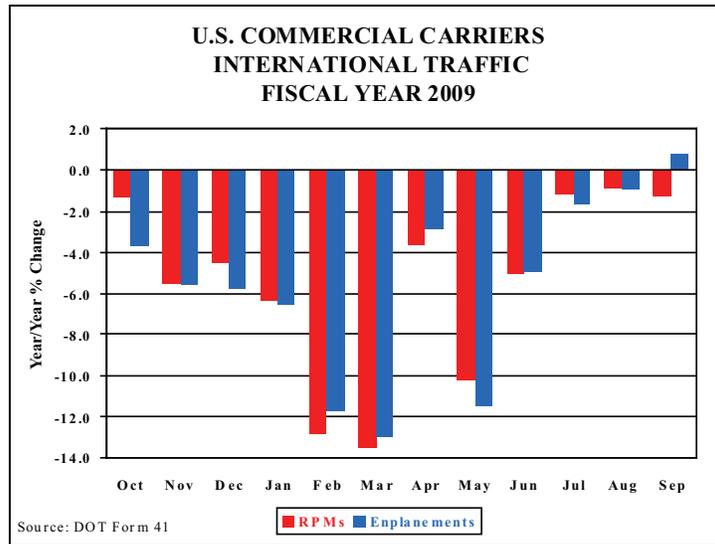


International Passenger Markets

Reversing the recent trend of rapid growth by network carriers into international markets, U.S. carriers posted losses in international capacity and traffic in 2009. U.S. carrier ASMs and departures were down 3.5 and 5.4 percent, respectively, in 2009. ASM growth fell slower in the first half of the year (down 2.9 percent) and then accelerated a bit during the second half of the year (down 3.6 percent). ASMs decreased in all world travel regions—down 2.0, 3.0, and 6.7 percent, respectively, in Atlantic, Latin American, and Asia/Pacific markets.



International RPMs were down 5.6 percent and passenger enplanements were down 6.6 percent in 2009, with the growth declining faster in first half of the year (down 7.3 percent for the first half versus down 3.6 percent during the second half for RPMs; down 7.9 percent versus down 3.5 percent for enplanements). The Atlantic market posted the smallest decline, with RPMs down 3.4 percent and enplanements down 4.9 percent. RPMs and enplanements fell 5.9 and 7.0 percent, respectively, in the Latin American market, while RPMs dropped 9.4 percent as enplanements fell 8.7 percent in the Pacific market.



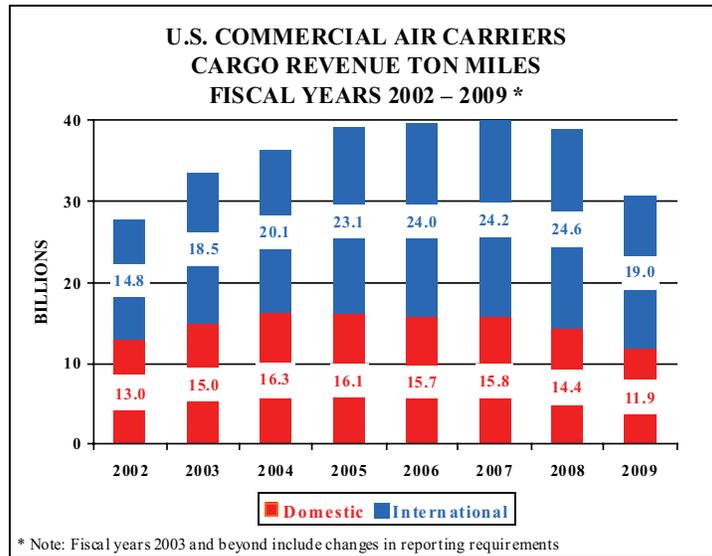
The international load factor dropped 1.7 percentage points in 2009 to be 78.1 percent. Load factor fell in the Latin America market (down 2.5 points to 76.8 percent), the Pacific market (down 2.3 points to 78.3 percent) and in the North Atlantic market (down 1.1 points to 78.9 percent).

