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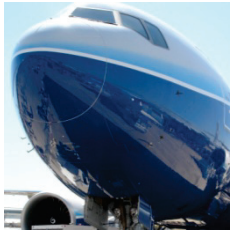

Airline Industry Trends and Implications for Multi-Airport Regions

Presented by:

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Presented to:

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Recent Mergers Have Greatly Increased Airline Concentration in the Domestic U.S. Market

Share of Domestic RPMs for Top 10 U.S. Airlines
CY 2007 & YE 3Q 2011

CY 2007

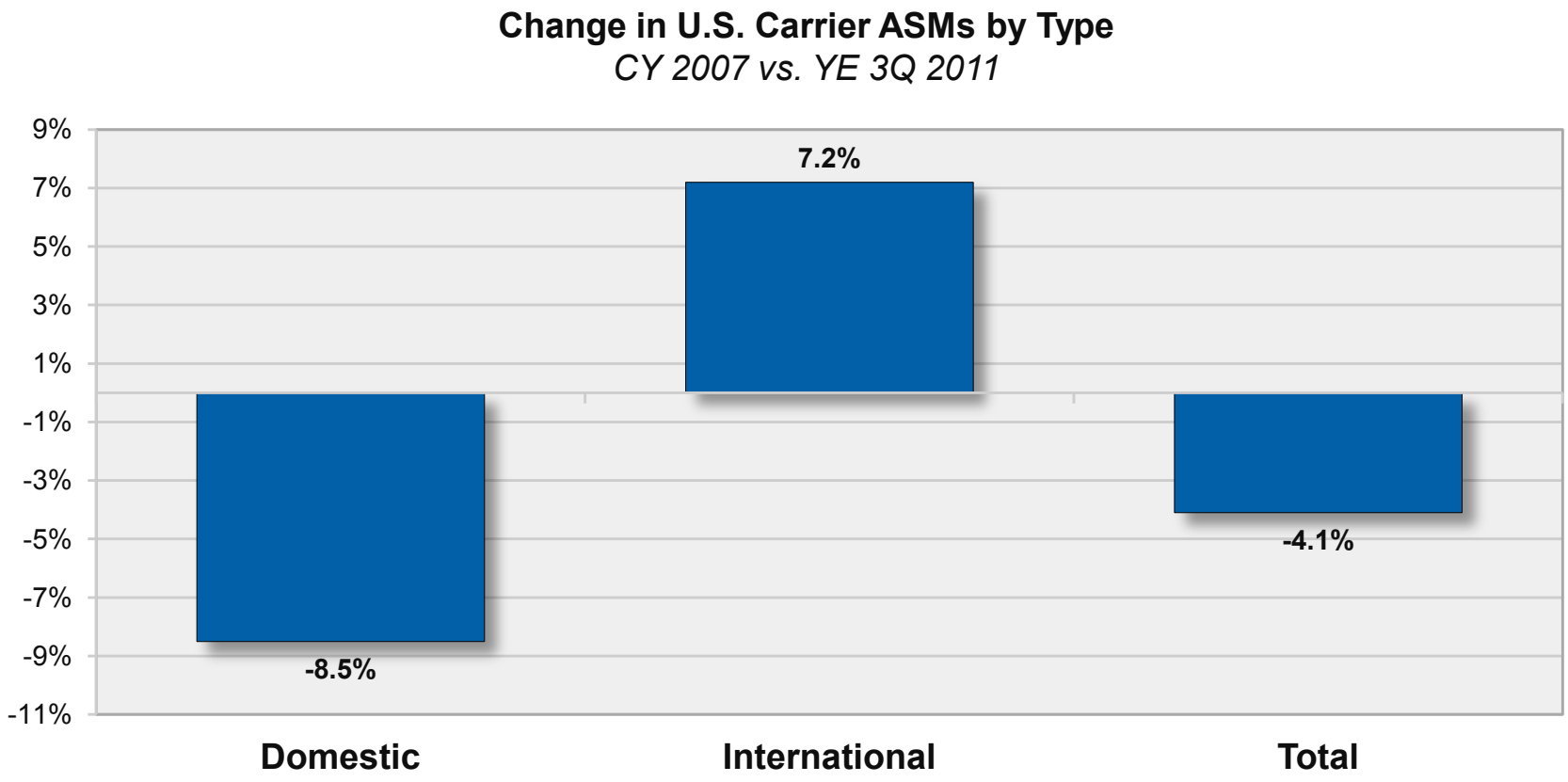
Rank	Carrier	Share of Total	Cumm. % of Total
1	American	14.9%	14.9%
2	Southwest	12.0%	26.9%
3	United	11.6%	**38.5%**
4	Delta	10.7%	49.2%
5	US Airways/America West	8.2%	**57.4%**
6	Continental	7.7%	65.1%
7	Northwest	6.9%	72.0%
8	JetBlue	4.3%	76.3%
9	Airtran	2.9%	79.1%
10	Alaska Airlines	2.7%	81.8%
	Subtotal Top 10	81.8%	
	All Other	18.2%	

YE 3Q 2011

Rank	Carrier	Share of Total	Cumm. % of Total
1	Southwest/AirTran	18.0%	18.0%
2	United/Continental	17.0%	35.0%
3	Delta	16.1%	**51.1%**
4	American/AA Eagle	15.0%	66.1%
5	US Airways	7.9%	**73.9%**
6	JetBlue	4.5%	78.4%
7	Alaska	3.6%	82.0%
8	Frontier/Republic	2.7%	84.7%
9	Skywest	2.4%	87.1%
10	ExpressJet	1.5%	88.6%
	Subtotal Top 10	88.6%	
	All Other	11.4%	

