INCOME STATEMENTS "BY NATURE" AND ANALYSIS OF COMPANY PERFORMANCE –AN APPLICATION TO U.S. AIRLINE COMPANIES

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ABSTRACT

Since September 11, 2001, and during the ensuing economic slowdown, U.S. airline companies have experienced significant financial difficulties, including bankruptcies and near bankruptcies on the part of several major carriers. In an economic setting where U.S. airlines are struggling to achieve or maintain profitability, it is important for accountants, auditors and financial analysts to be able to analyze the relative performance of airline companies. In the airline industry, income statements are normally prepared "by nature" rather than "by function." This differs from the usual presentation found in the income statements of most American companies. This case demonstrates how to perform a comparative financial statement analysis when an income statement is prepared "by nature," by applying a tool called the "Statement of Intermediate Balances." The three companies studied in this case are United Airlines, Delta Air Lines and Southwest Airlines.

RESUME

Depuis les tragiques événements du 11 septembre 2001, les compagnies aériennes américaines ont dû faire face à de sérieuses difficultés financières, allant jusqu'à la quasi-faillite ou même la faillite de certaines d'entre elles. Dans ce contexte, il est important pour les comptables, auditeurs et analystes financiers de porter un jugement sur la performance relative des compagnies aériennes. Dans ce secteur, le compte de résultat est en principe présenté « par nature » plutôt que « par fonction ». Cette présentation diffère du format traditionnel américain. La présente étude de cas montre comment réaliser une analyse financière comparée de sociétés américaines lorsque le compte de résultat est présenté par nature à l'aide d'un outil, les « soldes intermédiaires de gestion ». Les trois sociétés étudiées sont United Airlines, Delta Air Lines et Southwest Airlines.

KEY WORDS

Financial statement analysis – Income statement format – Income statement by nature – Income statement by function - Statement of intermediate balances

MOTS CLES

Analyse financière – Présentation du compte de résultat – Compte de résultat par nature – Compte de résultat par fonction – Soldes intermédiaires de gestion

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PART I: THE CASE

The Companies

United Airlines ("United") and Delta Air Lines ("Delta") are major air carriers that provide air transportation for persons, property and mail throughout the United States and around the world. The revenue passenger miles[1] for United were 116,635 million miles in 2001. This compares to 101,717 million revenue passenger miles for Delta. Southwest Airlines Co. ("Southwest") is a major U.S. domestic airline that provides primarily short-haul, high-frequency, point-to-point, low-fare service. Southwest's revenue passenger miles were 44,494 million in 2001.

Both United and Delta, and to a lesser extent Southwest, suffered extensively from the tragic events of September 11, 2001. In fact, United has been struggling to avoid filing for bankruptcy (Wong 2002). The Management's Discussion and Analysis of Financial Position and Results of Operations (MD&A) in the annual report of United for the year 2001 summarized the state of the U.S. airline industry in the following way:

> Beginning in 2001, the weakening U.S. economy had a significant impact on the airline industry as corporations reduced their business travel budgets and changed their travel behavior. During the first six months of 2001, the industry began experiencing significant revenue declines as a result of the decrease in business traffic (…), particularly in the domestic markets. (…) United's revenues (…) were significantly

[1] The term "revenue passenger mile" is defined as a mile flown on each flight stage multiplied by the number of "revenue passengers" on that stage. A "revenue passenger" is a person receiving air transportation from the air carrier for which remuneration is received by the air carrier.

impacted by the events of September 11 and the resulting reduction in the Company's operations."

In the Exhibits 1, 2, and 3 find the following:

- Statements of Consolidated Operations for the six months ended June 30, 2002 (source: SEC Filings) and the fiscal years ended December 31, 1998 through December 31, 2001 for UAL Corporation (a holding company whose principal subsidiary is United) (source: Annual Reports 2001 and 2000) (see Exhibit 1).
- Consolidated Statements of Income for the six months ended June 30, 2002 (source: SEC Filings) and for the fiscal years ended December 31, 1998 through December 31, 2001 for Delta (source: Annual Reports 2001 and 2000) (see Exhibit 2)
- Consolidated Statements of Income for the six months ended June 30, 2002 (source: SEC Filings) and for the fiscal years ended December 31, 1998 through December 31, 2002 for Southwest (source: Annual Reports 2001 and 2000) (see Exhibit 3).

*** Insert Exhibits 1, 2 and 3 here ***

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. For simplification purposes, the term "income statement" is used to refer to the "statements of consolidated operations" and the "consolidated statements of income" of the three companies studied in this case. The SEC 10-Q filings for United, Delta and Southwest's for the six months ended June 30, 2002, also include the following comparative data for six months ended June 30, 2001:

	United	Delta	Southwest
In Millions of $	2001 (6 months)	2001 (6 months)	2001 (6 months)
Passenger	7,840	7,135	2,887
Cargo	389	271	50
Other operating revenues	853	212	45
Total production for the period	9,082	7,618	2,982

In United's MD&A (2001) and notes to the financial statements for the year ended December 31, 2001, the following information is also included:

- Other operating revenues include fuel sales to third parties and revenues related to frequent-flyer sales of miles to third parties.
- The increase in salaries and related costs was partially offset by the reduction in force implemented after September 11.
- In August 2001, a change to the commission structure was implemented and reduced the cap paid on commissions in the U.S. for domestic travel.
- Purchased services relate to computer reservations fees and credit card discount fees.
- Landing fees and other rent increased in 2001 primarily due to increased rates at various airports.
- Depreciation and amortization increased due to an increase in the number of owned aircraft.
- Cost of sales is related to costs associated with fuel sales to third parties.
- Other operating expenses include advertising costs, crew layover expenses and food and beverage costs.
- The special charge caption includes an expense of $1.3 billion for amounts relating to the September 11 terrorist attacks and the resulting impact in the Company's schedule and operations (aircraft groundings and impairment, reduction in force, early termination fees, discontinued capital projects).

- As of December 31, 2001, United had received $652 million in compensation under the Air transportation safety and System Stabilization Act.
- The “non-operating special charges” in 2001 is related to September 11.

The Delta’s 2001 annual report and its MD&A for the six months ended June 30, 2002 contain the following additional information:

- Other operating revenues include code share revenues, mileage memberships and administrative service fees.
- Salaries and related costs increased during 2001 in relation to increased costs associated with the new pilot contract.
- Depreciation and amortization expense rose in 2001 due to the acquisition of additional aircraft and ground equipment.
- Other selling expenses decreased in 2001 due to a lower volume of credit card charges resulting from lower revenue. This item includes advertising costs.
- Passenger commissions expense declined in 2001, primarily as a result of lower passenger revenues.
- Contracted services expense increased in 2001 as a result of rate increases for building and equipment maintenance and increased security costs.
- Other operating expenses decreased in 2001 as a result of lower fuel-related taxes, interrupted trip expenses and professional fees, partially offset by new uniform costs and higher insurance expenses.
- “Asset write downs and other special charges” relates to charges for early retirement and severance costs relating to staffing reductions, charges for the impairment and early retirement of certain aircraft for discontinued contracts, facilities and information technology projects.

- The "Stabilization act compensation" reflects the compensation recognized under the Stabilization Act, following September 11.

In the Southwest 2001 Annual report, the following additional information is provided:

- Agency commissions decreased primarily due to a change in the Company's commission rate policy.
- Depreciation expense increased due to the growth in the Company's aircraft fleet prior to September 11.
- "Other operating expenses" increased due to a significant increase in passenger liability, aircraft hull, and third-party liability insurance costs following the terrorist attacks.
- The "other expenses (income)" include other gains and losses which represent $235 million received as the Company's share of government grant funds under the Stabilization Act, less special charges of $48 million arising from the terrorist attacks.

Required:

1. Compare the format of the income statements of United, Delta and Southwest with the format that is more common found among U.S. companies (see for example the income statement of General Motors Corp. at the following internet address: http://www.gm.com/company/investor_information/docs/fin_data/gm01ar/). What major differences do you find between the income statement format of the airlines companies and the more common income statement format?
2. Explain the difference between an income statement presented "by function" and an income statement "by nature" (also referred to as an income statement prepared with an

"objective classification" of its elements). What are the relative advantages and disadvantages of each of these formats?