In 2009, 47.6 percent of the passengers flying abroad on U.S. flag carriers traveled to the Latin America market. The remaining 51.6 percent of international passengers was split between the Atlantic market (35.3 percent) and the Pacific market (17.1 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 30.8 billion revenue ton miles (RTMs) in 2009, down 21.0 percent from 2008, with domestic cargo RTMs declining by 17.7 percent (11.9 billion) and international RTMs decreasing by 23.0 percent (19.0 billion). The deep declines in domestic and international RTMs reflect many factors including the recession in the U.S. and other world regions, strong price competition from alternative shipping modes, and the global financial crisis.

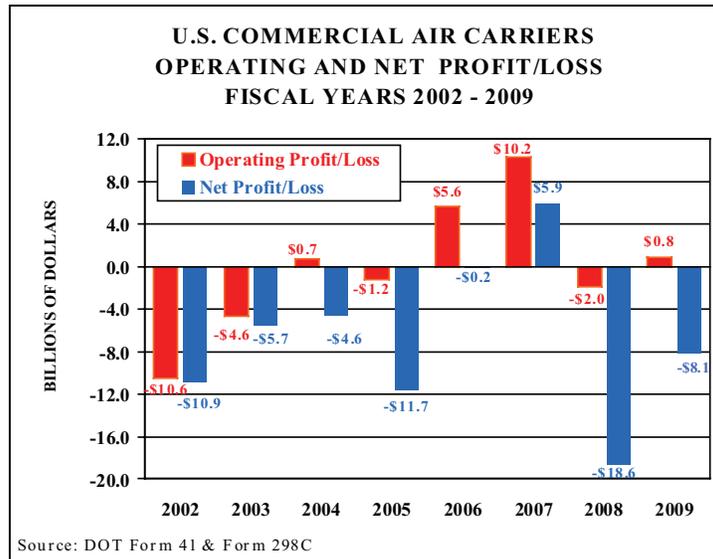


Air cargo RTMs flown by all-cargo carriers was 72.3 percent of total RTMs in 2009, with passenger carriers flying the rest, or 27.7 percent of the total. Total RTMs flown by all-cargo carriers declined 20.0 percent in 2009, from 27.8 billion to 22.3 billion. Total RTMs flown by passenger carriers were 8.5 billion in 2009, 23.5 percent lower than in 2008.

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. The Transportation Security Administration (TSA) is currently screening 50% of cargo that is transported by a passenger carrier. The law requires screening at the piece level. Because this screening requirement is not supplemented by congressional funding, it is the air cargo industry’s responsibility to bear all costs. Therefore, it is anticipated the law will continue to lead to increased cost and time requirements for shipment of cargo on passenger air carriers.

**U.S. COMMERCIAL AIR CARRIERS 2009 FINANCIAL RESULTS**

After posting a record net loss of \$18.6 billion in FY 2008 (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), U.S. commercial air carriers narrowed their losses to \$8.1 billion in FY 2009.



Operating revenues (passenger and cargo) were down 16.1 percent in 2009. The reduction in passenger revenues underscored the necessity of fare sales used to fill aircraft by inducing business and leisure travelers to fly during the economic downturn. The demand for cargo services was adversely affected as consumers and business used slower, less expensive shipping methods or delayed purchases altogether.