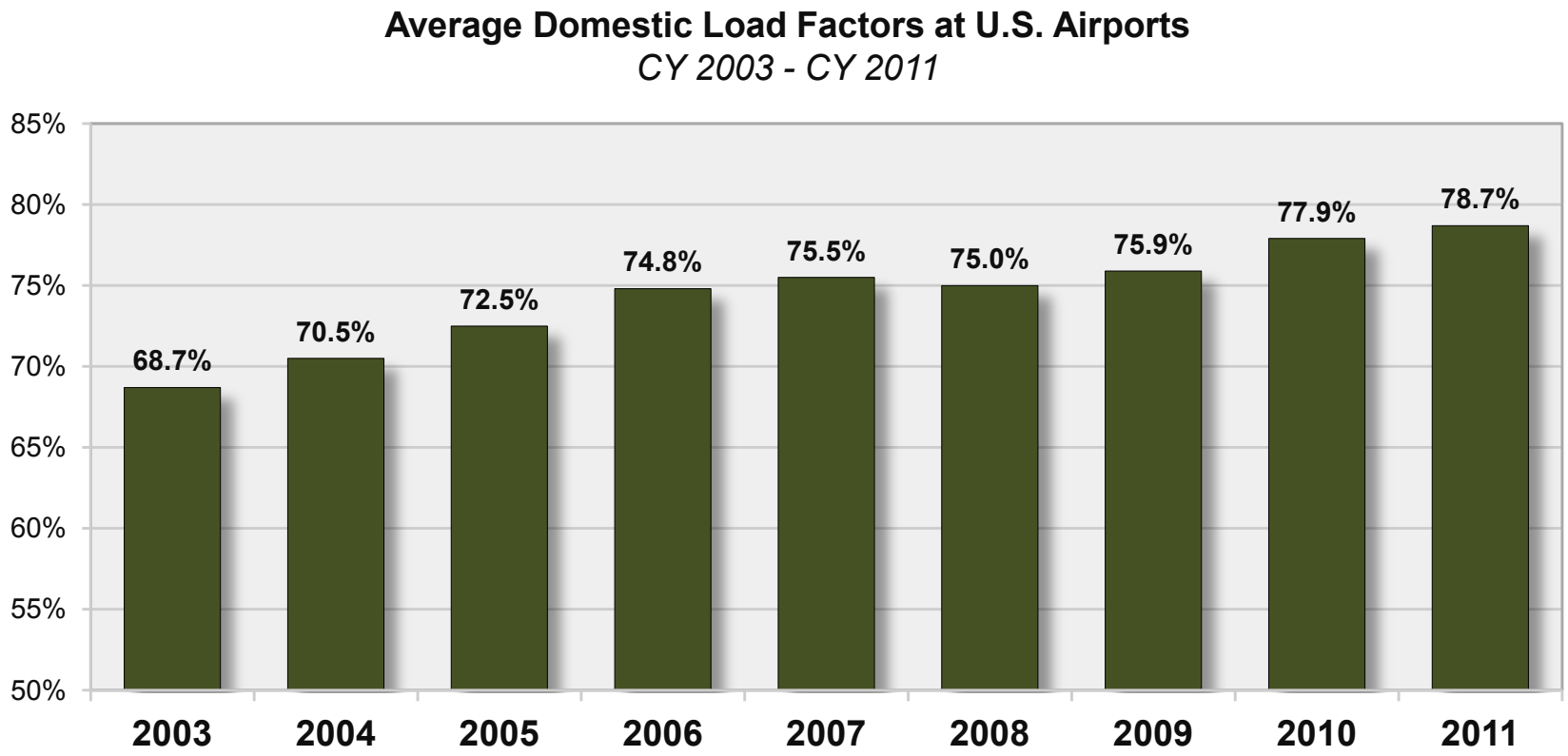
Source: U.S. DOT, Form 41, Database Products Inc.

U.S. Carriers Have Reduced Domestic Capacity and Increased International Flights in their Effort to Restore Profitability



