

David Strine
212 272-7869
dstrine@bear.com

Frank Boroch, CFA
212 272-6335
fboroch@bear.com

Bankruptcy tilts playing field

Key Points

- *** TWIN BANKRUPTCY FILINGS TILT PLAYING FIELD. NWAC and DAL filed for Chapter 11 protection yesterday, becoming the 20 and 21st airlines to do so since 2000. Now with 47% of industry capacity in bankruptcy, the playing field looks set to become even more lopsided pressuring non-bankrupt legacies to lower costs further and low cost carriers to reassess their shrinking CASM advantage.
- *** CAPACITY PULLBACK. Over the past 20 years, bankrupt carriers decreased capacity by 5-10% on avg in the year following their filing. If we assume DAL and NWAC shrink by 7.5% (the midpoint) in '06, our domestic industry ASM forecast goes from +2% y/y to flat, which could potentially be favorable for airline pricing (yields).
- *** NWAC AND DAL INTIMATE CAPACITY RESTRAINT. After their filing yesterday, NWAC's CEO indicated 4Q:05 capacity could decline 5-6% y/y, while Delta announced plans to accelerate its fleet simplification plan, removing four aircraft types by the end of 2006.
- *** BIGGEST BENEFICIARIES LIKELY TO BE LOW COST CARRIERS. NWAC and DAL account for roughly 26% of domestic capacity, which, if trimmed by 7.5% equates to a 2% pt reduction in industry capacity. We believe LCC-heavy routes are likely to see a disproportionate benefit from potential reductions at DAL and NWAC, with AAI, AWA, and JBLU in particular having an easier path for growth.
- *** MAINTAIN UNDERWEIGHT. We believe having nearly half of industry capacity in Chapter 11 presents significant challenges for the sector, which we view as a commodity equivalent business with a structural pricing problem. We have underperform ratings on DAL and NWAC, where we expect equity to be wiped out and an outperform rating on ALK.

. Exposure to Delta and Northwest

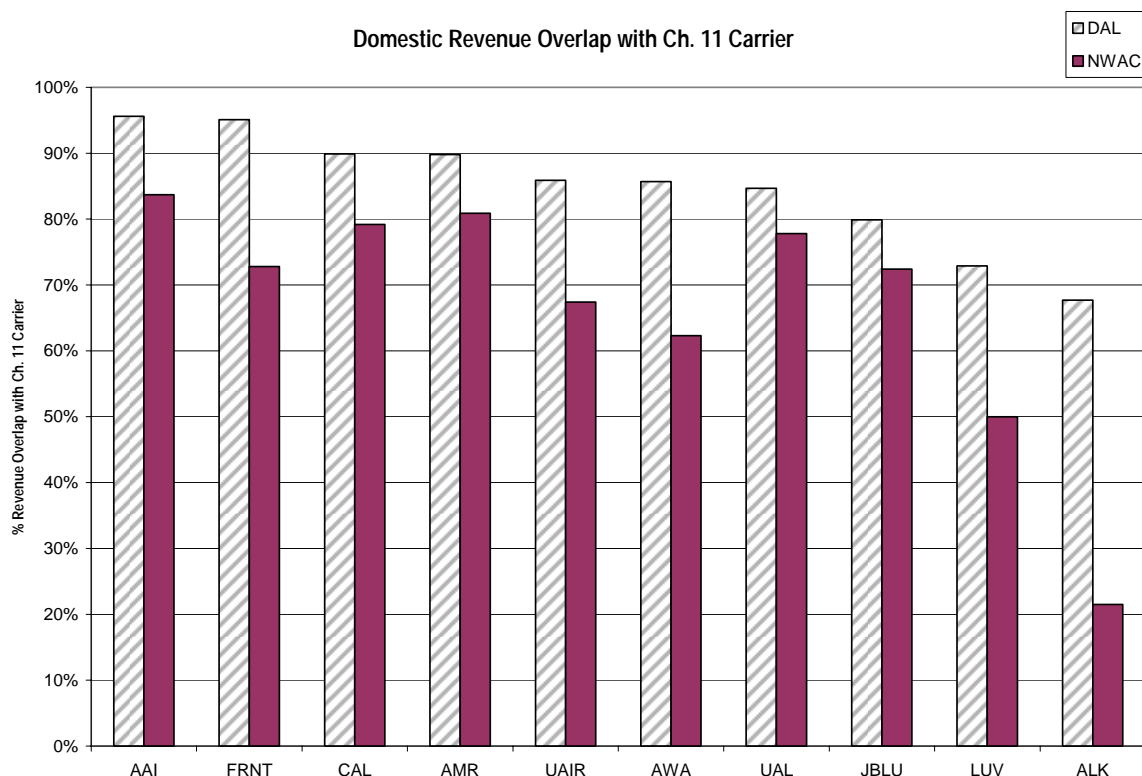
Securities in this report priced as of: Sept 14, 2005 16:00

Bear Stearns does and seeks to do business with companies covered in its research reports. As a result investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Customers of Bear Stearns in the United States can receive independent, third-party research on the company or companies covered in this report, at no cost to them, where such research is available. Customers can access this independent research at www.bearstearns.com/independentresearch or can call (800) 517-2327 to request a copy of this research.