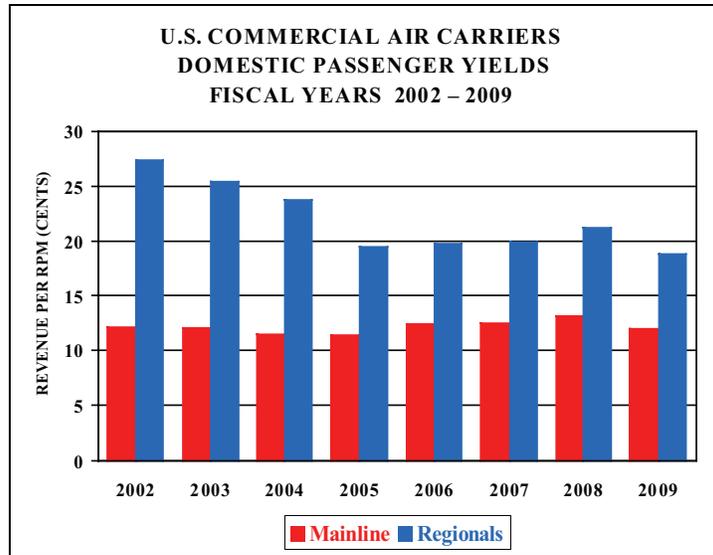
Operating expenses declined 17.4 percent from FY 2008. The reduction in operating expenses during FY 2009 was driven by a 31.8 percent reduction from the record high fuel prices posted for FY 2008, along with savings from lower variables costs due to reduced demand for passenger and cargo services.

In 2009, passenger carriers reported operating losses of \$298 million and net losses of \$7.8 billion, while air cargo carriers reported an operating profit of \$1.1 billion and a net loss of \$331.2 million. Passenger carriers reversed course from FY 2008 to generate an operating profit (\$180.3 million) in the domestic market, while international operations posted their first operating loss since FY 2003 (\$478.3 million). Net losses were reported for passenger carriers in both the domestic (\$5.6 billion) and international market (\$2.2 billion). Cargo carriers had stronger financial results than the passenger carriers. Domestically, cargo carriers posted an operating profit of \$587.3 million and a net loss of \$200.6 million. In international markets, these carriers reported operating profits of \$511.3 million and net losses of \$130.6 million.

The industry's financial deterioration is largely due to the financial performance of the network carriers, which have reported two consecutive years of losses. After posting a net loss of \$19.7 billion in FY 2008, the seven network carriers reported an additional loss of \$7.6 billion in FY 2009. Most of the downturn occurred in domestic markets where the seven carriers accounted for 58.3 percent of capacity and 47.6 percent of passengers transported. Between 2000 and 2008, the domestic operations of these carriers reported combined operating and net losses of \$30.7 and \$52.7 billion, respectively. These losses widened in 2009, with the network carriers reporting operating losses of \$1.7 billion and net losses of \$5.3 billion. The nine reporting low-cost carriers reported operating profits of \$765.4 million and net losses of \$183.0 million in FY 2009. During this period, the low cost carriers accounted for 26.3% and 26.6% of domestic capacity and passengers, respectively. Falling demand hindered profits for both carrier groups.

Declining leisure and business travel demand due to the economic downturn and the outbreak of H1N1 virus were responsible for mainline carrier passenger yield eroding throughout the year. Although carriers

responded to the reduction in demand for air travel with drastic capacity cutbacks, heavily discounted fares were necessary to fill aircraft. As a result, domestic mainline carrier passenger yield dropped 8.6 percent in 2009.