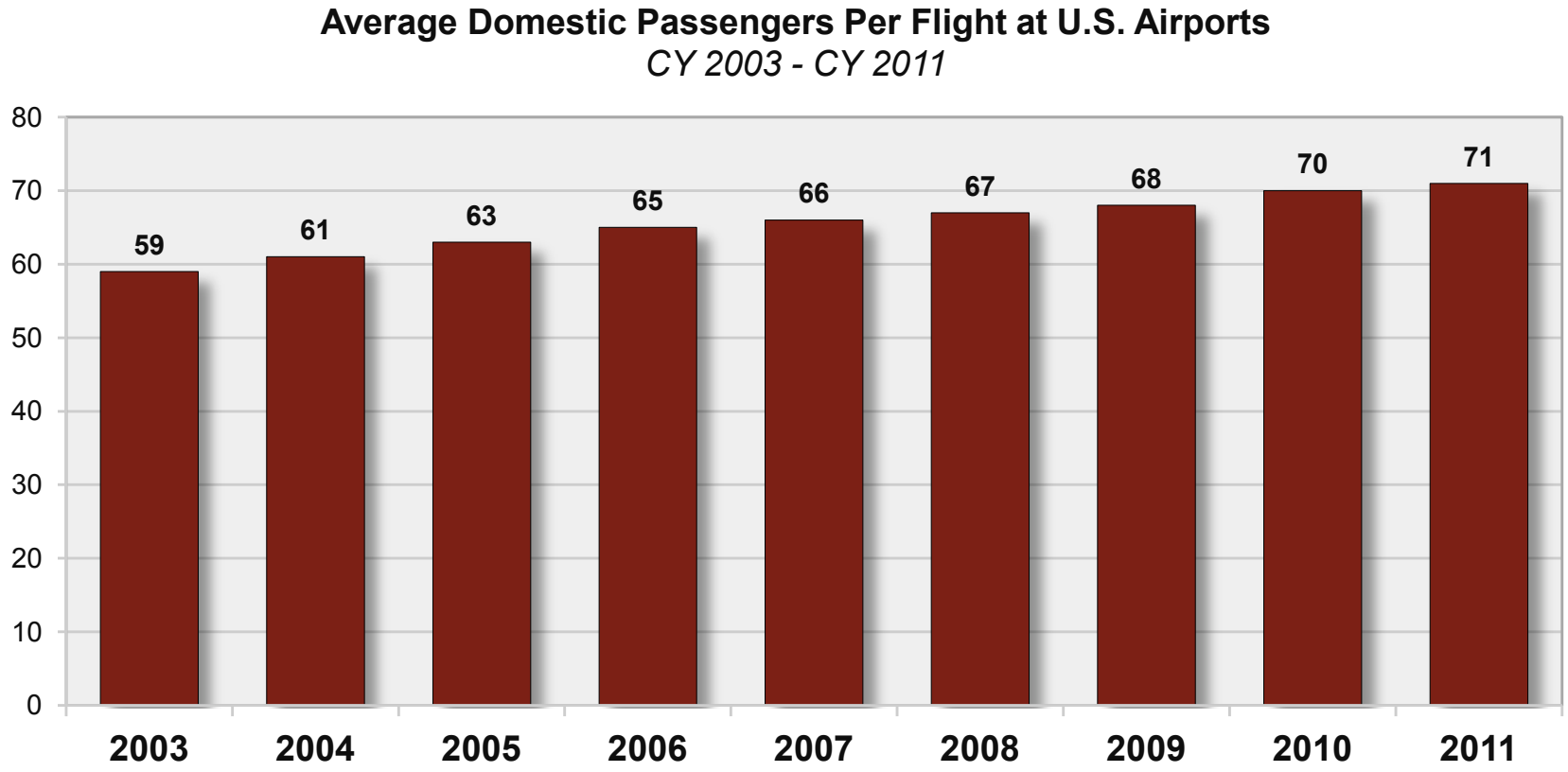
Source: U.S. DOT, Form 41, Database Products Inc.

Domestic Capacity Reductions Have Led to Significant Increases in Load Factors



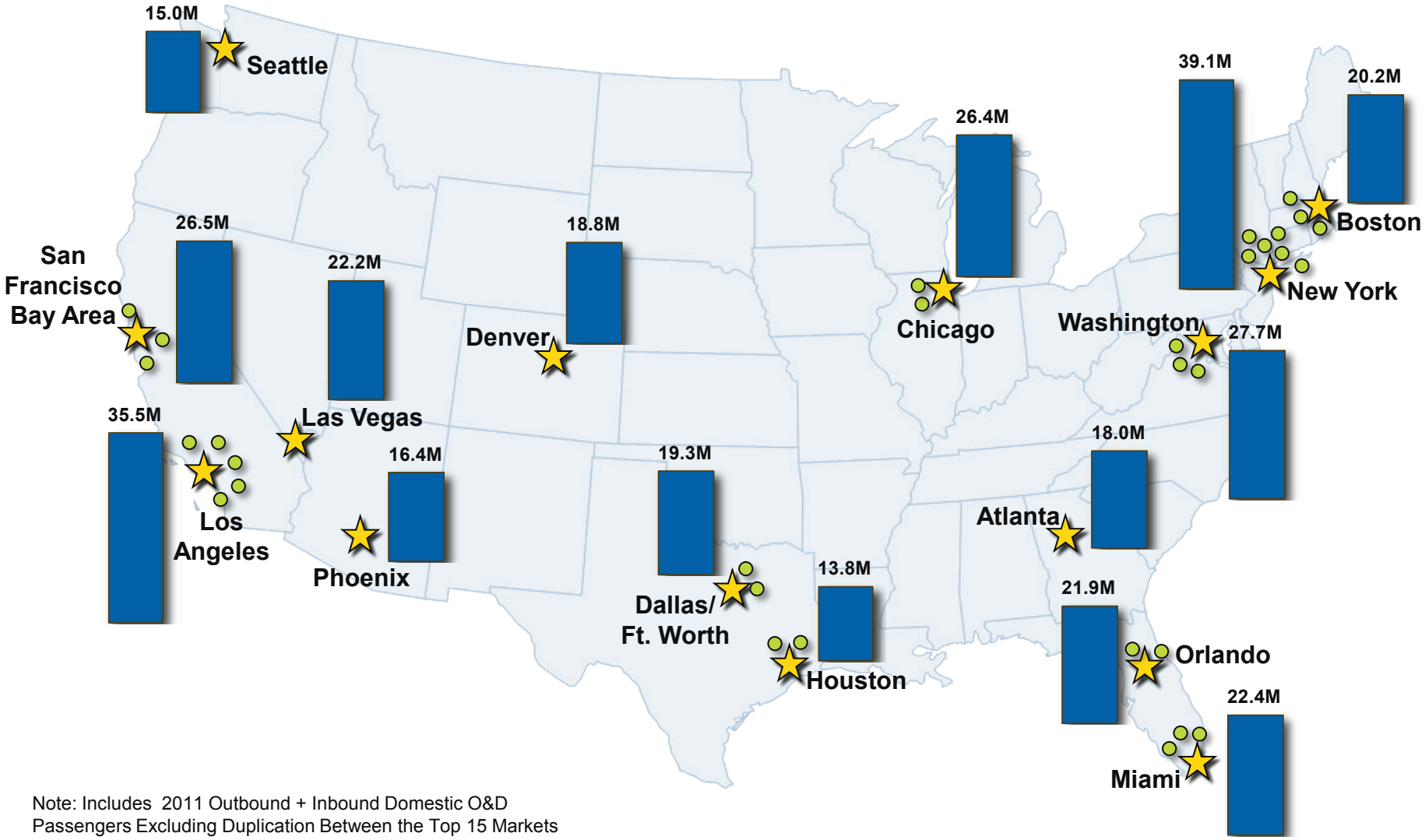
Source: U.S. DOT, T100 Database, Database Products Inc.

