

Pilot Productivity – Pilot Avg.

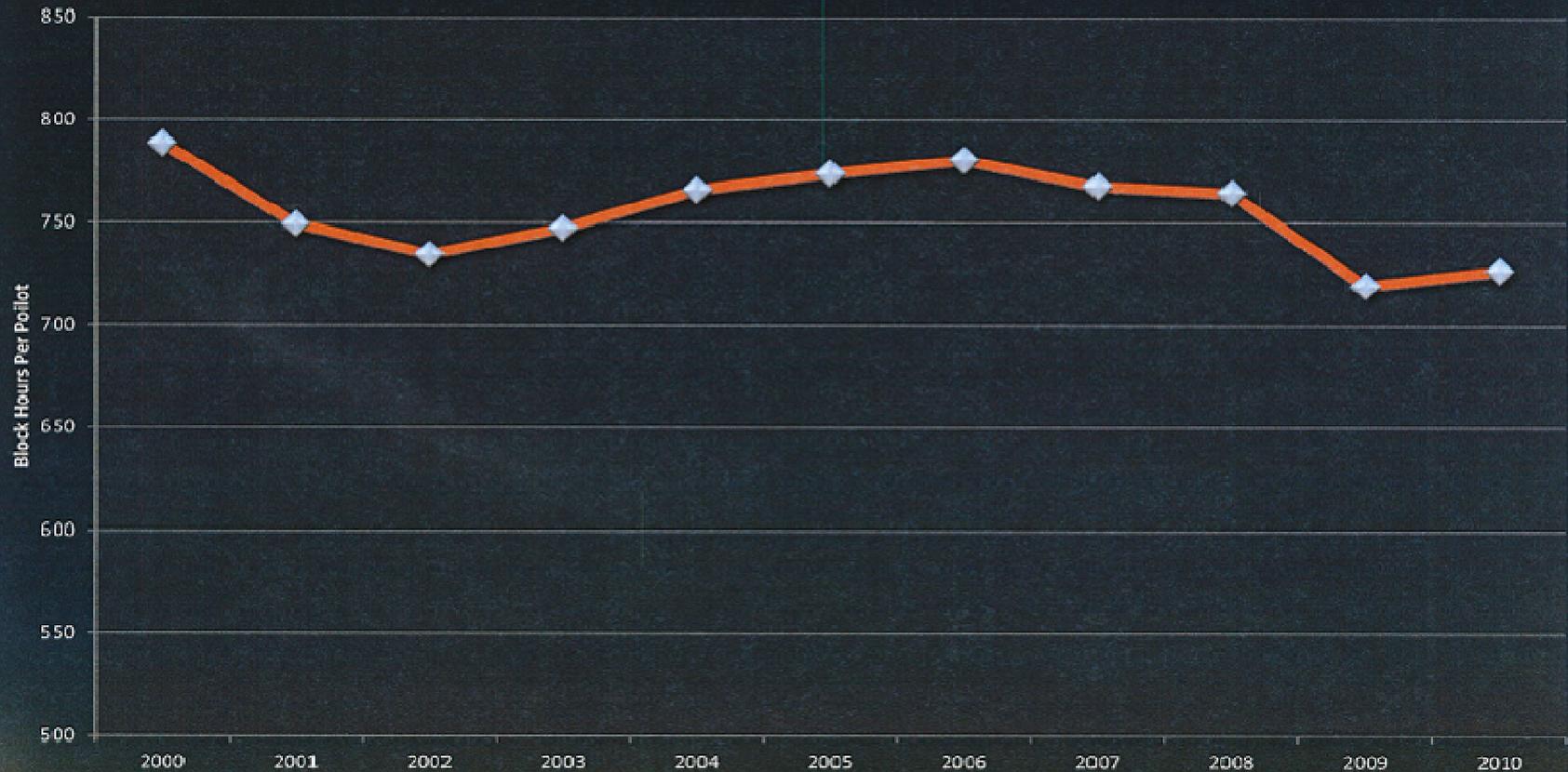
We agree that our Pilots have highest block hours in industry. However:

- We pay them 30-50%+ more than the industry for this productivity, which more than offsets our productivity advantage
- A portion of this BH/month advantage is due to more flexible work rules, but our Pilots are also able to work more due to the density of our network and greater number of short haul flights
- Productivity has been declining since 2006 (next slide)



