



Airline Industry Analysis - Press Release

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Frequent Flyer Award Liabilities Estimated to Exceed \$3.2 Billion for U.S. Airlines

Comparison of U.S. based carriers also reveals over 21% of frequent flyer awards are not expected to be redeemed by travelers.

April 5, 2004, Shorewood, WI. The IdeaWorks Company has compiled frequent flyer award liability reported by fourteen U.S. based airlines in publicly-filed annual reports for the 2003 fiscal year. The airlines included in the survey are: AirTran Airways, Alaska Airlines, America West Airlines, American Airlines, ATA Airlines, Continental Airlines, Delta Air Lines, Frontier Airlines, jetBlue Airways, Midwest Airlines, Northwest Airlines, Southwest Airlines, United Airlines and US Airways. As a group, these airlines represent over 94% of the revenue passenger miles flown by U.S. based airlines.

Information compiled in this comparison includes **Liability for Future Award Travel**, and **Spoilage and Miles Expected to Remain Unused**. Disclosure by each airline included in the survey was not always made in their annual reports. As indicated, estimates were calculated in some categories based upon averages computed for the disclosing airlines.

Liability for Future Award Travel

The total liability for future award travel benefits reported by the nine U.S. based airlines making Form 10-K disclosures is in excess of US\$2.4 billion. IdeaWorks has estimated the liability associated with other five carriers not making Form 10-K disclosures to be in excess of US\$811 million; representing a total estimated liability in excess of US\$ 3.2 billion for the fourteen carriers in the survey. This estimate is based upon an average liability per revenue passenger mile among nine airlines making Form 10-K disclosures. RPMs, as they are commonly called in the airline industry, are defined as the number of miles flown by the total number of ticketed passengers.

Nine of the fourteen airlines further defined the liability associated with award travel by estimating the number of award tickets outstanding at the end of the financial reporting period:

Table 1	Number of Award Tickets Outstanding
Reporting Airline	
Alaska Airlines	2,353,000
American Airlines	9,300,000
Delta Air Lines	14,300,000
Frontier Airlines	14,615
Midwest Airlines	178,000
Northwest Airlines	7,180,000
Southwest Airlines	1,453,000
United Airlines	9,700,000
US Airways	6,272,000

The total number of tickets outstanding and not yet redeemed by frequent flyer program members for the nine airlines listed in Table 1 is in excess of 50 million roundtrips. Disclosing airlines typically defined award travel as representing their base award level for domestic travel. Airlines assign a value to unused award travel which usually represents the average incremental cost to provide roundtrip transportation to one additional passenger. Traditionally, it includes the cost of fuel, commissary, reservations and insurance and does not include a contribution to overhead, aircraft cost or profit.

Spoilage and Miles Projected to Remain Unused

Eight of the fourteen airlines disclosed the spoilage factor used to calculate the liability assigned for future award travel. IdeaWorks calculated an overall average for seven of these airlines to be 21.5% using the weighted average of the number of award tickets outstanding (jetBlue Airways was not included because it did not disclose its outstanding awards). The statistic reflects the natural spoilage which occurs in reward programs. Miles accrued by frequent flyer program members may remain unused for many reasons such as the loss of paper reward certificates by members, the impact of expiration dates on miles and awards, or members simply ceasing to participate in a program.

The following eight airlines disclosed their frequent flyer award spoilage factor in the Form 10-K reports filed with the U.S. Securities and Exchange Commission:

Table 2	Percentage of Miles Projected to Remain Unused
Reporting Airline	
Alaska Airlines	12.0%
Delta Air Lines	27.0%
Frontier Airlines	15.0%
JetBlue Airways	65.0%
Midwest Airlines	24.0%
Southwest Airlines	14.0%
United Airlines	17.8%
US Airways	20.0%

“Frequent flyer programs are designed to provide consumers with incentives to remain loyal and to concentrate purchase activity with a particular airline brand,” said IdeaWorks president Jay Sorensen. “While industry-wide liability appears to be significant and in the billions of dollars, the incremental cost of providing an average travel award is actually quite low, and appears to range from \$13 to \$20 for many of the airlines included in the analysis. The value of awards to program members is far greater.”

About IdeaWorks: IdeaWorks was founded in 1996 as a consulting organization building brands through innovation in product, partnership and marketing and building profits through financial improvement and restructuring. Its international client list includes the hotel, airline, marine, railroad, consumer products and health care sectors. IdeaWorks specializes in brand development, customer service improvement, customer research, competitive analysis, creating partner marketing strategies, cost reduction programs and business restructuring. IdeaWorks brings value as a consultant by researching the expectations of the customer, learning from the wisdom of the client organization and applying innovative ideas to create solutions for clients and consumers.

Sources for the Frequent Flyer Program Analysis: Unless indicated otherwise, all data is from the most recent Form 10-K filed with the SEC by each airline.

Disclosure: IdeaWorks makes every effort to ensure the quality of the information available in this report. Before relying on the information, readers should obtain any appropriate professional advice relevant to their particular circumstances. IdeaWorks can not guarantee, and assumes no legal liability or responsibility for the accuracy, currency or completeness of the information.