Rising Load Factors and Modest Increases in Aircraft Size Have Produced a 20% Increase in Passengers Per Flight



Source: U.S. DOT, T100 Database, Database Products Inc.

Nearly 80% of Domestic Air Trips Are Taken To or From the 15 Largest U.S. Metro Markets



Note: Includes 2011 Outbound + Inbound Domestic O&D Passengers Excluding Duplication Between the Top 15 Markets

Source: U.S. DOT, O&D Database, Database Products Inc.

Secondary Airports in Major Metro Areas Have Been Among the Hardest Hit by Capacity Reductions

Major U.S. Airports Ranked by Decline in Domestic Seats
August 2006 vs. August 2011

Rank	Airport	2006	2011	% Change
1	Cincinnati	201,127	87,875	-56.3%
2	**Islip**	**33,181**	**19,477**	**-41.3%**
3	**Oakland**	**207,283**	**125,184**	**-39.6%**
4	**Ontario**	**92,896**	**57,983**	**-37.6%**
5	**Manchester**	**52,407**	**33,521**	**-36.0%**
6	**Providence**	**68,826**	**49,940**	**-27.4%**
7	Greensboro	30,970	22,828	-26.3%
8	Pittsburgh	141,929	105,130	-25.9%
9	Rochester	42,915	31,978	-25.5%
10	Hartford	90,981	68,200	-25.0%
11	**San Jose**	**146,107**	**110,664**	**-24.3%**
12	Colorado Springs	27,282	20,683	-24.2%
13	Memphis	138,543	105,207	-24.1%
14	Reno	68,939	52,846	-23.3%
15	Boise	51,212	39,876	-22.1%
16	**Burbank**	**83,581**	**65,130**	**-22.1%**
17	Indianapolis	109,445	85,295	-22.1%
18	Syracuse	30,972	24,250	-21.7%
19	Fort Myers	64,407	50,986	-20.8%
20	Las Vegas	534,652	423,523	-20.8%
	Large Hubs	11,426,931	10,801,941	-5.5%
	Medium Hubs	4,059,090	3,346,502	-17.6%
	Small Hubs	1,667,334	1,459,781	-12.4%
	Non Hubs	808,334	726,153	-10.2%
	Total U.S.	17,961,689	16,334,377	-9.1%

Source: OAG Schedules

The Boston Metro Area and the San Francisco Bay Area Have Experienced Major Shifts in Airport Market Shares

Domestic O&D Passengers Shares at Metro Area Airports
CY 2006 vs. CY 2011

Metro Area	Largest Dom. Apt /1	Domestic O&D Share CY 2006	Domestic O&D Share CY 2011	Pct Point Change
Bay Area	**SFO**	**41.9%**	**59.3%**	**17.4**
Boston	**BOS**	**70.2%**	**77.2%**	**7.0**
Los Angeles	LAX	56.7%	61.4%	4.7
Miami	FLL	52.0%	54.8%	2.8
Washington	BWI	39.7%	41.2%	1.5
New York	LGA	35.9%	36.9%	1.0
Chicago	ORD	69.1%	69.3%	0.2
Orlando	MCO	98.0%	96.4%	-1.6
Dallas/Fort Worth	DFW	80.4%	78.8%	-1.6
Houston	IAH	69.1%	62.1%	-7.0