3. Why are the income statements of airline companies usually presented "by nature"?
4. Using the income statements shown in Exhibits 1, 2 and 3 and the templates shown in Exhibits 4.1 and 4.2, prepare revised income statements for United, Delta and Southwest following the model Statement of Intermediate Balances (SIB) described in Appendix 1.
5. Prepare a comparative analysis of the Statements of Intermediate Balances prepared in Question 4.

*** Insert Exhibits 4.1 and 4.2 here ***

PART II: CASE LEARNING OBJECTIVES AND IMPLEMENTATION GUIDANCE

Overview

This case study addresses the differences between income statements presented "by nature" (or "objective classification") and income statements presented "by function." When an income statement is presented "by nature," expenses are organized into categories like salaries, fuel, depreciation, rent, etc., or, in others words, by nature of expenditure. In the U.S., income statements prepared "by function" are more commonly seen than those prepared "by nature." However, in the airline industry income statements presented "by nature" are the norm. This is because the U.S. Department of Transportation (DOT) recommends this form of presentation in their Uniform System of Accounts and Reports (USAR). In addition to the companies studied in this case, the companies that prepare their income statements "by nature" include, among others, American Airlines, Continental Airlines and Northwest Airlines. In other countries, Air Canada and Japan Airlines, for example, also prepare their income statements "by nature."

One of the advantages of income statements prepared “by nature” is that they facilitate the calculation of intermediate balances before the net income figure. The calculation of intermediate balances is a useful tool for financial statement analysis, particularly to prepare comparative analyses of company performance. When an income statement is organized “by function” (e.g. cost of goods sold; selling expenses; administrative expense, etc.), the calculation of intermediate balances such as commercial margin, value added, operating profit and operating income are often difficult to perform. Pro forma Statements of Intermediate Balances are much easier to prepare when an income statement is organized “by nature” rather than “by function.”

This case study can be used in sections of introductory accounting courses, at both the undergraduate and MBA levels, where the focus is on financial statement analysis, or in courses that are exclusively devoted to financial statement analysis.

Teaching Objectives

In an economic setting where American airline companies have experienced serious financial difficulties (e.g. Chapter 11 bankruptcy for U.S. Airways on August 11, 2002; financial restructuring of Continental Airlines in summer of 2002), it is important to be able to analyze and measure the relative performance of such companies. Fortunately, in the airline industry, income statements are normally prepared “by nature” rather than “by function.” Income statements prepared “by nature” facilitate comparative analysis. This case demonstrates how to perform a comparative financial statement analysis when an income statement is prepared “by nature.” The three companies studied in this case (United, Delta and Southwest) were chosen for the following reasons. United and Delta are both among the largest airline companies in the world, but United experienced greater financial difficulties from September 11th than did Delta. A comparative analysis should reveal this difference. Southwest is a different type of airline in comparison with United and Delta. It is a self-described "low-cost" carrier, consequently, a comparative analysis should also reveal this difference.

Learning Objectives

Students should be able to:

- Discuss the differences between an income statement prepared "by nature" and "by function";
- Explain why U.S. airline companies use a "by nature" income statement format;
- Prepare a Statement of Intermediate Balances which shows the various levels of a company's operating performance;
- Analyze Statements of Intermediate Balances and compare the performance of three U.S. airlines: United, Delta and Southwest.

Suggestions for Case Administration

Based on our previous experience with this case, there are at least two ways to use it:

Alternative 1- Students are asked to prepare Statements of Intermediate Balances (question 4) and then analyze these statements (question 5). The preparation of the Statements of Intermediate Balances can be facilitated by asking the students to use columnar worksheets like those shown in Exhibits 4.1 and 4.2. These exhibits provide a template for preparing the Statement of Intermediate Balances for United. The same template should be adapted to the income statements items of Delta and Southwest.

Alternative 2- The instructor distributes the Statements of Intermediate Balances included in the teaching notes to the students and the students are asked to analyze them. Question 4 would therefore be skipped.

The first alternative provides a richer learning experience because students must prepare the Statements of Intermediate Balances, but this alternative requires more time. The second alternative provides a good understanding of the Statement of Intermediate Balances and how such statements can be used for financial statement analysis.

Estimated Time Required for Class Discussion of the Case

Our previous experience with the cases indicates that the time required depends on the alternative chosen for the case administration:

- Alternative 1 (preparation and analysis of the Statement of Intermediate Balances for each company): one 90 minute session
- Alternative 2 (analysis of the SIBs only): 60 minutes.

PART III: TEACHING NOTES

Principal Themes Explored in the Case

- Difference between an income statement "by nature" and an income statement "by function";
- Reasons of adoption of the "by nature" format in the U.S. airline industry;
- Preparation of a Statement of Intermediate Balances and common-sized income statements following the "by nature" format;
- Comparative analysis of United, Delta and Southwest based on the Statements of Intermediate Balances.

1. Comparing the Income Statements of the Three Airline Companies with the Most Common Format Found in the U.S.

In comparing the income statements of United, Delta and Southwest with the income statement of General Motors, the major difference that is immediately obvious is the classification of expenses. Typically, expenses in an income statement are classified "by function" (e.g. costs of goods sold, selling and marketing expenses, general and administrative expenses, and other operating expenses). In the income statements of the three airline companies, the expenses are classified "by nature" (e.g. salaries and related costs, aircraft fuel, commissions, aircraft rent, etc.). This difference in income statement format is discussed more fully in the following section.

2. Differences Between an Income Statement "By Nature" and "By Function"

An income statement reflects the revenues and expenses of an enterprise during a given period and serves to establish the net income for the period. Net income is the remainder after all expenses have been deducted from revenues. Net income is one measure of the wealth generated by an economic entity (i.e. the net increase to stockholders' equity) during an accounting period. Income statements report how a company's financial and operating performance was achieved.

Possible Presentations

There are several ways of organizing an income statement (e.g. horizontal vs. vertical format) and a choice regarding degree of fineness, as well as a choice between ways of classifying expenses (see Exhibit 5).

*** Insert Exhibit 5 here ***

Formats

An income statement provides a list of revenue and expense account balances, usually in aggregate form. The list of account balances can be presented as a continuous list (vertical format) or as two lists side by side (horizontal format). Although not commonly used in business reporting, the horizontal format may useful for pedagogical purposes. For example, an income statement can be presented in the form of a T-account. United, Delta and Southwest all use the vertical format for their income statements.

Degree of Fineness

Expenses in an income statement are usually grouped into homogeneous categories and then subtracted step-by-step from revenues. With regard to the degree of fineness, the choice is between a single-step and a multiple step format.

Single-step: This is simplest version for an income statement. All revenues are grouped into one category and all expenses are grouped into another category. A difference is then taken between the revenues and the expenses. A variation of this format can be seen where all operating revenues are followed by all operating expenses. This permits the determination of operating income. Afterwards, several sub-levels of earnings may be presented (e.g. income from continuing operations before taxation, income from continuing operations, net income). This kind of format is still considered to be a single-step format because the essential elements of the income statement (i.e. operating revenues and operating expenses) are presented separately.

Multiple-step: In a multiple-step format, the revenue and expense categories are paired in a way that highlights various sub-components of net income (e.g. gross profit, operating income, income from continuing operations). The multiple-step format is the most common format used in business reporting because it is considered to be more informative than the single-step approach. The usefulness of the multiple-step approach is dependent on the ability of the management of a company to separate revenue and expenses using meaningful criteria, without adopting rules of allocation that reduce usefulness for decision-making (see, for more detail, Kieso *et al.,* 2001, p. 132).

In the three companies studied, the first parts of the income statements (up to the point of “earnings from operations” for United and “operating income” for Delta and Southwest), follow the single-step format, whereby operating expenses are subtracted from operating revenues. Following operating income several sub-level earnings numbers are presented. This format corresponds to the variation of the single-step format discussed previously above.

Classification of Expenses

The distinction between classifying expenses "by nature" or "by function" is not addressed in U.S. GAAP, even though U.S. government regulations do address this distinction. The International Accounting Standards Board (IASB) has specifically addressed the distinction between "by nature" and "by function" expense classification, by stating that:

> "Expense items are sub-classified in order to highlight a range of components of financial performance, which may differ in terms of stability, potential for gain or loss and predictability. This information is provided either by nature or by function. Classification issues are especially important for operating expenses" (IASB, 1997).