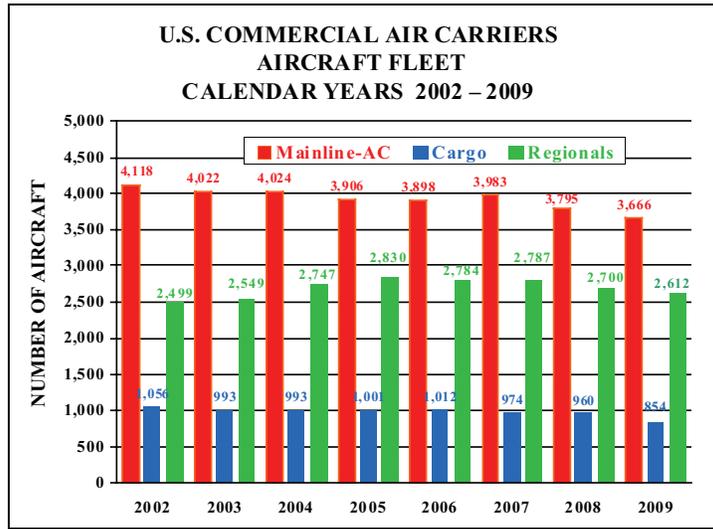


In 2009, regional carriers reported operating profits of \$915.6 million and net profits of \$202.3 million. The fortunes of regional carriers are closely tied to the success of the larger network carriers for whom they provide feed at mainline air carrier hub airports. These carriers are feeling the pinch as their mainline counterparts pass more financial risk for contract flying down to their regional partners. As a result, regional carrier passenger yield fell sharply in FY 2009, down 11.2 percent as high-yield business travelers were either tethered to the office due to limited travel budgets or could “buy down” to less restrictive and less expensive fares when allowed to travel.

### U.S. COMMERCIAL AIR CARRIERS 2009 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.

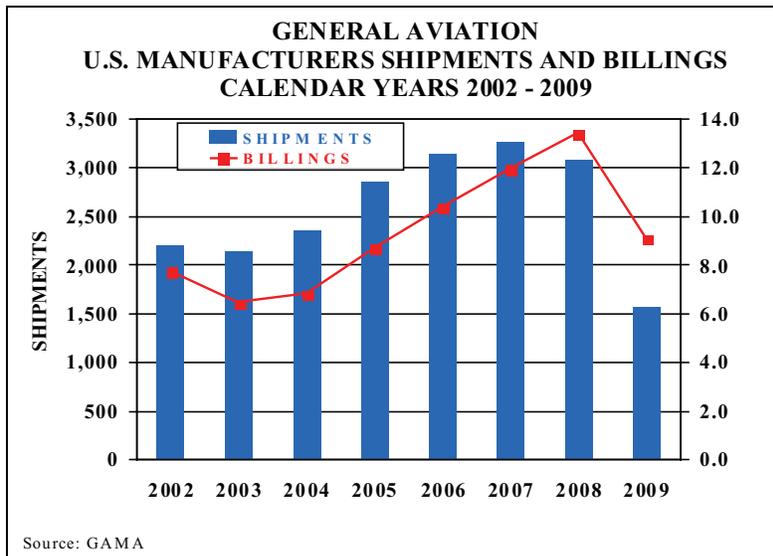
The total number of aircraft in the U.S. commercial fleet (including regional carriers) is estimated at 7,132 for 2009, a decrease of 323 aircraft from 2008. This includes 3,666 mainline air carrier passenger aircraft (over 90 seats), 854 mainline air carrier cargo aircraft, and 2,612 regional carrier aircraft (jets, turboprops, and pistons).



The mainline carriers’ passenger jet fleet decreased by 129 aircraft in 2009 as fuel inefficient aircraft continued to be grounded. With the cuts to the fleet, the mainline carrier fleet now stands at 18.3 percent below (822 aircraft) the level it was in 2000. Since reaching a peak of 2,830 aircraft in 2005, the regional fleet has shrunk by 218 aircraft.

## GENERAL AVIATION

With the onset of the economic downturn, weakening of the general aviation industry became apparent in 2008. In 2009 the deterioration was even more pronounced with record declines by several measures of activity and double digit declines by most measures. According to numbers released by the General Aviation Manufacturers Association (GAMA), U.S. manufacturers of general aviation aircraft delivered 1587 aircraft in CY 2009, 48.5 percent fewer than in CY 2008. This translates into a second consecutive year of decline in shipments that was preceded by four years of sustained growth. The turbine categories, turbojets and turboprops, were down 46.2 and 19.2 percent, respectively. Overall piston deliveries declined 55.1 percent, with single-engine down 54.6 percent and the much smaller multi-engine category down 64.8 percent. Billings in CY 2009 totaled \$9.1 billion, down 32.1 percent compared with 2008 and the first reported decline since 2003.