/1 Based on Domestic O&D Passengers in CY 2011

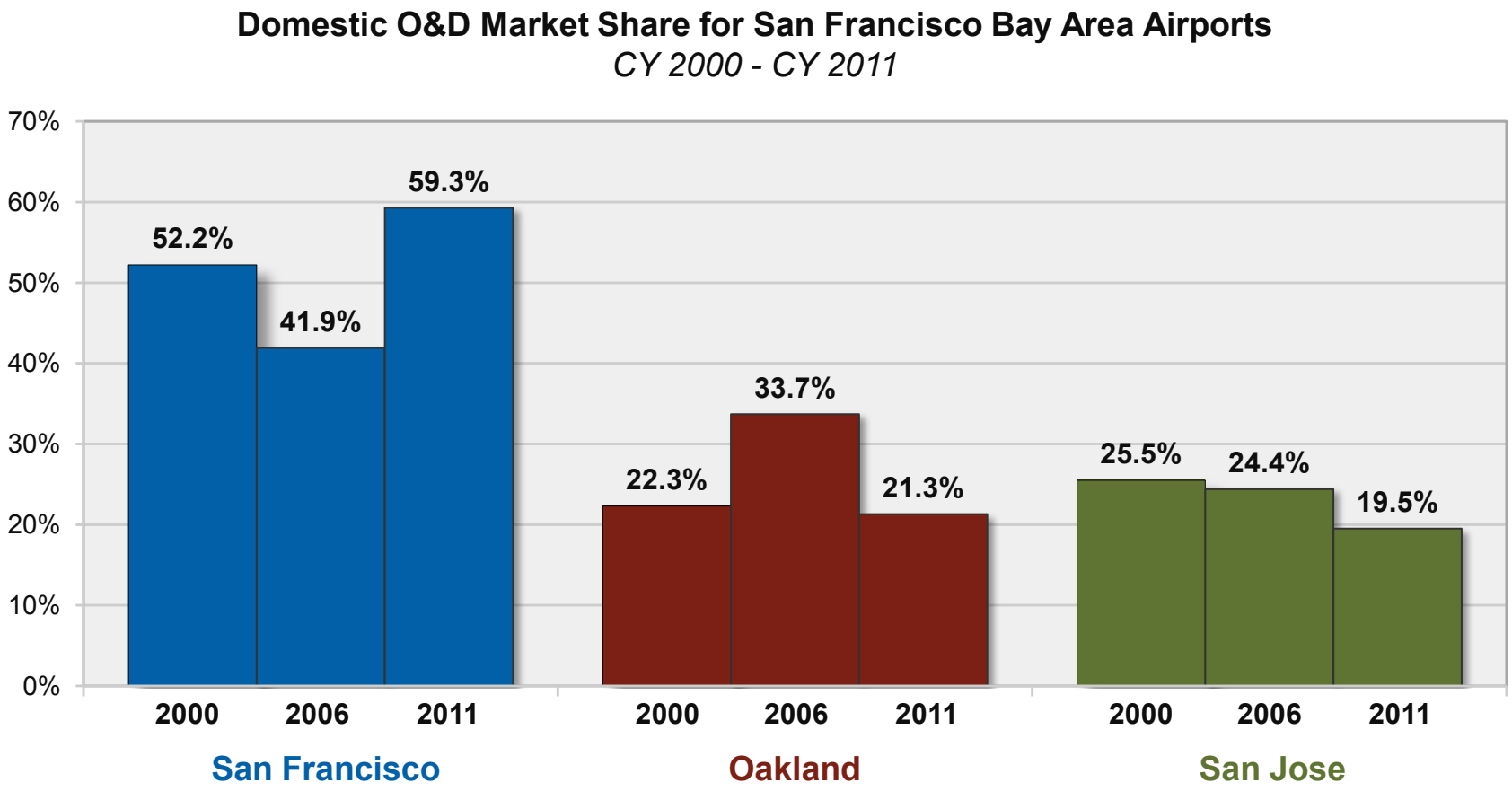
Source: U.S. DOT, O&D Database, Database Products Inc.

Several Factors Led to a Significant Redistribution of Domestic Traffic Between the San Francisco Bay Area Airports

- **Launch of Virgin America with SFO Base and Competitive Response of Southwest Airlines and JetBlue (2007)**
- **Volatile Fuel Prices, a Global Recession, and Declining Passenger Demand**
- **Carrier Financial Difficulties, Capacity Reductions, and Consolidation**

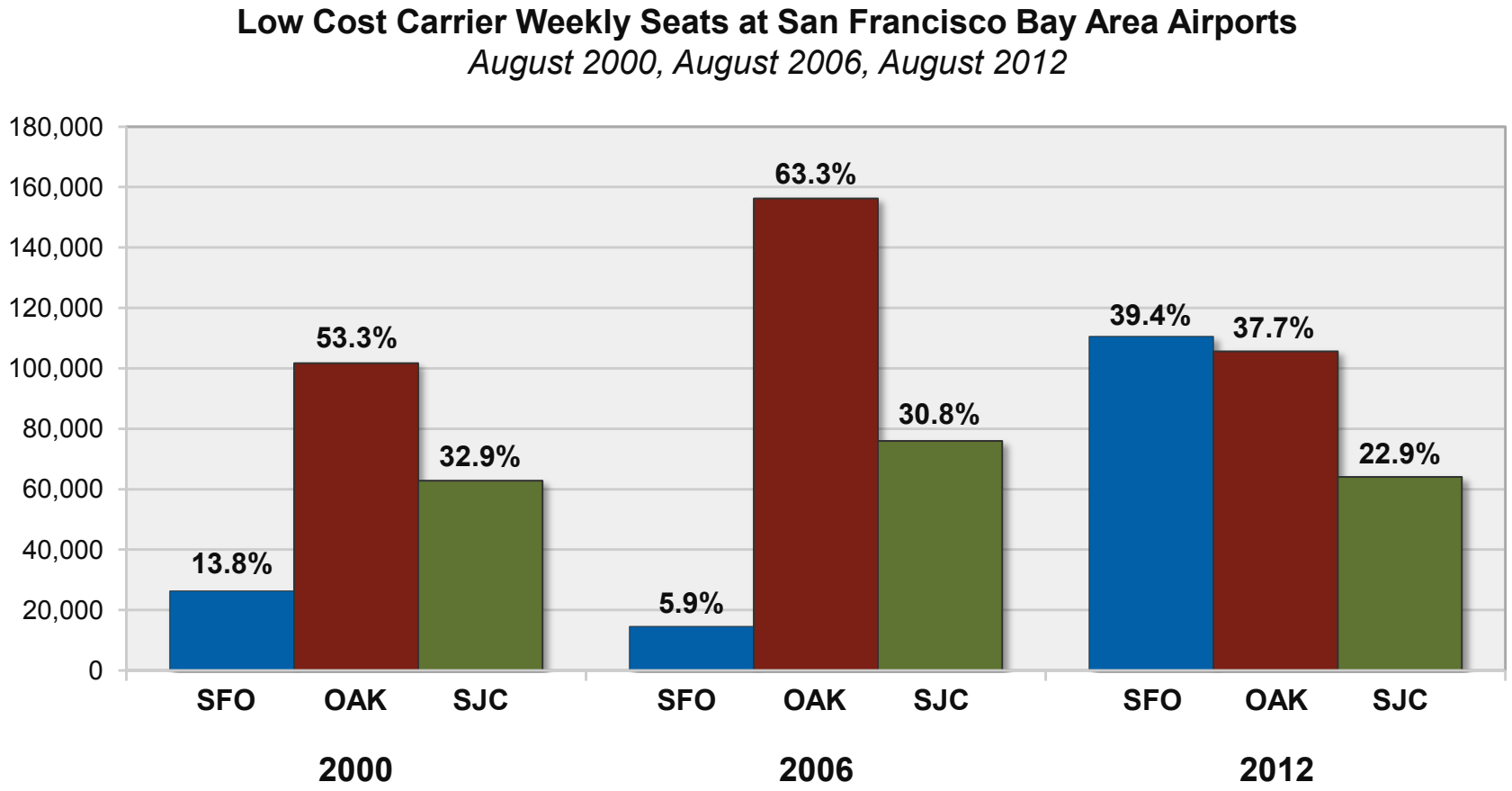
At OAK	At SJC
• Failure of ATA, Aloha, and Skybus • Withdrawal of American Airlines and Continental • Capacity Reductions by Southwest and Alaska	• Southwest (50% of SJC seats) increased seat capacity by 6% from 2006 to 2008 • Significant capacity reductions by other airlines, including American, Alaska and United