Classification by Function (or "Cost of Sales Method"): This kind of income statement format classifies expenses according to their role in the determination of net income. Cost of goods sold, commercial, distribution and administrative expenses are common categories employed in the "by function" format (see Exhibit 6).

Classification by Nature (or "Nature of Expenditure Method"): In using the "by nature" format, expense accounts are combined in a way that reflects their nature or objective (e.g. purchases of raw materials, transportation costs, taxes other than income tax, salaries and social expenses, depreciation, etc.) (see Exhibit 6)[2]. This format is relatively easy to use, even for small enterprises, because no allocation or partitioning of expenses is required.

*** Insert Exhibit 6 here ***

[2] The answer to Question 3 indicates that classification "by nature" is called an "objective classification of the elements of an income statement" in the regulations promulgated by the U.S. Department of Transportation.

Choice of a Classification Approach

The categorization of income statements according to their of “degree of fineness” or their method of “classifying expenses” can by viewed as a 2 x 2 matrix. For example, an income statement prepared “by nature” can be presented in a single-step or a multiple-step format. An income statement prepared “by function” can also be presented in a single-step or multiple-step format. The multiple-step format, organized by function, is the most common format used by American companies (AICPA, 1999). In comparing the different approaches to income statement presentation, several remarks can be made:

- A preference for classification “by nature” may reflect the requirements of governmental agencies who need such information to prepare national income accounts (this is often the case in European countries). A “by nature” presentation allows the calculation of the value added by an enterprise to the over-all economy of a country. The “value added” concept is important for countries that have a value added tax system. In essence, the value added concept[3] measures the amount of value created by a firm beyond what it acquired from outside the economic entity.
- Preference for a “by function” presentation often reflects an emphasis on the needs of capital markets. The “by function” format is the preferred method in North America, and it is used by most firms listed on the New York Stock Exchange.

The IASB has indicated that presentation of income statements “by function”: “provides more relevant information to users than the classification of expenses by nature” (IASB 1997: par. 82). However, the IASC also points out that: “the allocation of costs to functions can be

[3] “Value added” should not be confused with “economic value added”, a term which is usually defined as operating income minus cost of capital employed.

arbitrary and involves considerable judgment." Paragraph 84 of the IASB conceptual framework recognizes that: "the choice of analysis between the cost of sales method and the nature of expenditure method depends on both historical and industry factors and the nature of the organization" (IASB 1997). The IASC states that "each method of presentation has merit for different types of enterprise" (IASC 1997: § 84). United, Delta and Southwest have clearly adopted the "by nature" format.

3. Reasons for the Adoption of the "By Nature" Format in the U.S. Airline Industry

Airline accounting in the U.S. has been determined in part by the Uniform System of Accounts and Reports (USAR) issued by the U.S. Department of Transportation (DOT). Pursuant to DOT regulations: "all profit and loss elements are accounted for within specific objective accounts, which are descriptive of both basic areas of financial activity, or functional operation, and objective served" (USAR, part 241, section 1-3). The USAR envisions two types of classification; one by function (or financial activity) and one by nature (or objective). Section 7 of the USAR includes a "chart of profit and loss accounts" employing an "objective classification of profit and loss elements," including:

- Transport revenues (passenger, mail, property, charter, other)
- Transport-related revenues and expenses (in-flight sales, restaurant and food service (ground), rents, limousine service…)
- Transport expenses (pilots and co-pilots, other flight personnel, maintenance labor…, traffic commissions, general services purchased, landing fees, maintenance materials, passenger food expense, provisions for obsolescence and deterioration…).

The USAR states that: "The profit and loss accounts are designed to reflect, *through natural groupings*, the elements entering into the derivation of income or loss" (our emphasis)

(USAR, part 141, section 8). This regulation provides some explanation of why U.S. airlines report their income statement "by nature."

4. Preparation of Statements of Intermediate Balances for Each Company

Preliminary Remarks

- The income statements for the three airline companies are presented "by nature," facilitating the preparation of Statements of Intermediate Balances (SIB).
- In a Statement of Intermediate Balances, percentage figures usually do not appear following the year to which they relate because it is more important to have the percentages figures adjacent to one another so as to be able to analyze the evolution of the enterprise over the periods investigated. In practice, the percentages are as important, if not more important, than the absolute dollar values.
- Common-sized Statements of Intermediate Balances offer the additional advantage of allowing comparisons to be made between periods of unequal length. For example, the SIB for the first six months of 2002 can be compared to the SIBs for the year 2001 and the previous years.
- The "net earnings" of United and the "net income (loss) available to common shareowners" of Delta both show net income after preferred stock dividends. It is possible to terminate the SIBs at the net income figure before preferred stock dividends.
- If there is a difference between companies in the treatment of certain specific revenues or expenses, it is important to adjust these items so that they are treated in the same manner. For example, the "Airline Stabilization Act" caption for United is reflected among the non-operating expenses, while the "Stabilization Act Compensation" for Delta is treated as an operating item. For Southwest, this grant is reflected in "other

expenses (income)". In the teaching notes, we decided to treat these items as "unusual items" in the SIB.

- The "Special Charges" of United and the "Asset Writedowns and Other Special Charges" of Delta have also been included in the unusual area of the SIB.
- In the income statement of Southwest, the "other expenses (income)" line is presented with a sign opposite to what would be considered to be a normal presentation (i.e. plus for expenses and minus for income). To facilitate the comparison with United and Delta the signs have been reversed in the SIB.

Statements of Intermediate Balances

Statements of Intermediate Balances for United (see Exhibits 7.1 and 7.2), Delta (see Exhibits 8.1 and 8.2) and Southwest (see Exhibits 9.1 and 9.2), are presented both in absolute dollar terms and in percentage terms (i.e. common-sized).

*** Insert Exhibits 7.1, 7.2, 8.1, 8.2, 9.1 and 9.2 here ***

5. Comparative Analysis of the Statements of Intermediate Balances

Revenues/Production[4]

Even though the common-sized SIBs are based on the principle of dividing all the other figures in the statement by the total production for the year, we have added to the statement a line showing the change in revenues for each year in comparison with the previous year as well as the change during the first six months of year 2002. It can be seen that before the events of September 11, 2001, Southwest had the greatest growth in revenues (+ 19.3 % in 2000), followed by Delta (+12.5%) and United (+7.4%). After September 11th,

[4] All three companies have no reselling activity. Consequently, there is no commercial margin to compute.

the decrease in revenues was the greatest for United (-17.1%) and Delta (-16.6%). In contrast, the decrease in revenues for Southwest was much less (-1.7%). In addition, in 2002, the decrease was less for Southwest (- 8.5% during the first six months) than for Delta (- 13.7%) or for United (- 22%). This comparative analysis allows us to see that Southwest, and to a lesser extent, Delta, came through the crisis better than United.

The activities of United, Delta and Southwest are relatively different: United Airlines' revenues are more diversified (less passenger oriented) than Delta, and even more diversified than Southwest. Eighty-four percent (84%) of United's revenues were derived from passengers versus 92.7% and 96.7% for Delta and Southwest respectively in 2002. It appears that United derives an increasing portion of its overall production from "other operating revenues" which include fuel sales to third parties and revenues related to frequent-flyer sales of miles to third parties.

Consumption from Third Parties

The ratio of Consumption from Third Parties to Total Production is lower for Southwest (49.7% in 2002) and Delta (52.3% in 2002) than for United (61.1% in 2002). This ratio has increased for all three companies in comparison with 2001, indicating an inability to pass on increased costs to airline passengers. Looking at the breakdown of Consumption from Third Parties, we see that Fuel Cost represent the greatest expense for each of the companies (if we except "Other Operating Expenses" for Southwest), and that Fuel Cost as a percent of Total Production increased for each of the companies in every year through 2000. Between 1998 and 2001, Fuel Cost increased from 10.2% to 15.3% for United. Delta went from 9.6% to 13.1%, and Southwest from 9.3% to 14.2%. In 2002, fuel costs decreased somewhat because of a decrease in consumption of fuel and a decrease in the average cost per gallon.