Investors should consider this report as only a single factor in making their investment decision.

PLEASE SEE PAGE 7 OF THIS NOTE FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION.



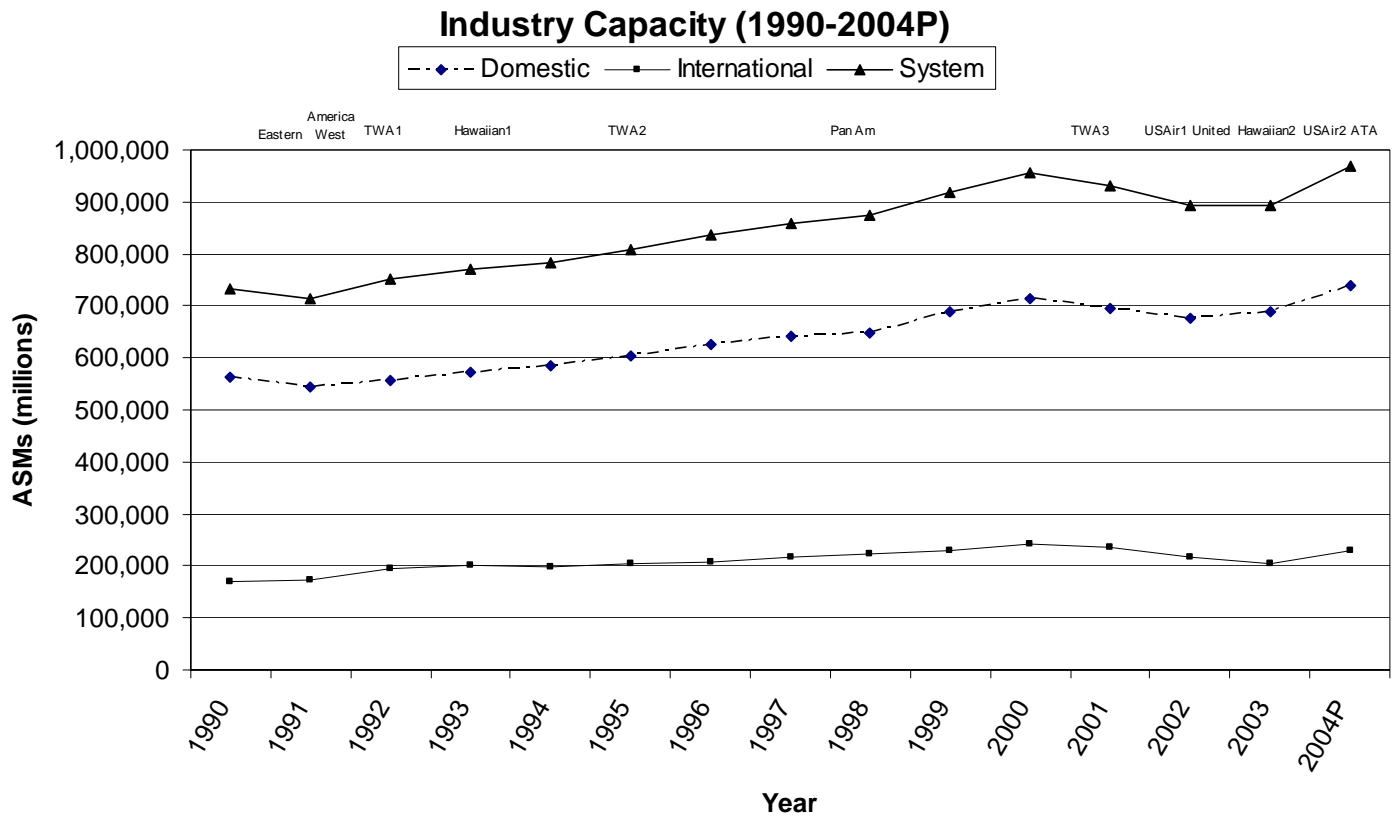
Source: DOT OD1A as of 1Q:05, Bear Stearns' estimates.