Consistent with our data

Pilot Productivity – Block Hours Trend



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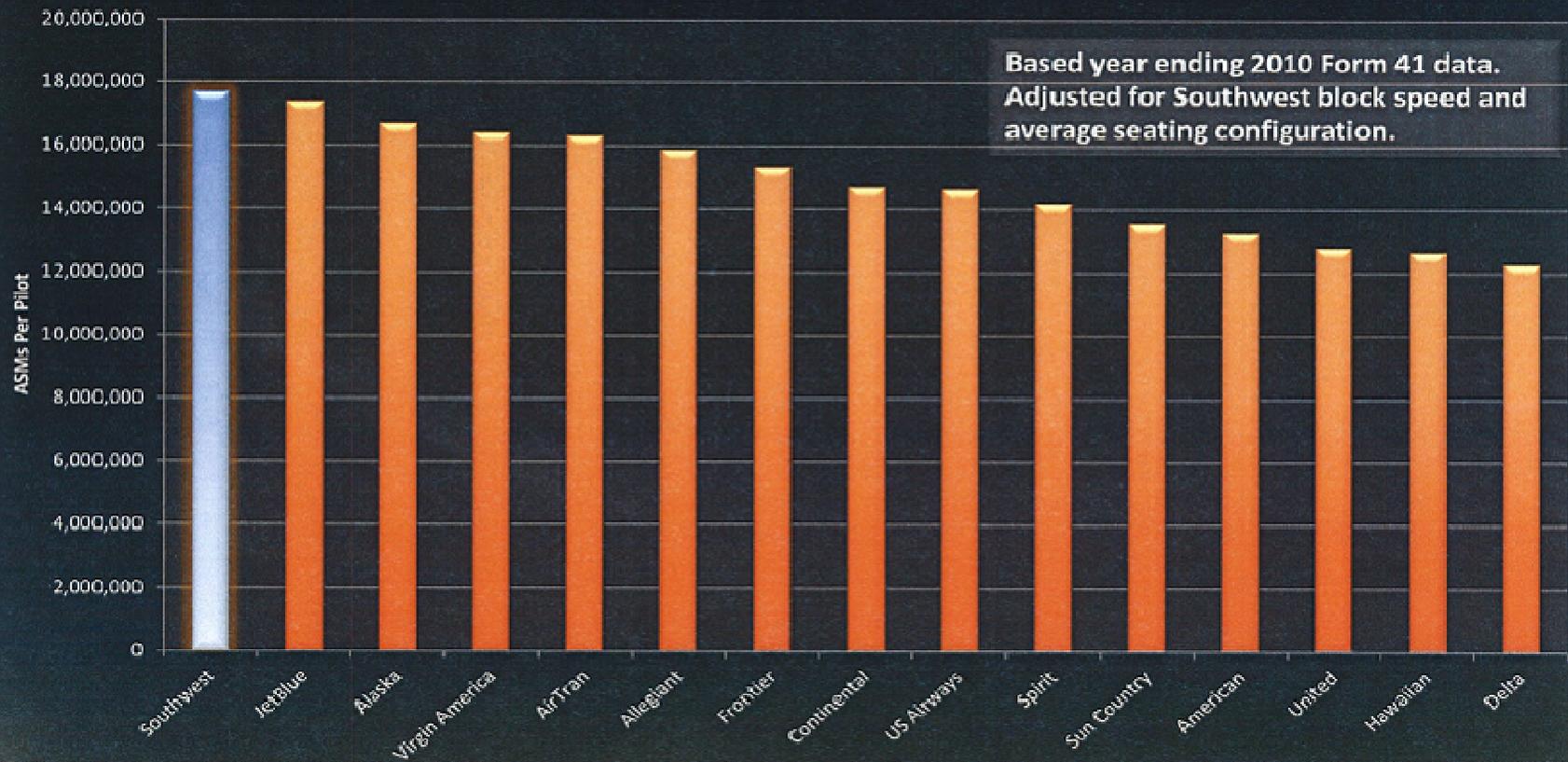
STRATEGIC PLANNING COMMITTEE



Pilot Productivity – ASM

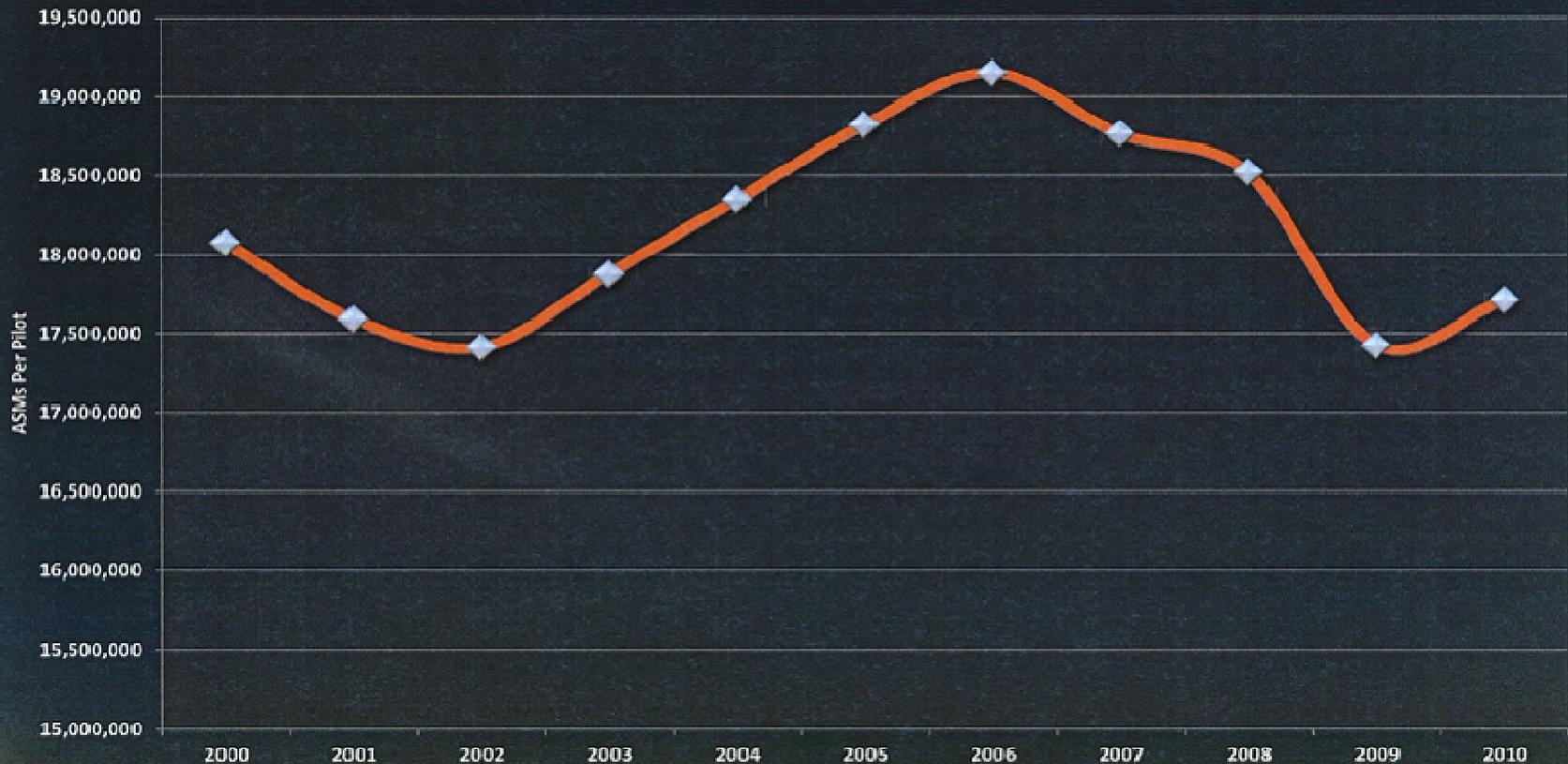
This chart controls for our smaller planes and lower block speed (due to shorter stage length).