Delta and Southwest were able to soften the increase in Consumption from Third Parties because of a reduction in the amount of Commissions (i.e. fees paid to travel agents) (from 6.6% in 1998 to 3.0% in 2002 for Delta, and from 3.8% in 1998 to 1.1% in 2002 for Southwest). Delta also experienced a reduction in the cost of Passenger Service (from 3.4% in 1998 to 2.9% in 2002). United experienced a similar reduction in Commissions (from 7.5% in 1998 to 3.3% in 2002). For United and Delta, Commissions decreased primarily as a result of a decrease in commissionable revenues. In addition, on March 20, 2002, United discontinued paying base commissions on all tickets issued in the U.S. and Canada. As for Southwest, it modified its system of paying commissions in 2001, which reduced this cost. With respect to United, Purchased Services decreased in 2002 primarily as a result of volume-driven decreases in GDS (global distribution systems) and credit card discount fees. In absolute value terms, Aircraft Rent decreased because of the retirement of older aircraft and a decrease in engine and aircraft repair volumes as a result of reduced flying levels in late 2001 and 2002. However, this number increased in percentage terms for both United and Delta. Southwest was able to stabilize its Aircraft Rental cost.

For Delta, Other Operating Expenses remained stable between 2001 and 2002. This was the result of lower fuel-related taxes, interrupted trip expenses and professional fees. The decrease in these expenses was partially offset by increases in new uniform costs and higher insurance costs. Delta's Other Operating Expense is lower than the comparative one for United (5.9% versus 10.5% of production in 2002). However, the composition of this category may not be entirely comparable between the companies because the Other Operating

Expenses of United includes advertising costs, crew layover expenses and food and beverage costs. The comparison with Southwest, where the number is 18.6% of production in 2002, is even more difficult to make because the annual report of Southwest provides little specific information concerning the make-up of Other Operating Expenses. The only information provided is that the category includes insurance premiums and advertising expenses.

In general, for all three companies, the costs of Consumption from Third Parties increased in 2001 in relation to Total Production. This trend diminished somewhat in 2002. It can also be seen that Southwest generally has a lower cost structure than United and Delta.

Value Added

While not widely used in North America, the Value Added figure shows the extent to which an enterprise contributes to the national wealth of the country. The Value Added figure for United has consistently declined since 1999. This is because the cost of Consumption from Third Parties has increased in relation to Total Production. This trend shows that United has been unable to pass along the increased cost to its customers. The comparative Value Added figures for Delta shown in Exhibit 8.2, indicate a similar pattern, but not as dramatic as that of United. For Southwest, the Value Added figures remained relatively stable prior to the events of September 11th but declined somewhat thereafter.

Gross Operating Income

United and Delta had similar levels of Salaries and Related Costs until 2001 (44.1% of Total Production for Delta versus 43.9% for United in 2001). However, the SIB indicates that following the events of September 11th, United experienced a greater increase in the ratio of Salaries and Related Costs to Total Production (an increase from 44.1% in 2001 to 47.7% in

2002) than did Delta (an increase from 43.9% in 2001 to 46.6% in 2002). The fact that Delta was better able to manage its Salaries and Related Costs than United contributed to a positive Gross Operating Income for Delta in 2002 (1.1%), while that of United was strongly negative (- 8.8% in 2002). The ratio of Salaries, Wages and Benefits to Total Production for Southwest is generally much lower than for United and Delta (35.3% in 2002 versus 46.6% for Delta and 47.7% for United). For Southwest, the ratio of Salaries, Wages and Benefits to Total Production was considerably higher in 2002 (35.3%) and 2001 (33.4%) than the average of about 30% for the years 1998 through 2000. The increase was due in part to increased security requirements following the events of September 11th. Nevertheless, the lower level of salaries allowed Southwest to record a Gross Operating Profit in both 2001 and 2002.

As discussed in Appendix 1, Gross Operating Income reflects the return derived from the core activities of the enterprise. The different Gross Operating Income figures indicate the relative performances of United, Delta and Southwest. A negative gross operating income (i.e., a Gross Operating Loss) is a sign of financial distress.

Operating Income

For all three companies Depreciation and Amortization expense rose in 2001 in comparison with 2002 because of the acquisition of additional aircraft and ground equipment. The ratio of Depreciation and Amortization to Total Production differs substantially between the three companies: 8.7% for Delta, 6.9% for United and 6.3% for Southwest in 2002. The higher level of Depreciation and Amortization expense for Delta is attributable to the composition of its aircraft fleet. The annual reports of the three companies indicate that the operating fleet of United consisted of 243 owned aircraft, while the size of the Southwest fleet was 355 (which may include leased aircraft), while that of Delta consisted of 459 owned aircraft as of December 31, 2001. Consequently, Delta has more owned aircraft that either United or Southwest. The difference in the ratio of Depreciation and Amortization expense to Total Production has an important impact on Operating Income (Loss) of the companies. The Operating Losses of United and Delta became closer than their Gross Operating figure numbers due to the higher level of Depreciation and Amortization expense for Delta. United and Delta both had Operating Losses in both 2001 and 2002 (United: -14.5% in 2001, -15.7% in 2002; Delta: -8.0% in 2001, -7.6% in 2002). Southwest posted Operating profits in 2001 (11.4%) and 2002 (8.7%).

Operating Net Income before Taxes

Delta's ratio of Interest Expense (Net) to Total Production increased dramatically over the period 1998 to 2002 (from 0.5% to 4.5%). United experienced the same trend (from 2.0% to 4.1%), although it was not as marked. This increase in the Interest Expense ratio was due primarily to increases the outstanding debt of both companies. An increasing Interest Expense to Total Production ratio may be a sign of financial difficulty for United and Delta. Southwest also recorded an increase in the ratio (from 1.3% in 1998 to 1.9% in 2002), but the level of Interest Expense in relation to Total Production was much lower than it was for United and Delta. After adjustments for Interest Expense and other items, United and Delta both posted negative Operating Income before Taxes, with that of United (-19.3%) being more strongly negative than that of Delta (-12.5%). The Operating Net Income of Southwest remained positive in 2002 (7.8%).

Unusual Income (Loss)

A special charge was recorded by each of the companies in 2001 with in relation to the September 11 terrorist attacks and the resulting impact on the companies' schedules and operations. All three companies also received compensation under the Airline Stabilization Act which partially offset their losses. The impact from unusual items was greater for United (-3.5% in 2001) than for Delta (- 2.6%). The over all effect of unusual items was positive for Southwest (3.7% in 2001).

Net Income (Loss)

Both United and Delta include a Provision for Income Taxes that reflects the negative Operating Income before Taxes of these companies. In other words, the Provisions for Income Taxes are positive instead of negative, indicating that an income tax benefit has been recorded rather than an expense. The Provision for Income Taxes for United is larger than for Delta because of its relatively larger Operating Loss before Taxes. The larger tax benefit allowed United to reduce its Net Loss (-19.3% pre-tax versus -12.0% after tax) more than Delta (-12.5% pre-tax versus – 9.0% after tax). Southwest had a positive Net Income number representing 4.5% of its Total Production in 2002.

Conclusion

The SIB shows that studying the net income figures alone is not sufficient. If we look at the Gross Operating Income of the companies, it is clear that the situation of United is very troublesome. At the level of Operating Income (Loss) before Taxes the situation is delicate for both United and Delta, but it is clearly worse for United. The Net Income (Loss) numbers for United and Delta are much closer. The situation for Southwest remained satisfactory because of its generally lower costs. However, it can be seen that there was a deterioration in even Southwest's performance in 2002.