SFO's Domestic O&D Share Dropped Sharply from 2000 to 2006 But Has More than Fully Rebounded



Source: U.S. DOT, O&D Database, Database Products Inc.

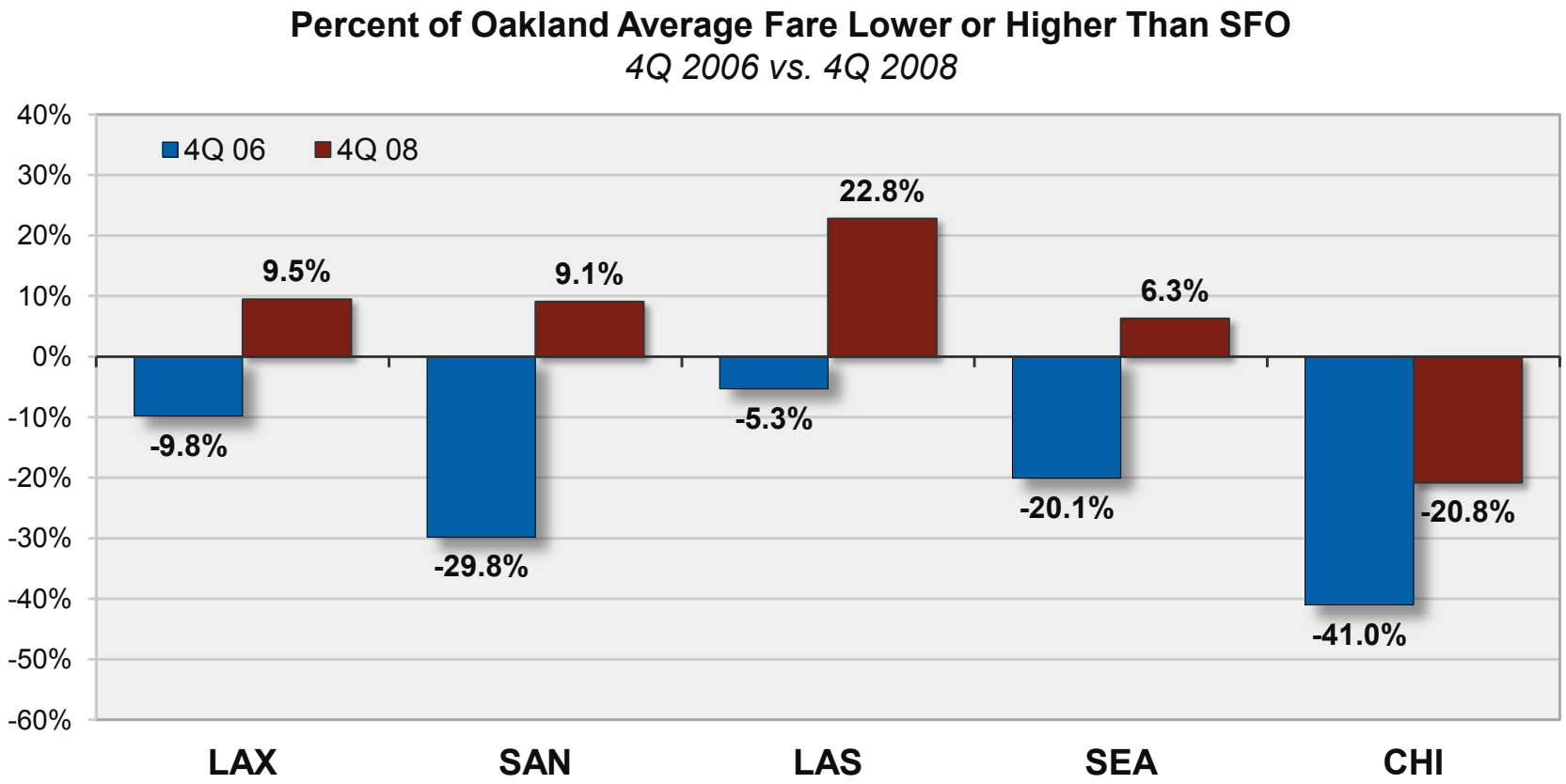
The Influx of Low Cost Carrier Services at SFO Has Driven Its Market Share Recovery



Note: Includes Southwest, Virgin America, JetBlue, AirTran, and various others.