Again, we agree that our Pilots are more productive than competitors, but these charts are incomplete without showing our higher cost per ASM (which more than offsets our productivity advantage)



Pilot Productivity – ASM Trend

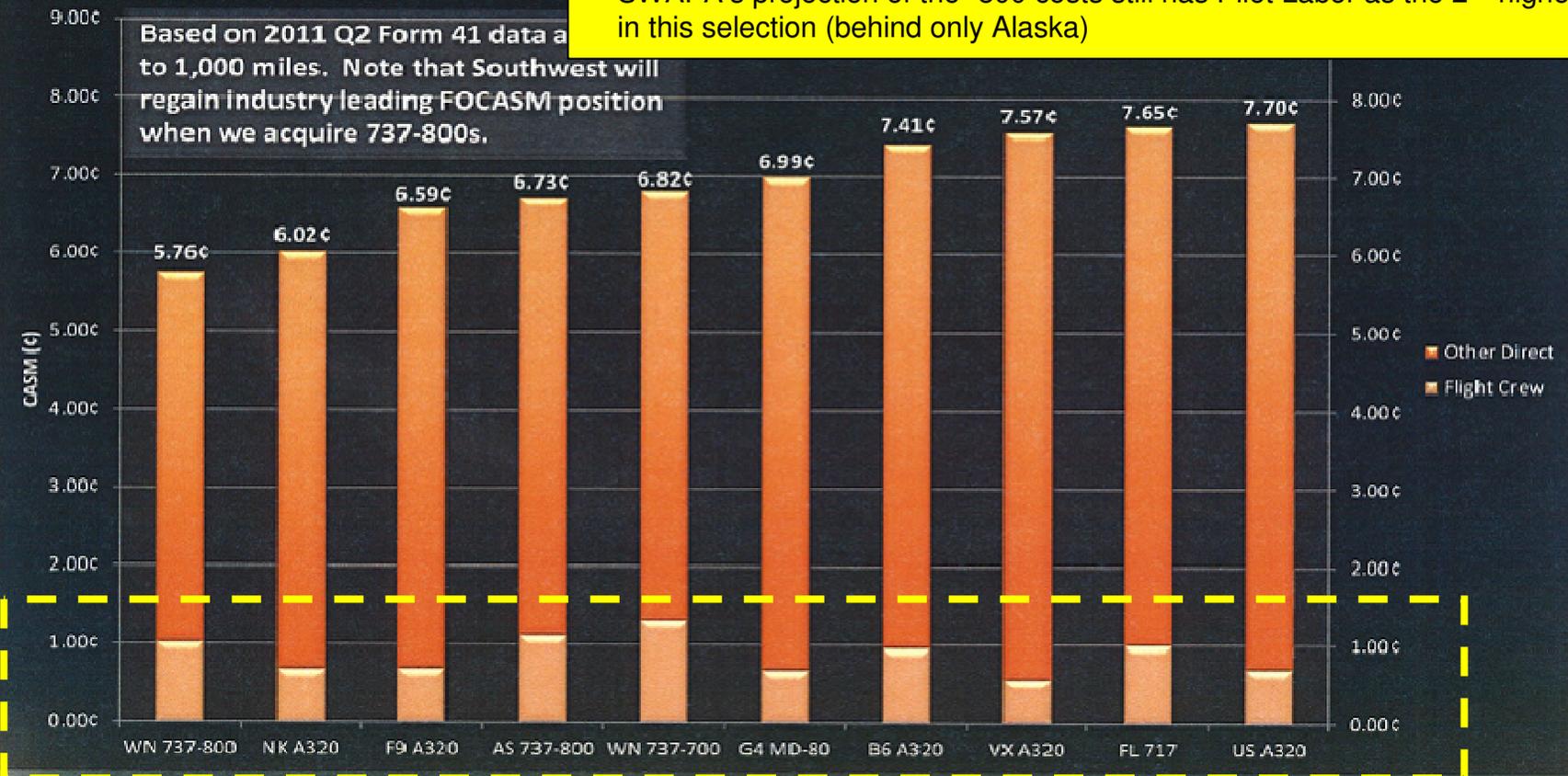
This chart reinforces how our network decisions impact pilot productivity. As fuel prices have forced us to change our schedule since 2007 and our connections are less dense than they were, Pilot productivity has dropped.