General aviation activity at FAA air traffic facilities in 2009 fell dramatically. Operations at combined FAA and contract towers declined 11.7 percent in 2009, one of the largest declines ever reported. General aviation activity at consolidated traffic facilities (FAA TRACONs) fell 10.4 percent, while the number of general aviation aircraft handled at FAA en route centers decreased by 17.7 percent.

The FAA uses estimates of fleet size, hours flown and utilization from the General Aviation and Part 135 Activity 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 2008 Survey, the latest one available, are consistent with the results of past surveys since 2004. This reinforces our belief that 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 along with GAMA aircraft shipment statistics, the active general aviation fleet is estimated to have increased 0.2 percent in 2009, to 229,149. Despite the increase in the active fleet, general aviation flight hours are estimated to have decreased 10.3 percent in 2009 to 23.3 million.

Student pilots are important to general aviation and the aviation industry as a whole. Although in decline for many years now, the economic recession experienced in 2009 seems to have had an especially significant impact on the number of student pilots. In 2009, according to statistics compiled by the FAA’s Mike Monroney Aeronautical Center, the number of student pilots decreased by 10.8 percent. This is the fifth consecutive year of decline in this category and the largest decline in recent history. The average age of a U.S. pilot in 2009 was 45.3 years old.

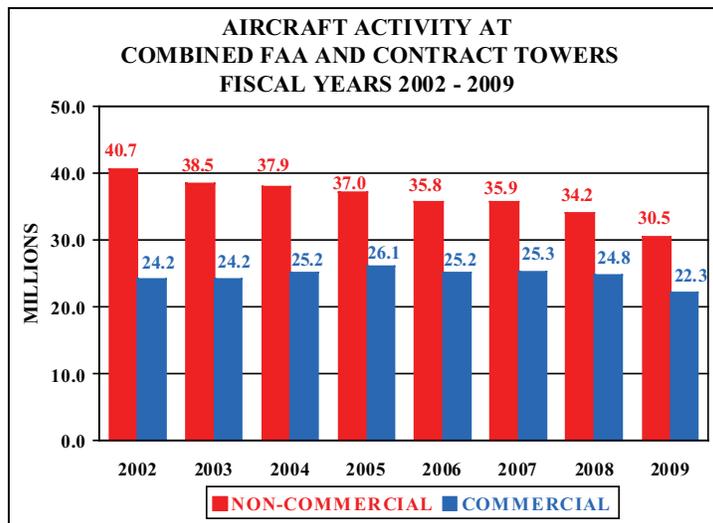
## FAA WORKLOAD

In 2009, FAA facilities experienced the sharpest decline in activity since 1982. Despite lower fuel prices, air traffic activity fell in response to weak demand caused by the recession and the poor financial condition of the industry.

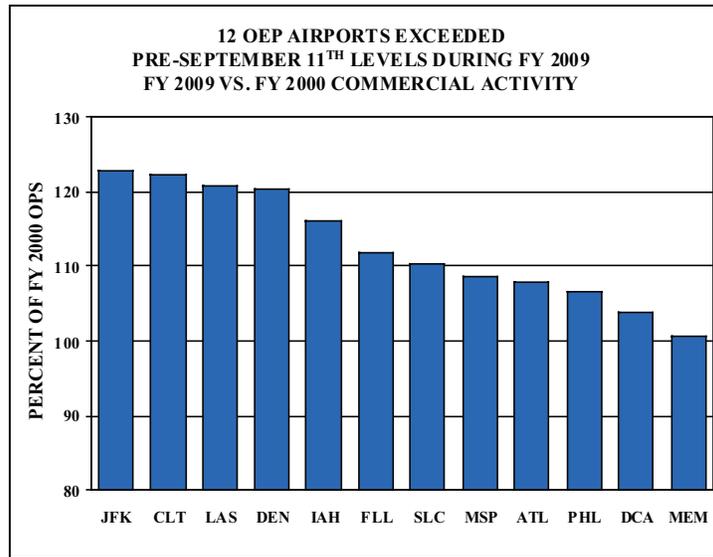
Total activity at combined FAA and contract tower airports was 52.9 million operations in 2009, down 10.4 percent from 2008 and 23.0 percent below the peak activity level recorded in 2000. Commercial activity (the sum of air carrier and commuter/air taxi) at combined FAA and contract towers declined by 9.9 percent in 2009. Air carrier operations were down 6.9 percent while commuter/air taxi operations fell 13.8 percent. Commercial operations in 2009 were 14.3 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 10.7 percent in 2009, with general aviation activity (28.0 million) down 11.7 percent and military activity (2.6 million) up 1.1 percent. General aviation activity has declined nine of the past ten years since 1999.