Source: OAG Schedules

LCC Entry at SFO Reversed or Significantly Reduced Oakland's Historic Fare Advantage



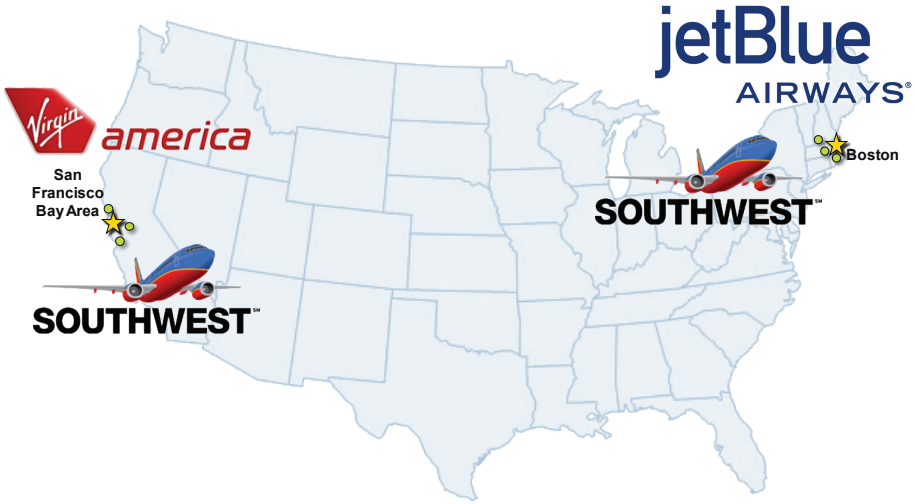
Since 2008, Fare Levels have Moved Closer to Parity

Note: The 5 markets shown each had significant LCC carrier entry at SFO as of 4Q 2008

Source: U.S. DOT, O&D Database, Database Products Inc.

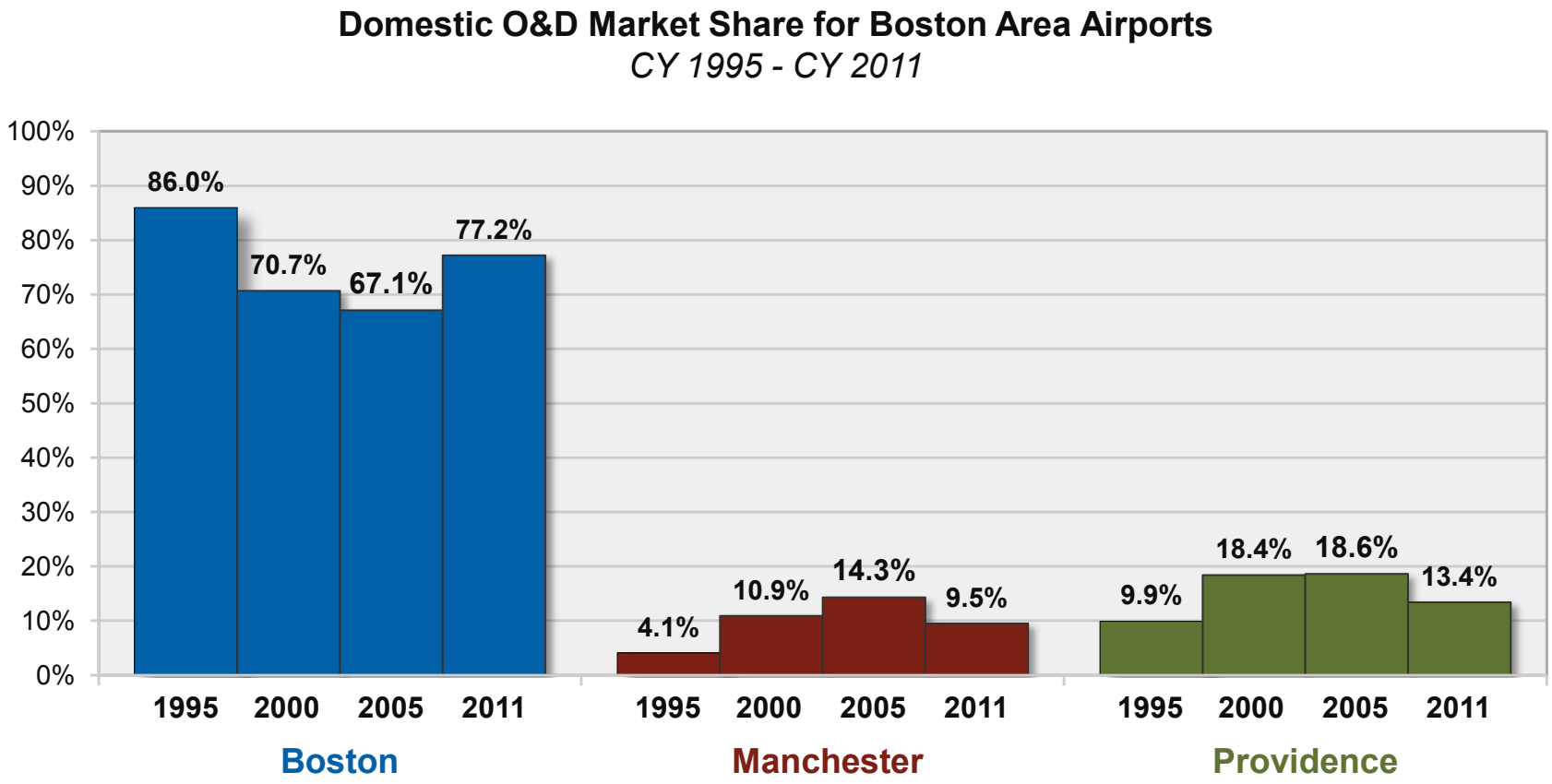
There are Direct Parallels Between the Boston and Bay Area Regions