Narrowbody FOC

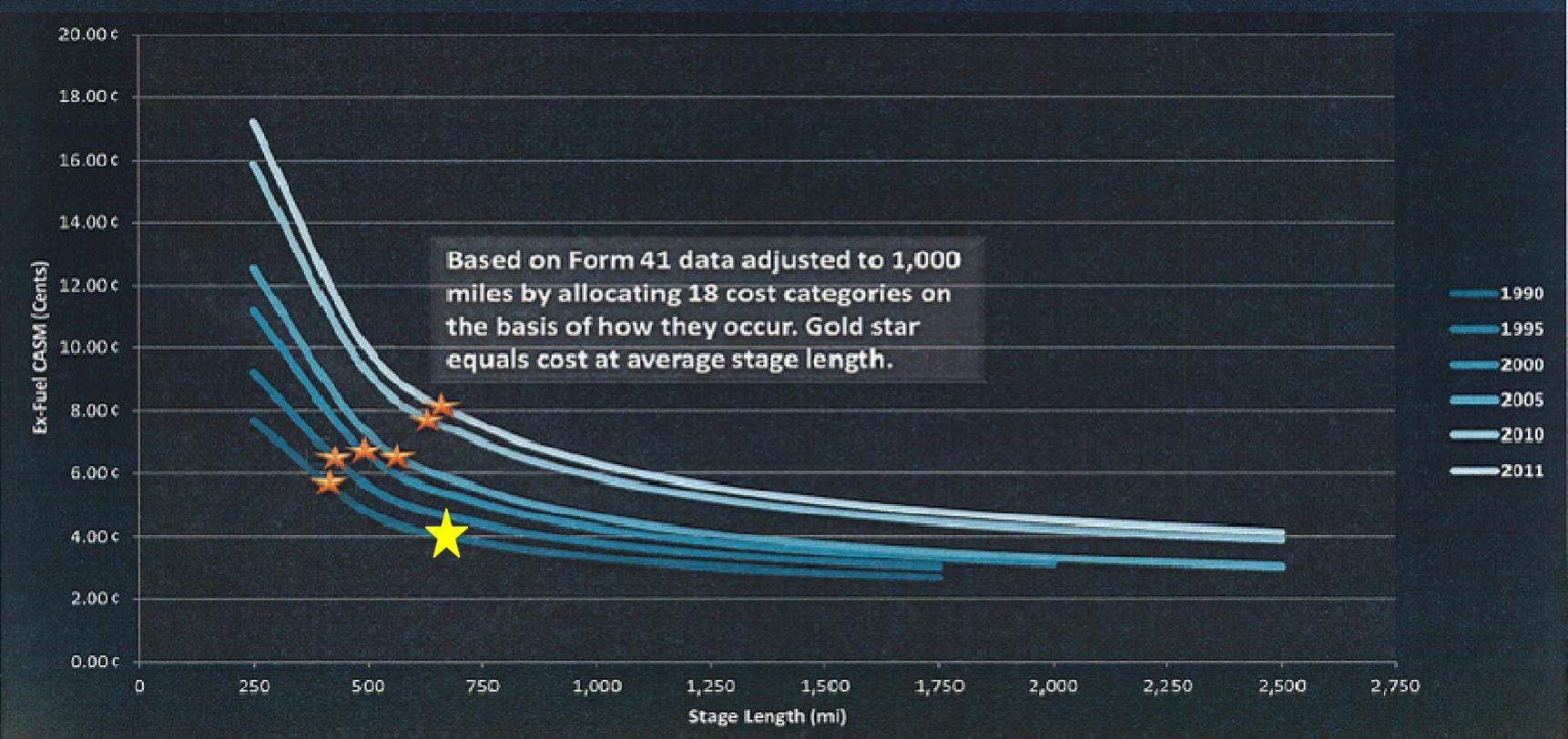
A few reasons that this chart is potentially misleading:

- The light orange bars highlighted in the dotted yellow box are the actual Pilot Labor CASM. These show our current -700 fleet as having the highest Flight Crew CASM in this competitive set (consistent with our data)
- The dark orange bars are "Other Direct" costs which are detailed on p. 6 (e.g., Maint., Insurance, Ownership costs, Fuel). By including these Other Direct costs, the graph masks the Labor Cost portion that is tied to the Pilot contract. This implies that pilots are capturing a (big?) portion of the benefit of our lower costs in other categories
- SWAPA's projection of the -800 costs still has Pilot Labor as the 2nd highest in this selection (behind only Alaska)



Southwest Stage Length And Cost Trend

▪ The shift of the CASM curves up and to the right indicates a rising cost base and highlights the fact that our costs have risen significantly. If we had just increased stage length but held other costs constant, CASM would have declined (the stars would have shifted down and to the right—see yellow star that we added)



Southwest Stage Length Cost Trend

This chart actually proves a number of the points in our fact base:

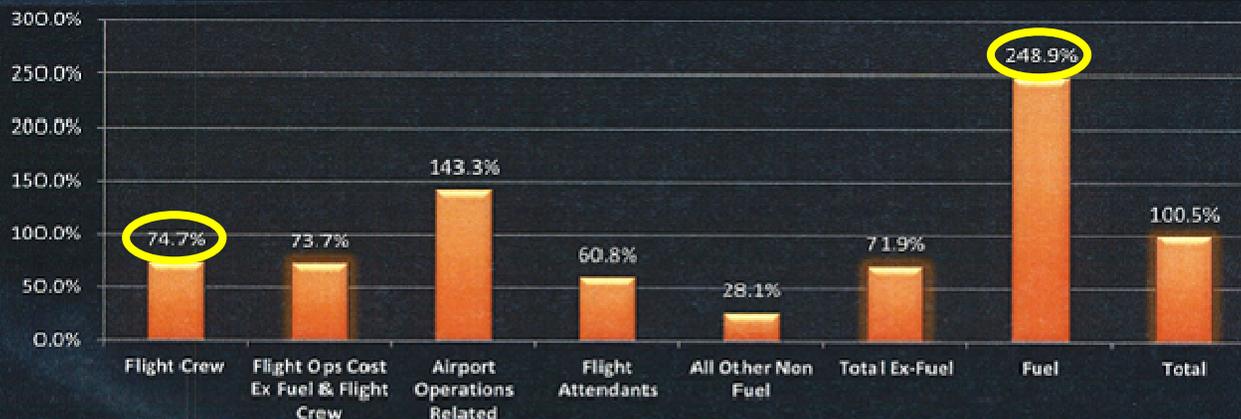
- Flight crew costs/ASM have almost doubled since 2000 (increased from .75¢ to 1.45 ¢)
- Pilot labor as % of Total Ex Fuel CASM has increased from 11.6% to 18.1% since 2000
- Also note the “Other Direct” costs in the top grouping that are included on p. 4. Pilots have little to no control over these costs, so they should not be part of the cost discussion

Unit Costs in Second Quarter	1990	1995	2000	2005	2010	2011
Flight Operations Costs						
Flight Crew	0.70¢	0.78¢	0.75¢	1.10¢	1.43¢	1.45¢
Aircraft & Engine Maintenance	0.61¢	0.75¢	0.82¢	0.78¢	1.10¢	1.06¢
Ownership	0.82¢	1.08¢	0.93¢	0.90¢	0.98¢	0.96¢
Insurance	0.01¢	0.02¢	0.01¢	0.01¢	0.03¢	0.03¢
Other Flight Op Costs	0.00¢	0.00¢	0.00¢	0.00¢	0.16¢	0.19¢
Fuel	1.14¢	0.99¢	1.33¢	1.69¢	3.51¢	4.66¢
Total Flight Ops Cost	3.28¢	3.63¢	3.84¢	4.48¢	7.20¢	8.36¢
Total Flight Ops Cost Ex Fuel	2.14¢	2.63¢	2.50¢	2.79¢	3.70¢	3.70¢
Indirect Costs						
General Administration	0.76¢	0.74¢	0.98¢	0.52¢	0.55¢	0.66¢
Landing Fees	0.19¢	0.23¢	0.21¢	0.24¢	0.36¢	0.36¢
Aircraft & Traffic Servicing	0.87¢	0.89¢	1.04¢	1.28¢	1.47¢	1.54¢
Food	0.01¢	0.02¢	0.03¢	0.03¢	0.03¢	0.03¢
Flight Attendants	0.42¢	0.45¢	0.46¢	0.64¢	0.77¢	0.79¢
Advertising	0.21¢	0.30¢	0.25¢	0.19¢	0.16¢	0.20¢
Reservations	0.47¢	0.66¢	0.67¢	0.55¢	0.60¢	0.67¢
Commissions	0.47¢	0.40¢	0.31¢	0.01¢	0.01¢	0.01¢
Ground Property Maintenance	0.02¢	0.02¢	0.02¢	0.04¢	0.08¢	0.09¢
Total Indirect Costs	3.42¢	3.72¢	3.98¢	3.50¢	4.04¢	4.35¢
Total Cost Per Available Seat Mile	6.70¢	7.35¢	7.82¢	7.99¢	11.24¢	12.71¢
Total Ex Fuel Cost Per Available Seat Mile	5.56¢	6.35¢	6.48¢	6.30¢	7.73¢	8.05¢
<i>Stage Length</i>	376	398	490	607	651	669
<i>Average Seats Per Departure</i>	130	132	135	136	136	136
<i>Fuel Cost Per Gallon</i>	60¢	55¢	78¢	112¢	240¢	319¢
<i>Average Fuel Burn Per Block Hour</i>	.766	.778	.739	.706	.707	.691
<i>Pilots as % of Total Ex Fuel CASM</i>	12.7%	12.3%	11.6%	17.4%	18.4%	18.1%
<i>Flight Attendants as % of Total Ex Fuel CASM</i>	7.5%	7.0%	7.1%	10.2%	9.9%	9.6%



The best response to this graph:

- All of our competitors have seen similar increases in Fuel and Airport Ops Costs, which are largely out of our control (although this slide does not define Airport Operations, which needs verifying)
- However, competitors have responded to these rising costs by slashing Labor costs by ~20-30% through bankruptcy (can reference 2000 vs. 2011 wage scale slide)
- As this chart shows, we have taken a different path and have been able to protect and even grow our wages during this same time period (e.g., 74.7% growth in Flight Crew cost per passenger)
- Therefore, we can't afford to increase wage scales even more, because this different path over the past decade has already created a 30-50% gap against our competitors' scales
- [Side note: we can create this chart for one or several of our competitors to show different paths]