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Southwest Air Lines. The annual reports and SEC filings can be found at the following Internet address: http://www.southwest.com/about_swa/financials/investor_relations_index.html

United Air Lines. The annual reports and SEC filings can be found at the following Internet address: http://www.ual.com/page/middlepage/0,1454,1368,00.html

EXHIBIT 1
UNITED AIRLINES
Statements of Consolidated Operations
For the six months ended June 30, 2002 and for the years ended December 31, 2001, 2000, 1999 and 1998

(In millions of US $)	2002 (6 months)	2001	2000	1999	1998
Operating Revenues					
Passenger	5,948	13,788	16,932	15,784	15,520
Cargo	309	704	931	906	913
Other operating revenues	824	1,646	1,489	1,337	1,128
	7,081	16,138	19,352	18,027	17,561
Operating Expenses					
Salaries and related costs	3,378	7,080	6,877	6,426	6,170
Aircraft fuel	865	2,476	2,511	1,776	1,788
Commissions	225	710	1,025	1,139	1,325
Purchased services	695	1,650	1,711	1,575	1,505
Aircraft rent	419	827	888	876	893
Landing fees and other rents	501	1,009	959	949	881
Depreciation and amortization	488	1,026	988	850	793
Aircraft maintenance	296	701	698	689	624
Cost of sales	585	1,280	1,061	602	474
Other operating expenses	743	1,722	1,841	1,737	1,630
Special charges	82	1,428	139	17	
	8,277	19,909	18,698	16,636	16,083
Earnings (loss) from operations	(1,196)	(3,771)	654	1,391	1,478
Other income (expense)					
Interest expense	(288)	(525)	(402)	(362)	(355)
Interest capitalized	17	79	77	75	105
Interest income	36	105	101	68	59
Equity in earnings (losses) of affiliates	(4)	(23)	(12)	37	72
Gains on sale of investments	46	261	109	731	0
Non-operating special charges	0	(49)	(61)	0	0
Airline stabilization grant	80	652	0	0	0
Miscellaneous, net	(17)	(86)	(35)	2	(103)
	(130)	414	(223)	551	(222)
Earnings (loss) before income taxes, distributions on preferred securities, extraordinary item and cumulative effect	(1,326)	(3,357)	431	1,942	1,256
Provision for income taxes	(479)	(1,226)	160	699	429
Earnings (loss) before distributions on preferred securities, extraordinary item and cumulative effect	(847)	(2,131)	271	1,243	827
Distributions on preferred securities, net of tax	(3)	(6)	(6)	(5)	(6)
Earnings (loss) before extraordinary item and cumulative effect	(850)	(2,137)	265	1,238	821
Extraordinary loss on early extinguishment of debt, net of tax	0	0	(6)	(3)	0
Cumulative effect of accounting change, net of tax	0	(8)	(209)	0	0
Net earnings	(850)	(2,145)	50	1,235	821

EXHIBIT 2
DELTA AIR LINES
Consolidated Statements of Income
For the six months ended June 30, 2002 and
for the years ended December 31, 2001, 2000, 1999 and 1998

(In millions of US $)	2002 (6 months)	2001	2000	1999	1998
Operating Revenues					
Passenger	6,095	12,964	15,657	13,949	13,428
Cargo	220	506	583	561	569
Other, net	262	409	501	373	315
Total operating revenues	6,577	13,879	16,741	14,883	14,312
Operating Expenses					
Salaries and related costs	3,064	6,124	5,971	5,194	4,894
Aircraft fuel	740	1,817	1,969	1,421	1,379
Depreciation and amortization	572	1,283	1,187	1,057	902
Other selling expenses	285	616	688	626	632
Passenger commissions	196	540	661	784	939
Contracted services	504	1,016	966	824	729
Landing fees and other rents	414	780	771	723	670
Aircraft rent	357	737	741	622	569
Aircraft maintenance materials and outside repairs	366	801	723	594	526
Passenger service	192	466	470	498	491
Asset writedowns and other special charges	63	1,119	108	469	0
Stabilization Act compensation	0	(634)	0	0	0
Other	386	816	849	753	778
Total operating expenses	7,139	15,481	15,104	13,565	12,509
Operating Income (Loss)	(562)	(1,602)	1,637	1,318	1,803
Other Income (Expense)					
Interest expense, net	(296)	(410)	(257)	(126)	(66)
Net gain from sale of investments	(3)	127	301	927	
Miscellaneous income (expense), net	15	(47)	27	(26)	39
Fair value adjustments of SFAS 133 derivatives	(43)	68	(159)		
Total other income (expense)	(327)	(262)	(88)	775	(27)
Income (Loss) Before Income Taxes and Cumulative Effect of Change in Accounting Principles	(889)	(1,864)	1,549	2,093	1,776
Income tax benefit (provision)	306	648	(621)	(831)	(698)
Net Income (Loss) Before Cumulative Effect of Changes in Accounting Principles, Net of tax	(583)	(1,216)	928	1,262	1,078
Cumulative Effect of Changes in Accounting Principles	0	0	(100)	(54)	
Net Income (Loss)	(583)	(1,216)	828	1,208	1,078
Preferred Stock Dividends	(7)	(14)	(13)	(12)	(11)
Net Income (Loss) Available to Common Shareowners	(590)	(1,230)	815	1,196	1,067

EXHIBIT 3
SOUTHWEST AIRLINES
Consolidated Statements of Income
For the six months ended June 30, 2002 and
for the years ended December 31, 2001, 2000, 1999 and 1998

(In millions of US $)	2002 (6 months)	2001	2000	1999	1998
Operating Revenues					
Passenger	2,640	5,379	5,468	4,563	4,010
Freight	43	91	111	103	99
Other	47	85	71	70	55
Total operating revenues	2,730	5,555	5,650	4,736	4,164
Operating Expenses					
Salaries, wages, and benefits	963	1,856	1,684	1,455	1,286
Fuel and oil	359	771	805	492	388
Maintenance materials and repairs	198	397	378	368	302
Agency commissions	29	103	160	156	158
Aircraft rentals	94	192	196	200	202
Landing fees and other rentals	171	311	265	242	215
Depreciation	171	318	281	249	225
Other operating expenses	507	976	860	792	704
Total operating expenses	2,492	4,924	4,629	3,954	3,480
Operating Income	238	631	1,021	782	684
Other Expenses (Income)					
Interest expense	53	70	70	54	56
Capitalized interest	(9)	(21)	(28)	(31)	(26)
Interest income	(19)	(43)	(40)	(25)	(31)
Other (gains) losses, net	9	(203)	2	10	(21)
Total other expenses (income)	34	(197)	4	8	(22)
Income Before Income Taxes and Cumulative Effect of Change in Accounting Principle	204	828	1,017	774	706
Provision for income taxes	81	317	392	300	271
Income before Cumulative Effect of Changes in Accounting Principles	123	511	625	474	435
Cumulative Effect of Changes in Accounting Principles, Net of income tax	0	0	(22)	0	0
Net Income	123	511	603	474	435

APPENDIX 1
DISCUSSION OF STATEMENTS OF INTERMEDIATE BALANCES

When an income statement is presented "by nature," it is often useful to adjust the statement to highlight the key intermediate balances that determine the value creation process of the enterprise. In preparing a Statement of Intermediate Balances the following balances can be shown: "commercial margin," "value added," "gross operating income," "EBITDA," and so forth. Figure 1 demonstrates the structure of a Statement of Intermediate Balances.

*** Insert Figure 1 here ***

Essentially, the SIB dissects the income statement into meaningful blocks of data to help in the user understand and interpret the firm's economic activity. The intermediate balances can be presented in monetary terms, or as percentage variations from one period to the next (trend analysis), or as percentages of some relevant basis (common-size analysis). The SIB can be particularly useful if a company has manufacturing operations along with merchandising (i.e. wholesale or retail) activities.

Definition of Terms

Commercial Margin: The commercial margin expresses the difference between sales of merchandise and cost of merchandise sold.

Current Period Production: The company's industrial output during the period is the total of production sold plus the cost of self-produced fixed assets.

Value Added: The term "value added" is a concept used in National Income accounting. It refers to the amount contributed by a particular enterprise to the national wealth. Value added is defined as the increase in value resulting from the enterprise's activities over and above that of goods and services provided by third parties and consumed by the firm. The concept is used in a number of countries, especially Australia, France, Germany, South Africa and the United Kingdom. Value added represents the wealth created by the enterprise that will be distributed to various stakeholders including employees, lenders, governments and shareholders.

EBITDA or Gross Operating Income: The EBITDA (Earnings from Operations Before Interest, Taxes, Depreciation and Amortization) or Gross Operating Income measures the wealth created by the enterprise from its operations, independently of its financial income and expenses, and charges for depreciation and amortization. This indicator helps in evaluating the firm's short-term ability to create wealth since it is not affected by long-term strategic decisions regarding financing (i.e. capital structure) and capital investment policies. The ratio of EBITDA to sales (or accounting "production") is often considered to be a measure of the "business profitability" of the firm, allowing inter-company comparisons. EBITDA is also be considered as a measure of the cash flow generated by operations.

Operating Profit: Operating profit represents the result of the firm's normal and current activity without taking into account financial and unusual elements.

Net Operating Income Before Income Taxes: Operating net income before taxes indicates economic and financial performance before consideration of unusual items and taxes.