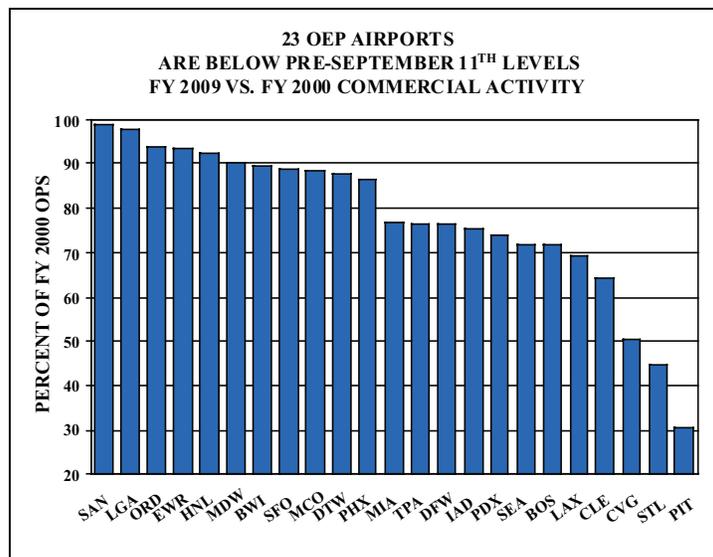
At the end of 2009, non-commercial aircraft activity was 28.6 percent below the activity in 2000.



The FAA pays close attention to the trends occurring at the 35 Operational Evolution Partnership (OEP) airports. These airports represent the top 35 airports in the country in terms of passenger activity (except CLE and PIT) and account for about 74 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 2009, commercial activity at the OEP airports fell by 7.9 percent and was 11.2 percent below pre-9/11 activity levels. All of the OEP 35 airports recorded decreases in activity with the largest declines occurring at Cincinnati (down 23.8 percent) and Tampa (down 17.9 percent). As a result, only 12 airports exceeded 2000 peak activity levels during fiscal year 2009, down from 17 in the previous year.



Since 2000 there has been a pronounced shift in demand to low-cost carriers which is reflected in the relative growth of commercial operations across the OEP 35 airports. Commercial operations at New York Kennedy (up 22.7 percent), Charlotte (up 22.3 percent), and Las Vegas (up 20.8 percent), are up the greatest relative to their pre-September 11<sup>th</sup> activity levels. Commercial operations at Pittsburgh (down 69.5 percent) and St. Louis (down 55.5 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.



In 2009, total activity at FAA en route centers (40.1 million) fell 11.6 percent from the previous year. Commercial activity declined 9.6 percent, with air carrier operations down 6.8 percent and commuter/air taxi operations down 16.0 percent. Non-commercial activity was down 17.8 percent in 2009 as general aviation and military activity fell 17.7 and 18.0 percent, respectively. In 2009, air carrier operations were 11.1 percent below their 2000 activity levels while operations for the general aviation and military user groups were 27.9 and 28.6 percent below their 2000 activity levels, respectively.