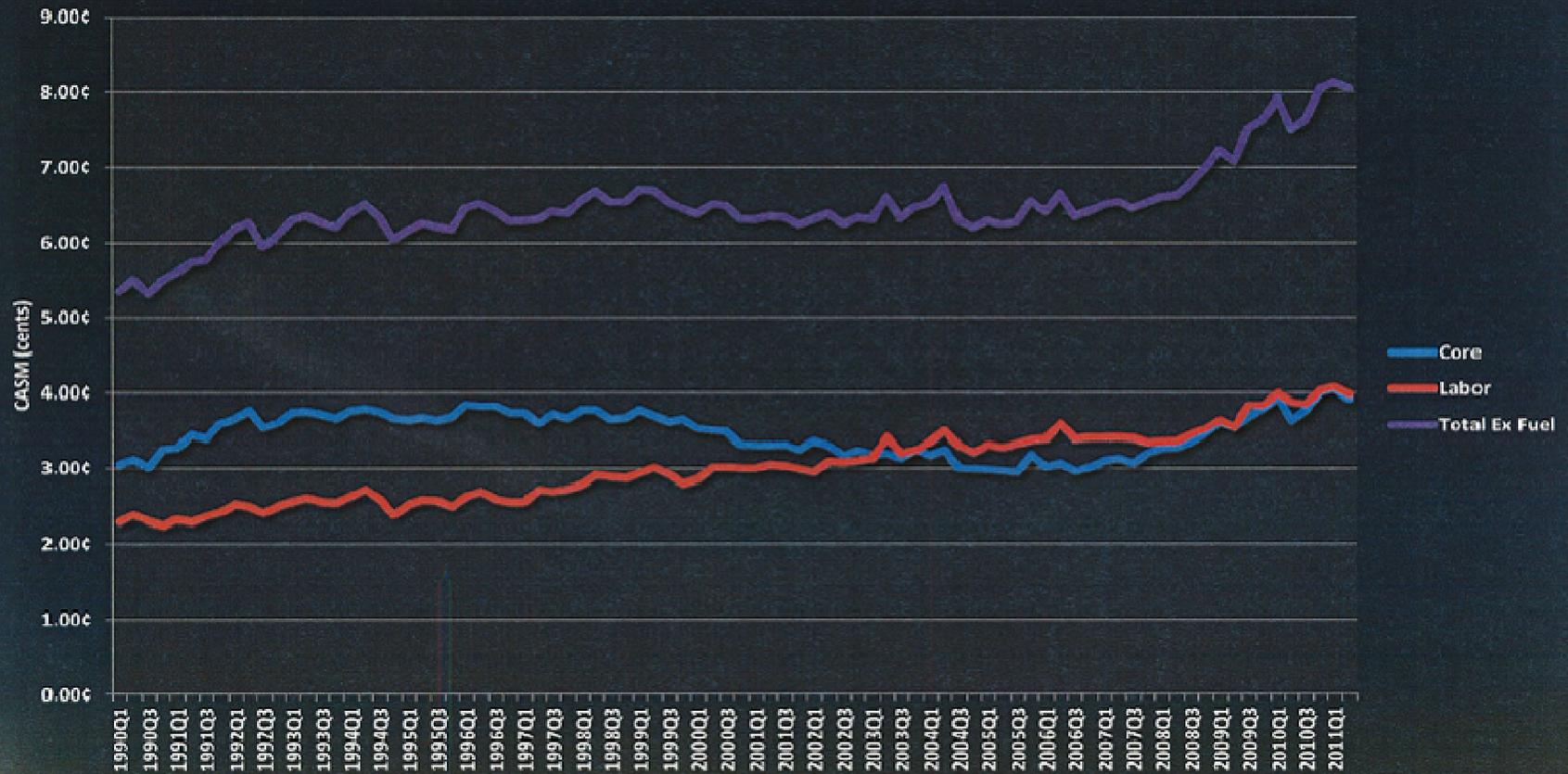


Cost Per Passenger @ 250mi				
	1990 Q2	2011 @ 1990 LF	2011 Q2 @ Actual	Change
Flight Crew	\$3.67	\$8.78	\$6.41	74.7%
Flight Ops Cost Ex Fuel & Flight Crew	\$8.14	\$19.38	\$14.14	73.7%
Airport Operations Related	\$6.40	\$21.34	\$15.57	143.3%
Flight Attendants	\$2.17	\$4.78	\$3.49	60.8%
All Other Non Fuel	\$10.42	\$18.29	\$13.35	28.1%
Total Ex-Fuel	\$30.80	\$72.57	\$52.96	71.9%
Fuel	\$5.93	\$28.35	\$20.69	248.9%
Total	\$36.73	\$100.93	\$73.65	100.5%
Average number of Passengers Per Flight	81	81	111	37.0%
Average Fare in O&D Markets <260mi	\$44.47		\$103.30	132.3%
O&D Pax in Same Store Markets <260mi	6.0 Million		4.6 Million	-24.2%