Unusual Income (Loss): Unusual income (loss) is the profit or loss from activities that are not related to the firm's usual operations, and are, therefore, out of the ordinary, or exceptional. This "income" is shown as a separate item on the Statement of Intermediate Balances.

Net Income (Loss): The last line of the Statement of Intermediate Balances is the Net Income (Loss), which is self-explanatory. This figure serves as a check on the equality between the adjusted SIB and the original income statement. An income statement prepared "by nature" can be presented in a common-size format, even without the adjusting it to reflect the intermediate balances, but the usefulness of such a presentation is reduced because the metrics identified may not be comparable between two different enterprises.

FIGURE 1

STRUCTURE OF THE STATEMENT OF INTERMEDIATE BALANCES

+ Sale of merchandise (goods purchased for resale)
- Cost of merchandise sold
= ***Commercial margin (margin on sale of merchandise)***

+ Sale of goods and/or services produced by the business
+ Production capitalized (tangible and intangible assets constructed for the firm itself)
= ***Total "production" for the period***

Consumption of goods and services from third parties

- Cost of raw materials and other supplies consumed
- Other purchases and external expenses
- Other operating expenses
= ***Value added***

+ Operating subsidies
- Taxes and similar expenses (excluding income taxes)
- Wages and salaries
- Social security and other welfare allowances
= ***EBITDA or Gross operating profit/loss***

- Depreciation and amortization expense
+ Other operating revenues (not included in sales)
- Other operating expenses (not included above)
= ***Operating profit/loss***

± Gain/loss from sale of fixed assets
- Asset writedowns
- Other unusual expenses
= ***Unusual income/loss***

+ Financial income
- Financial expense
= ***Operating net income/loss before taxes***

- Income taxes
- Cumulative effect of changes in accounting principles
- Preferred stock dividends
- Others
= ***Net income/loss after tax available to common shareholders***

EXHIBIT 4.1
Template for the Preparation of a Statement of Intermediate Balances for United Airlines
Part 1 (in $ millions)

	2002 (6 months)	2001	2000	1999	1998
Passenger					
Cargo					
Other operating revenues					
Total production for the period					
Aircraft fuel					
Commissions					
Purchased services					
Aircraft rent					
Landing fees and other rents					
Aircraft maintenance					
Cost of sales					
Other operating expenses					
Consumption from third parties					
Value added					
Salaries and related costs					
Gross operating income					
Depreciation and amortization					
Earnings (loss) from operations					
Interest expense					
Interest capitalized					
Interest income					
Equity in earnings (losses) of affiliates					
Miscellaneous, net					
Operating net income before taxes					
Special charges					
Gains on sale of investments					
Non-operating special charges					
Airline stabilization grant					
Unsual income					
Provision for income taxes					
Distributions on preferred securities, net of tax					
Cumulative effect of accounting change, net of tax					
Extraordinary loss on early extinguishment of debt, net of tax					
Net earnings	**(850)**	**(2,145)**	**50**	**1,235**	**821**

EXHIBIT 4.2
Template for the Preparation of a Statement of Intermediate Balances for United Airlines
Part 2 (in percentage terms)

	2002 (6 months)	2001	2000	1999	1998
Passenger					
Cargo					
Other operating revenues					
Total production for the period	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Change in production					**-**
Change in Passenger revenues					**-**
Change in Cargo revenues					**-**
Aircraft fuel					
Commissions					
Purchased services					
Aircraft rent					
Landing fees and other rents					
Aircraft maintenance					
Cost of sales					
Other operating expenses					
Consumption from third parties					
Value added					
Salaries and related costs					
Gross operating income					
Depreciation and amortization					
Earnings (loss) from operations					
Interest expense					
Interest capitalized					
Interest income					
Equity in earnings (losses) of affiliates					
Miscellaneous, net					
Operating net income before taxes					
Special charges					
Gains on sale of investments					
Non-operating special charges					
Airline stabilization grant					
Unsual income					
Provision for income taxes					
Distributions on preferred securities, net of tax					
Cumulative effect of accounting change, net of tax					
Extraordinary loss on early extinguishment of debt, net of tax					
Net earnings	**(12.0%)**	**(13.3%)**	**0.3%**	**6.9%**	**4.7%**

* These three lines are obtained by calculating the change from one year to the next. All the other lines are obtained by dividing the line concerned by the Total Production for the Period.

EXHIBIT 5

CHOICES REGARDING THE PRESENTATION OF INCOME STATEMENTS

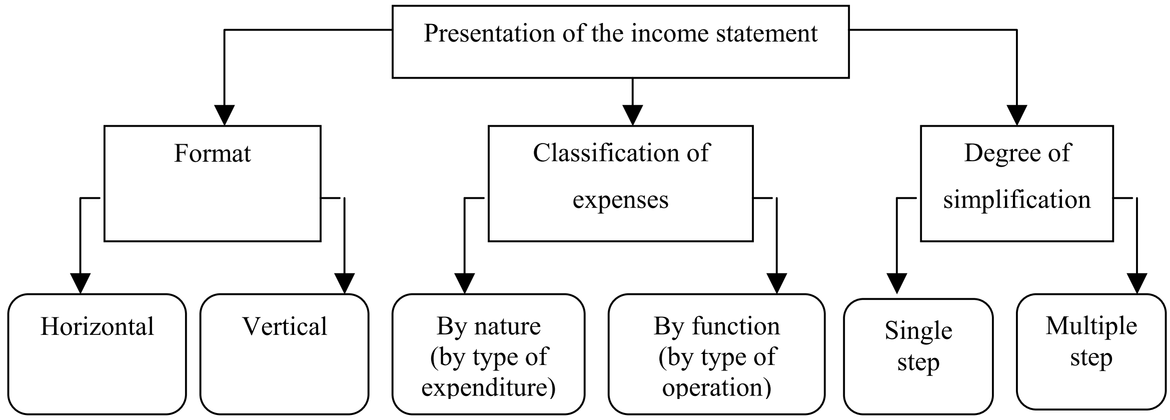

EXHIBIT 6

FUNCTION OF EXPENSE VERSUS NATURE OF EXPENSE PRESENTATIONS

Income statement by function (Vertical presentation)		Income statement by nature (Vertical presentation)	
	Net sales revenue		Net sales
-	Cost of goods sold (cost of sales)	+	Other operating revenues
=	Gross margin	-	Cost of merchandise and raw materials sold and consumed
-	Commercial and distribution expenses	-	Labor and Personnel expenses
-	Administrative expenses	-	Other operating expenses
-	Other operating expenses	-	Depreciation expense
=	Operating income	=	Operating income

EXHIBIT 7.1
UNITED AIRLINES
STATEMENT OF INTERMEDIATE BALANCES
(IN $MILLIONS)

	2002 (6 months)	2001	2000	1999	1998
Passenger	5,948	13,788	16,932	15,784	15,520
Cargo	309	704	931	906	913
Other operating revenues	824	1,646	1,489	1,337	1,128
Total production for the period	**7,081**	**16,138**	**19,352**	**18,027**	**17,561**
Aircraft fuel	(865)	(2,476)	(2,511)	(1,776)	(1,788)
Commissions	(225)	(710)	(1,025)	(1,139)	(1,325)
Purchased services	(695)	(1,650)	(1,711)	(1,575)	(1,505)
Aircraft rent	(419)	(827)	(888)	(876)	(893)
Landing fees and other rents	(501)	(1,009)	(959)	(949)	(881)
Aircraft maintenance	(296)	(701)	(698)	(689)	(624)
Cost of sales	(585)	(1,280)	(1,061)	(602)	(474)
Other operating expenses	(743)	(1,722)	(1,841)	(1,737)	(1,630)
Consumption from third parties	**(4,329)**	**(10,375)**	**(10,694)**	**(9,343)**	**(9,120)**
Value added	**2,752**	**5,763**	**8,658**	**8,684**	**8,441**
Salaries and related costs	(3,378)	(7,080)	(6,877)	(6,426)	(6,170)
Gross operating income	**(626)**	**(1,317)**	**1,781**	**2,258**	**2,271**
Depreciation and amortization	(488)	(1,026)	(988)	(850)	(793)
Earnings (loss) from operations	**(1,114)**	**(2,343)**	**793**	**1,408**	**1,478**
Interest expense	(288)	(525)	(402)	(362)	(355)
Interest capitalized	17	79	77	75	105
Interest income	36	105	101	68	59
Equity in earnings (losses) of affiliates	(4)	(23)	(12)	37	72
Miscellaneous, net	(17)	(86)	(35)	2	(103)
Operating net income before taxes	**(1,370)**	**(2,793)**	**522**	**1,228**	**1,256**
Special charges	(82)	(1,428)	(139)	(17)	0
Gains on sale of investments	46	261	109	731	0
Non-operating special charges	0	(49)	(61)	0	0
Airline stabilization grant	80	652	0	0	0
Unusual income	**44**	**(564)**	**(91)**	**714**	**0**
Provision for income taxes	479	1,226	(160)	(699)	(429)
Distributions on preferred securities, net of tax	(3)	(6)	(6)	(5)	(6)
Cumulative effect of accounting change, net of tax	0	(8)	(209)	0	0
Extraordinary loss on early extinguishment of debt, net of tax	0	0	(6)	(3)	0
Net earnings	**(850)**	**(2,145)**	**50**	**1,235**	**821**