- **Domestic Traffic at Manchester and Providence Surged with Entry/Expansion of Southwest Airlines (1996-PVD, 1998-MHT)**
- **Fare Savings and Expanded Services Caused Domestic Traffic to Shift from Boston to Manchester and Providence**



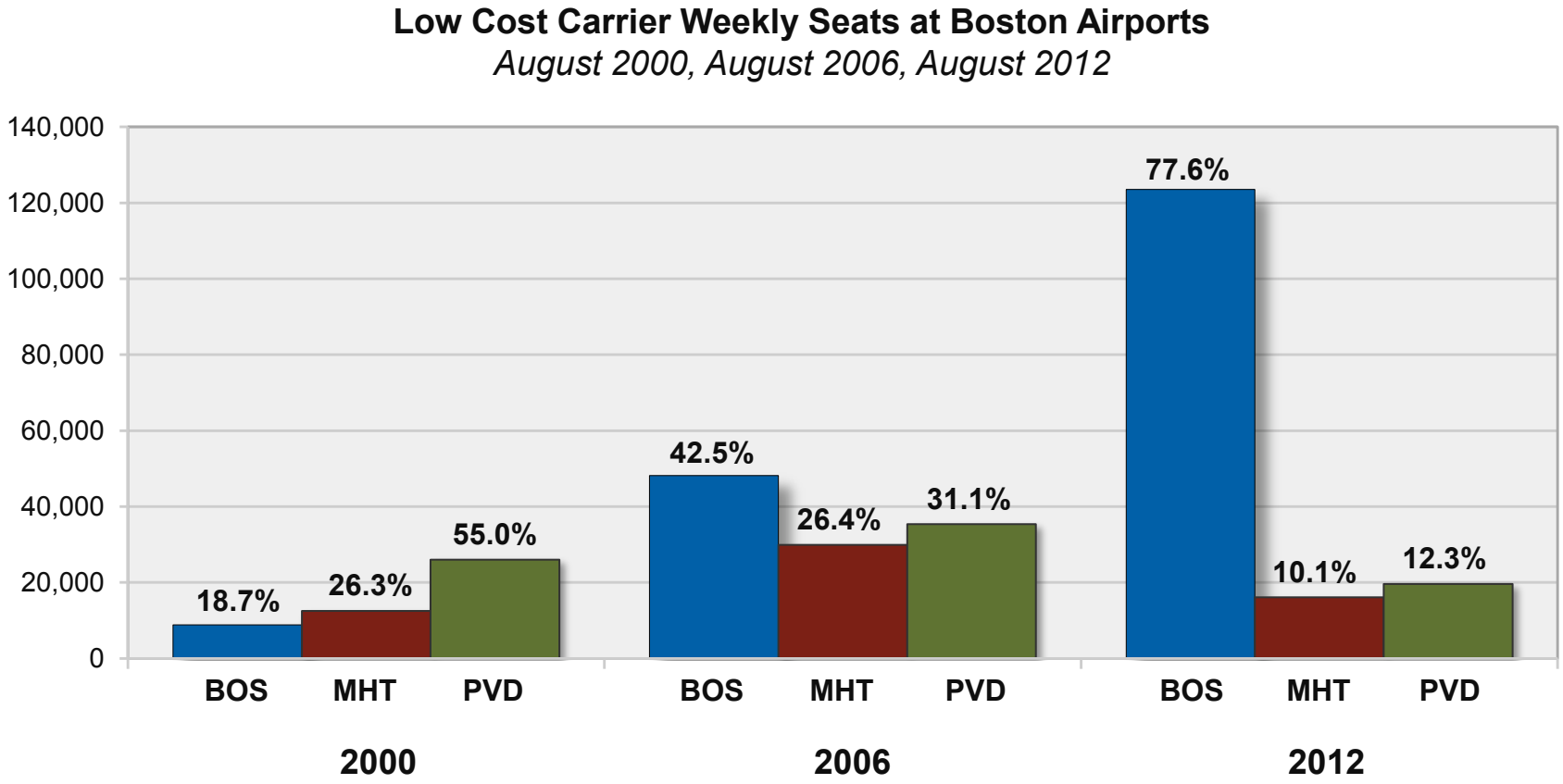
- **JetBlue's Growth at Boston Triggered a Reversal of This Trend**
  - JetBlue is Now Boston's Leading Carrier
  - Southwest Entered Boston in 2009
  - Southwest Remains the Leading Carrier at Manchester and Providence
- **Boston's Domestic Traffic Share Has Rebounded Strongly Since 2005**

Boston's Domestic O&D Share Plunged from 1995 to 2005, But Has Strongly Rebounded



Source: U.S. DOT, O&D Database, Database Products Inc.

Logan is Now the Leading LCC Airport in the Region, Largely Due to JetBlue's Boston Expansion



Note: Includes Southwest, Virgin America, JetBlue, AirTran, and various others.

Source: OAG Schedules

What Can Be Learned and What are the Future Implications?

- **Fare Differentials Play a Major Role in Airport Choice Within Multi-Airport Markets**
- **Leading Low Cost Carriers (e.g., Southwest, JetBlue, Virgin America) are Now Committed to Serving Core Metro Airports**
- **Significant Fare Savings at Secondary Airports are Unlikely to Recur**
- **Dramatic Declines in Secondary Airport Market Shares will Stabilize**
  - **Near Term**
    Core Catchment Area Demand Provides a Floor to Future Traffic Levels
  - **Longer-Term**
    Capacity Constraints/Delays at Primary Airports are Likely to Emerge, Stimulating Traffic Growth at Secondary Airports

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