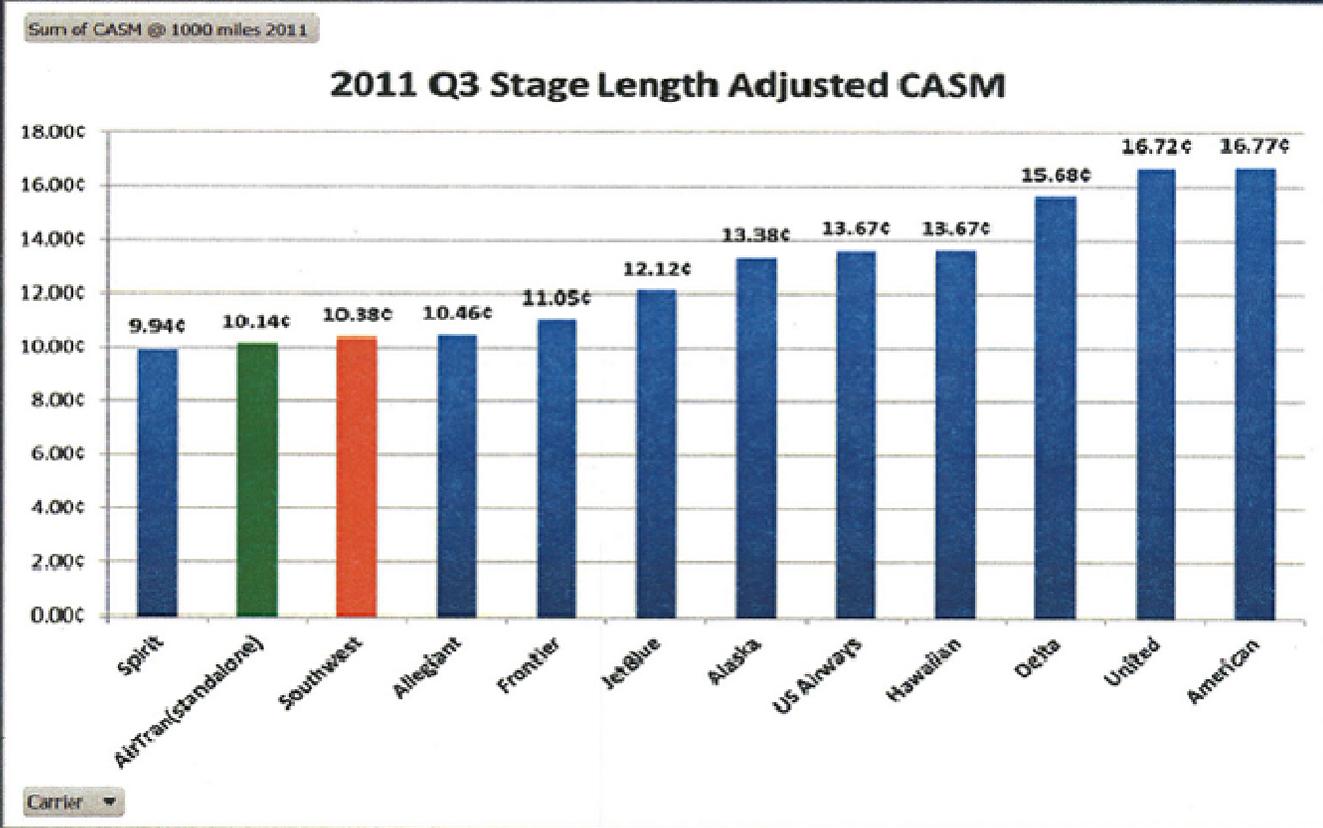
Consistent with our data, showing that Overall Labor CASM has increased faster than other Core costs

Ex-Fuel Cost Trend



Consistent with our data, showing Spirit as the only competitor lower than Southwest in Overall CASM. However, as we have shown before, Labor CASM is a disadvantage for Southwest but is made up for with lower Core costs (e.g., Ownership, A/C and Eng Maint)

CASM Comparison – 1,000 miles



We should discuss whether to do additional analysis to be prepared to respond to SWAPA's potential line of attack on Slot Bidding

Slot Findings

- Based on the “comparable purchases” valuation method (see next pages for details), adjusted for inflation:
 - ↪ Southwest offered a small premium to historical transactions for the DCA slots.
 - ↪ Southwest offered a comparable to slightly less than comparable amount for LGA slots than historical transactions.
- Based on a “comparable lease rate analysis” valuation method, Southwest offered a small premium on the DCA slots and a large premium on LGA slots.
- The “discounted cash-flow” / “network profitability” valuation method valued the DCA & LGA slots higher than the Southwest bid. Jet Blue offered a slight premium for both slots under this method. Under this valuation method:
 - ↪ A single prime LGA slot is projected to be worth roughly \$2.0 million to Southwest Airlines.
 - ↪ A single prime DCA slot is projected to be worth roughly \$2.3 million to Southwest Airlines.

Note: Valuations were performed under assumptions similar to recent slot & route backed securities. These assumptions include a 15% discount rate, 5% margin, current yield, load factor, average stage length and length of haul in LGA, and projected DCA variables based on current LGA vs. DCA differentials for other airlines

Note: Discounted cash-flow methodology may overvalue slots compared to a comparable purchase analysis.
- JetBlue is likely to extract a revenue premium over Southwest in both LGA and DCA markets because of “S – Curve” benefits (high in NYC), east coast brand value, and the ability to cater to historic east coast traffic flows.
- None of these methods have a means for accounting for the current scarcity of the asset or the auction style.