EXHIBIT 7.2
UNITED AIRLINES
STATEMENT OF INTERMEDIATE BALANCES
(IN PERCENTAGE TERMS)

	2002 (6 months)	2001	2000	1999	1998
Passenger	84.0%	85.4%	87.5%	87.6%	88.4%
Cargo	4.4%	4.4%	4.8%	5.0%	5.2%
Other operating revenues	11.6%	10.2%	7.7%	7.4%	6.4%
Total production for the period	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Change in production*	**(22.0%)**	**(16.6%)**	**7.4%**	**2.7%**	**-**
Change in Passenger revenues*	**(24.1%)**	**(18.6%)**	**7.3%**	**1.7%**	**-**
Change in Cargo revenues*	**(20.6%)**	**(24.4%)**	**2.8%**	**(0.8%)**	**-**
Aircraft fuel	(12.2%)	(15.3%)	(13.0%)	(9.9%)	(10.2%)
Commissions	(3.2%)	(4.4%)	(5.3%)	(6.3%)	(7.5%)
Purchased services	(9.8%)	(10.2%)	(8.8%)	(8.7%)	(8.6%)
Aircraft rent	(5.9%)	(5.1%)	(4.6%)	(4.9%)	(5.1%)
Landing fees and other rents	(7.1%)	(6.3%)	(5.0%)	(5.3%)	(5.0%)
Aircraft maintenance	(4.2%)	(4.3%)	(3.6%)	(3.8%)	(3.6%)
Cost of sales	(8.3%)	(7.9%)	(5.5%)	(3.3%)	(2.7%)
Other operating expenses	(10.5%)	(10.7%)	(9.5%)	(9.6%)	(9.3%)
Consumption from third parties	**(61.1%)**	**(64.3%)**	**(55.3%)**	**(51.8%)**	**(51.9%)**
Value added	**38.9%**	**35.7%**	**44.7%**	**48.2%**	**48.1%**
Salaries and related costs	(47.7%)	(43.9%)	(35.5%)	(35.6%)	(35.1%)
Gross operating income	**(8.8%)**	**(8.2%)**	**9.2%**	**12.5%**	**12.9%**
Depreciation and amortization	(6.9%)	(6.4%)	(5.1%)	(4.7%)	(4.5%)
Earnings (loss) from operations	**(15.7%)**	**(14.5%)**	**4.1%**	**7.8%**	**8.4%**
Interest expense	(4.1%)	(3.3%)	(2.1%)	(2.0%)	(2.0%)
Interest capitalized	0.2%	0.5%	0.4%	0.4%	0.6%
Interest income	0.5%	0.7%	0.5%	0.4%	0.3%
Equity in earnings (losses) of affiliates	(0.1%)	(0.1%)	(0.1%)	0.2%	0.4%
Miscellaneous, net	(0.2%)	(0.5%)	(0.2%)	0.0%	(0.6%)
Operating net income before taxes	**(19.3%)**	**(17.3%)**	**2.7%**	**6.8%**	**7.2%**
Special charges	(1.2%)	(8.8%)	(0.7%)	(0.1%)	0.0%
Gains on sale of investments	0.6%	1.6%	0.6%	4.1%	0.0%
Non-operating special charges	0.0%	(0.3%)	(0.3%)	0.0%	0.0%
Airline stabilization grant	1.1%	4.0%	0.0%	0.0%	0.0%
Unusual income	**0.6%**	**(3.5%)**	**(0.5%)**	**4.0%**	**0.0%**
Provision for income taxes	6.8%	7.6%	(0.8%)	(3.9%)	(2.4%)
Distributions on preferred securities, net of tax	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)
Cumulative effect of accounting change, net of tax	0.0%	(0.0%)	(1.1%)	0.0%	0.0%
Extraordinary loss on early extinguishment of debt, net of tax	0.0%	0.0%	(0.0%)	(0.0%)	0.0%
Net earnings	**(12.0%)**	**(13.3%)**	**0.3%**	**6.9%**	**4.7%**

* The figures for the increases in 2002 are with reference to the first six months of 2001.

EXHIBIT 8.1
DELTA AIR LINES
STATEMENT OF INTERMEDIATE BALANCES
(IN $ MILLIONS)

	2002 (6 months)	2001	2000	1999	1998
Passenger	6,095	12,964	15,657	13,949	13,428
Cargo	220	506	583	561	569
Other, net	262	409	501	373	315
Total production for the period	**6,577**	**13,879**	**16,741**	**14,883**	**14,312**
Aircraft fuel	(740)	(1,817)	(1,969)	(1,421)	(1,379)
Other selling expenses	(285)	(616)	(688)	(626)	(632)
Passenger commissions	(196)	(540)	(661)	(784)	(939)
Contracted services	(504)	(1,016)	(966)	(824)	(729)
Landing fees and other rents	(414)	(780)	(771)	(723)	(670)
Aircraft rent	(357)	(737)	(741)	(622)	(569)
Aircraft maintenance materials and outside repairs	(366)	(801)	(723)	(594)	(526)
Passenger service	(192)	(466)	(470)	(498)	(491)
Other	(386)	(816)	(849)	(753)	(778)
Consumption from third parties	**(3,440)**	**(7,589)**	**(7,838)**	**(6,845)**	**(6,713)**
Value added	**3,137**	**6,290**	**8,903**	**8,038**	**7,599**
Salaries and related costs	(3,064)	(6,124)	(5,971)	(5,194)	(4,894)
Gross operating income	**73**	**166**	**2,932**	**2,844**	**2,705**
Depreciation and amortization	(572)	(1,283)	(1,187)	(1,057)	(902)
Operating Income (Loss)	**(499)**	**(1,117)**	**1,745**	**1,787**	**1,803**
Interest expense, net	(296)	(410)	(257)	(126)	(66)
Miscellaneous income (expense), net	15	(47)	27	(26)	39
Fair value adjustments of SFAS 133 derivatives	(43)	68	(159)	0	0
Operating net income before taxes	**(823)**	**(1,506)**	**1,356**	**1,635**	**1,776**
Asset writedowns and other special charges	(63)	(1,119)	(108)	(469)	0
Stabilization Act compensation	0	634	0	0	0
Net gain from sale of investments	(3)	127	301	927	0
Unusual income	**(66)**	**(358)**	**193**	**458**	**0**
Income tax benefit (provision)	306	648	(621)	(831)	(698)
Cumulative Effect of Changes in Accounting Principles	0	0	(100)	(54)	0
Preferred Stock Dividends	(7)	(14)	(13)	(12)	(11)
Net Income (Loss) Available to Common Shareowners	**(590)**	**(1,230)**	**815**	**1,196**	**1,067**

EXHIBIT 8.2
DELTA AIR LINES
STATEMENT OF INTERMEDIATE BALANCES
(IN PERCENTAGE TERMS)