Slot Auction DCA

DCA Slot Auction Bids

Bidder	Bid Amount	Implied Slot Value
Frontier Airlines	\$1,750,000.00	\$109,375
Southwest Airlines	\$32,240,224.00	\$2,015,014
JetBlue Airlines	\$40,000,050.01	\$2,500,003
Frontier Airlines	\$10.00	N/A
JetBlue Airlines	\$1.00	N/A

DCA & LGA Historic Slot Offers & Purchases

Bidder	Airport	Year	# of Slots	Offer	Slot Value
Republic Bonds	DCA/LGA	2011	137 Commuter	\$80,000,000	\$583,941
Southwest – ATA	LGA	2008	14	\$7,500,000	\$535,714
Republic – US Airways	DCA/LGA	2005	137 Commuter	\$51,600,000	\$376,642
US Airways – DC Air	DCA	2000	119 / 103 Commuter	\$143,950,000	\$950,000 / \$300,000
US Airways – Continental	DCA	2000	119 / 103 Commuter	\$215,000,000	\$1,445,000 / \$438,350
US Air – Continental	LGA/DCA	1992	68, 42 Commuter	\$61,000,000	\$554,545
US Air – Midway	LGA/DCA	1991	22	\$16,750,000	\$761,363
Delta – Eastern	DCA	1991	9	\$5,400,000	\$600,000
Continental – Eastern	LGA	1991	64	\$54,000,000	\$843,750
Northwest – Eastern	DCA	1991	67	\$35,500,000	\$529,850
Delta – Eastern	LGA	1991	7	\$3,500,000	\$500,000





Slot Auction LGA – A Bundle

LGA A Bundle Slot Auction Bids

Bidder	Bid Amount	Implied Slot Value
Spirit Airlines	\$2,250,009.00	\$140,626
Southwest Airlines	\$8,240,224.00	\$515,014
JetBlue Airlines	\$32,000,050.01	\$2,000,003
WestJet Airlines	\$17,600,001.00	\$1,100,000
Frontier Airlines	\$5.00	N/A
Allegiant Air	\$5,000,000.00	\$312,500
Southwest Airlines	\$2.00	N/A
JetBlue Airlines	\$1.00	N/A

DCA & LGA Historic Slot Offers & Purchases

Bidder	Airport	Year	# of Slots	Offer	Slot Value
Republic Bonds	DCA/LGA	2011	137 Commuter	\$80,000,000	\$583,941
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Delta – Eastern	DCA	1991	9	\$5,400,000	\$600,000
Continental – Eastern	LGA	1991	64	\$54,000,000	\$843,750
Northwest – Eastern	DCA	1991	67	\$35,500,000	\$529,850
Delta – Eastern	LGA	1991	7	\$3,500,000	\$500,000





Slot Auction LGA – B Bundle

LGA B Bundle Slot Auction Bids

Bidder	Bid Amount	Implied Slot Value
Spirit Airlines	\$2,250,009.00	\$140,626
Sun Country Airlines	\$800,000.00	\$50,000
Southwest Airlines	\$13,040,224.00	\$815,014
JetBlue Airlines	\$32,000,050.01	\$2,000,003
WestJet Airlines	\$17,600,001.00	\$1,100,000
Sun Country Airlines	\$80,000.00	Incorrect Bid
Frontier Airlines	\$10.00	N/A
Allegiant Air	\$5,000,000.00	\$312,500
Southwest Airlines	\$2.00	N/A
JetBlue Airlines	\$1.00	N/A

DCA & LGA Historic Slot Offers & Purchases

Bidder	Airport	Year	# of Slots	Offer	Slot Value
Republic Bonds	DCA/LGA	2011	137 Commuter	\$80,000,000	\$583,941
Southwest – ATA	LGA	2008	14	\$7,500,000	\$535,714
Republic – US Airways	DCA/LGA	2005	137 Commuter	\$51,600,000	\$376,642
US Airways – DC Air	DCA	2000	119 / 103 Commuter	\$143,950,000	\$950,000 / \$300,000
US Airways – Continental	DCA	2000	119 / 103 Commuter	\$215,000,000	\$1,445,000 / \$438,350
US Air – Continental	LGA/DCA	1992	68, 42 Commuter	\$61,000,000	\$554,545
US Air – Midway	LGA/DCA	1991	22	\$16,750,000	\$761,363
Delta – Eastern	DCA	1991	9	\$5,400,000	\$600,000
Continental – Eastern	LGA	1991	64	\$54,000,000	\$843,750
Northwest – Eastern	DCA	1991	67	\$35,500,000	\$529,850
Delta – Eastern	LGA	1991	7	\$3,500,000	\$500,000





Future Sources of Slots?

- Slots are becoming more scarce and less likely to become available as a result of greater industry stability.
- Frontier – Currently scheduled to operate 8 pairs(16 slots) at LGA and 11 pairs (22 slots) at DCA. Some of these are Air-21 or Vision 100 and may not be transferable.
- Divestures at DCA mandated by DCA as a result of the slot swap or a potential American/US Airways or American/JetBlue merger.
- New slots created by with a FAA Reauthorization, particularly with a beyond perimeter exemption.
- The transferability issue:
 - ↪ Republic already lost a pair of slots to Sun Country under DOT-OST-2000-7182-1801 because certain slots are non-transferable.
 - ↪ The DOT walks a very fine line on this having stripped Republic of the Midwest slots and stripped American of the TWA slots but allowed Republic to keep the Frontier slots. Of particular interest *“DCA slot exemptions awarded under 49 USC 41714(j) may not be bought, sold, leased, or otherwise transferred by Frontier, the carrier which received them. However, as we understand matters, the Frontier/Republic bankruptcy transaction does not involve a sale, lease, or transfer of the DCA slot exemptions. Rather, Republic will purchase all of the newly-issued common stock in a reorganized Frontier, becoming Frontier’s parent company, and Frontier will continue to operate its slot exemptions as a separate corporate entity after emerging from bankruptcy. Thus, this transaction is unlike American Airlines’ acquisition of the bankrupt Trans World Airlines, discussed in your letter, where DOT reminded the parties that TWA’s slot exemptions may not be acquired by another airline.”*