	2002 (6 months)	2001	2000	1999	1998
Passenger	92.7%	93.4%	93.5%	93.7%	93.8%
Cargo	3.3%	3.6%	3.5%	3.8%	4.0%
Other, net	4.0%	2.9%	3.0%	2.5%	2.2%
Total production for the period	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Change in Production	**(13.7%)**	**(17.1%)**	**12.5%**	**4.0%**	**-**
Change in Passenger revenues	**(14.6%)**	**(17.2%)**	**12.2%**	**3.9%**	**-**
Change in Cargo revenues	**3.8%**	**(13.2%)**	**3.9%**	**(1.4%)**	**-**
Aircraft fuel	(11.3%)	(13.1%)	(11.8%)	(9.5%)	(9.6%)
Other selling expenses	(4.3%)	(4.4%)	(4.1%)	(4.2%)	(4.4%)
Passenger commissions	(3.0%)	(3.9%)	(3.9%)	(5.3%)	(6.6%)
Contracted services	(7.7%)	(7.3%)	(5.8%)	(5.5%)	(5.1%)
Landing fees and other rents	(6.3%)	(5.6%)	(4.6%)	(4.9%)	(4.7%)
Aircraft rent	(5.4%)	(5.3%)	(4.4%)	(4.2%)	(4.0%)
Aircraft maintenance materials and outside repairs	(5.6%)	(5.8%)	(4.3%)	(4.0%)	(3.7%)
Passenger service	(2.9%)	(3.4%)	(2.8%)	(3.3%)	(3.4%)
Other	(5.9%)	(5.9%)	(5.1%)	(5.1%)	(5.4%)
Consumption from third parties	**(52.3%)**	**(54.7%)**	**(46.8%)**	**(46.0%)**	**(46.9%)**
Value added	**47.7%**	**45.3%**	**53.2%**	**54.0%**	**53.1%**
Salaries and related costs	(46.6%)	(44.1%)	(35.7%)	(34.9%)	(34.2%)
Gross operating income	**1.1%**	**1.2%**	**17.5%**	**19.1%**	**18.9%**
Depreciation and amortization	(8.7%)	(9.2%)	(7.1%)	(7.1%)	(6.3%)
Operating Income (Loss)	**(7.6%)**	**(8.0%)**	**10.4%**	**12.0%**	**12.6%**
Interest expense, net	(4.5%)	(3.0%)	(1.5%)	(0.8%)	(0.5%)
Miscellaneous income (expense), net	0.2%	(0.3%)	0.2%	(0.2%)	0.3%
Fair value adjustments of SFAS 133 derivatives	(0.7%)	0.5%	(0.9%)	0.0%	0.0%
Operating net income before taxes	**(12.5%)**	**(10.9%)**	**8.1%**	**11.0%**	**12.4%**
Asset writedowns and other special charges	(1.0%)	(8.1%)	(0.6%)	(3.2%)	0.0%
Stabilization Act compensation	0.0%	4.6%	0.0%	0.0%	0.0%
Net gain from sale of investments	(0.0%)	0.9%	1.8%	6.2%	0.0%
Unusual income	**(1.0%)**	**(2.6%)**	**1.2%**	**3.1%**	**0.0%**
Income tax benefit (provision)	4.7%	4.7%	(3.7%)	(5.6%)	(4.9%)
Cumulative Effect of Changes in Accounting Principles	0.0%	0.0%	(0.6%)	(0.4%)	0.0%
Preferred Stock Dividends	(0.1%)	(0.1%)	(0.1%)	(0.1%)	(0.1%)
Net Income (Loss) Available to Common Shareowners	**(9.0%)**	**(8.9%)**	**4.9%**	**8.0%**	**7.5%**

EXHIBIT 9.1
SOUTHWEST AIRLINES
STATEMENT OF INTERMEDIATE BALANCES
(IN $ MILLIONS)

	2002 (6 months)	2001	2000	1999	1998
Passenger	2,640	5,379	5,468	4,563	4,010
Freight	43	91	111	103	99
Other	47	85	71	70	55
Total production for the period	**2,730**	**5,555**	**5,650**	**4,736**	**4,164**
Fuel and oil	(359)	(771)	(805)	(492)	(388)
Agency commissions	(29)	(103)	(160)	(156)	(158)
Landing fees and other rentals	(171)	(311)	(265)	(242)	(215)
Aircraft rentals	(94)	(192)	(196)	(200)	(202)
Maintenance materials and repairs	(198)	(397)	(378)	(368)	(302)
Other operating expenses	(507)	(976)	(860)	(792)	(704)
Consumption from third parties	**(1,358)**	**(2,750)**	**(2,664)**	**(2,250)**	**(1,969)**
Value added	**1,372**	**2,805**	**2,986**	**2,486**	**2,195**
Salaries, wages, and benefits	(963)	(1,856)	(1,684)	(1,455)	(1,286)
Gross operating income	**409**	**949**	**1,302**	**1,031**	**909**
Depreciation	(171)	(318)	(281)	(249)	(225)
Operating Income	**238**	**631**	**1,021**	**782**	**684**
Interest expense	(53)	(70)	(70)	(54)	(56)
Capitalized interest	9	21	28	31	26
Interest income	19	43	40	25	31
Operating net income before taxes	**213**	**625**	**1,019**	**784**	**685**
Other (gains) losses, net	(9)	203	(2)	(10)	21
Unusual income	**(9)**	**203**	**(2)**	**(10)**	**21**
Provision for income taxes	81	317	392	300	271
Cumulative Effect of Changes in Accounting Principles, Net of income tax	0	0	(22)	0	0
Preferred Stock Dividends	0	0	0	0	0
Net Income (Loss) Available to Common Shareowners	**123**	**511**	**603**	**474**	**435**

EXHIBIT 9.2
SOUTHWEST AIRLINES
STATEMENT OF INTERMEDIATE BALANCES
(IN PERCENTAGE TERMS)

	2002 (6 months)	2001	2000	1999	1998
Passenger	96.7%	96.8%	96.8%	96.3%	96.3%
Freight	1.6%	1.6%	2.0%	2.2%	2.4%
Other	1.7%	1.5%	1.3%	1.5%	1.3%
Total production for the period	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Change in Production	**(8.5%)**	**(1.7%)**	**19.3%**	**13.7%**	**-**
Change in Passenger revenues	**(8.6%)**	**(1.6%)**	**19.8%**	**13.8%**	**-**
Change in Cargo revenues	**(4.4%)**	**(18.0%)**	**7.8%**	**4.0%**	**-**
Fuel and oil	(13.2%)	(13.9%)	(14.2%)	(10.4%)	(9.3%)
Agency commissions	(1.1%)	(1.9%)	(2.8%)	(3.3%)	(3.8%)
Landing fees and other rentals	(6.3%)	(5.6%)	(4.7%)	(5.1%)	(5.2%)
Aircraft rentals	(3.4%)	(3.5%)	(3.5%)	(4.2%)	(4.9%)
Maintenance materials and repairs	(7.3%)	(7.1%)	(6.7%)	(7.8%)	(7.3%)
Other operating expenses	(18.6%)	(17.6%)	(15.2%)	(16.7%)	(16.9%)
Consumption from third parties	**(49.7%)**	**(49.5%)**	**(47.2%)**	**(47.5%)**	**(47.3%)**
Value added	**50.3%**	**50.5%**	**52.8%**	**52.5%**	**52.7%**
Salaries, wages, and benefits	(35.3%)	(33.4%)	(29.8%)	(30.7%)	(30.9%)
Gross operating income	**15.0%**	**17.1%**	**23.0%**	**21.8%**	**21.8%**
Depreciation	(6.3%)	(5.7%)	(5.0%)	(5.3%)	(5.4%)
Operating Income	**8.7%**	**11.4%**	**18.1%**	**16.5%**	**16.4%**
Interest expense	(1.9%)	(1.3%)	(1.2%)	(1.1%)	(1.3%)
Capitalized interest	0.3%	0.4%	0.5%	0.7%	0.6%
Interest income	0.7%	0.8%	0.7%	0.5%	0.7%
Operating net income before taxes	**7.8%**	**11.3%**	**18.0%**	**16.6%**	**16.5%**
Other (gains) losses, net	(0.3%)	3.7%	(0.0%)	(0.2%)	0.5%
Unusual income	**(0.3%)**	**3.7%**	**(0.0%)**	**(0.2%)**	**0.5%**
Provision for income taxes	3.0%	(5.7%)	6.9%	6.3%	6.5%
Cumulative Effect of Changes in Accounting Principles, Net of income tax	0.0%	0.0%	(0.4%)	0.0%	0.0%
Preferred Stock Dividends	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income (Loss) Available to Common Shareowners	**4.5%**	**9.2%**	**10.7%**	**10.0%**	**10.4%**