While several legacies have considerable domestic overlap with the latest bankrupt carriers, we believe low cost airlines are likely to be the prime beneficiaries of capacity pull backs at Delta and Northwest. This is based on three factors: 1) low cost airlines are the domestic price setters and legacy carriers seeking to raise fares to improve cash flow (which is particularly vital during the reorganization planning process in order to attract potential investors) would prefer to compete with carriers that are more apt to go along with price increases; 2) some low cost airlines operate very young fleets with more amenities than legacies airlines' coach product; and 3) low cost carriers tend to be most concentrated on leisure routes, which often have lower yields than markets more heavily trafficked by business travelers. As a result, we expect to see Northwest and Delta trim domestic capacity where they compete head-to-head with low cost airlines in order to improve their yields and increase the likelihood for future fare hikes. We believe that with close to 50% of the industry's capacity in bankruptcy the group could come under pressure in the medium term as investors consider the potential relative cost disadvantage that could surface at AMR and CAL should Delta and Northwest successfully reduce wages, benefits, pensions, aircraft rent and debt payments. While we believe low cost carriers are well positioned to capitalize on growth opportunities that arise from pullbacks at NWAC and DAL, as bankrupt legacies shed costs and repair their balance sheets at the same time LCC labor costs rise and maintenance expenses climb, as fleets age and maintenance honeymoons expire, the cost advantage is likely to decline.

History of Bankruptcy Pullbacks and LCC Aircraft Order Book Give Us Pause

As noted in the exhibit below, over the past 15 years we find that while newly bankrupt airlines tend to shrink their capacity, overall industry ASMs don't contract (shaded boxes indicate bankruptcy filings) much at all as competitors rush to fill the void. In addition, low cost carriers currently expect to take deliver of over 110 aircraft next year, a 21% increase from 2005 deliveries. With a need to place these aircraft into revenue service it is possible to envision the capacity void quickly filled with brand new low cost carrier seats.

Exhibit 2. Historically, Bankruptcy-Induced Capacity Pull downs Offset by Growth at Competing Airlines



Source: ATA and Bear Stearns' estimates

Exhibit 3. U.S. Airline Bankruptcies Since Deregulation

Date	Carrier	Chapter
5/18/1979	New York Airways	11
11/19/1979	Aeroamerica	11
1/24/1980	Florida Airlines	11
3/3/1980	Indiana Airlines	11
12/15/1980	Air Bahia	11
12/31/1980	Tejas Airlines	11
3/6/1981	Mountain West	11
3/16/1981	LANICA	11
7/13/1981	Coral Air	11
9/11/1981	Pacific Coast	11
9/18/1981	Swift Air Line	11
10/9/1981	Golden Gate	11
1/26/1982	Pinehurst Airlines	11
3/3/1982	Silver State Airlines	11
3/26/1982	Air Pennsylvania	11
4/2/1982	Air South	11
4/16/1982	Cochise Airlines	11
5/13/1982	Braniff International	11
7/8/1982	Astec Air East	11
8/19/1982	Will's Air	11
10/5/1982	Aero Sun International	11
10/19/1982	Aero Virgin Islands	11
11/9/1982	Altair	11
12/9/1982	North American	11
2/1/1983	Inland Empire	11
2/14/1983	State Airlines	11
4/22/1983	Golden West	11
9/24/1983	Continental Airlines	11
12/2/1983	National Florida	7
1/30/1984	Air Vermont	11
2/2/1984	Pacific Express	11
2/8/1984	Dolphin	11
4/9/1984	Combs Airways	11
5/1/1984	New York Helicopter	11
7/3/1984	Air Florida	11
7/17/1984	Excellair	7
7/19/1984	American International	11
8/21/1984	Emerald	11
8/29/1984	Hammonds Commuter	11
9/4/1984	Air North	11
9/27/1984	Wright Air Lines	11
10/2/1984	Oceanair Lines	7
10/10/1984	Atlantic Gulf	11
10/10/1984	Connectaire	7
10/26/1984	Air One	11
11/23/1984	Capitol Air	11
11/28/1984	Wren Air Alaska	11
1/8/1985	Northeastern International	11
1/22/1985	Pompano Airways	11

Source: ATA; DOT records.

Exhibit 3 (cont'd). U.S. Airline Bankruptcies Since Deregulation

Date	Carrier	Chapter
2/22/1985	Far West Airlines	11
3/8/1985	American Central	11
3/13/1985	Provincetown Boston	11
3/19/1985	Sun West Airlines	11
5/1/1985	Wise Airlines	11
8/19/1985	Cascade Airways	11
10/7/1985	Wheeler Airlines	11
12/2/1985	Pride Air	11
1/21/1986	Southern Express	11
1/30/1986	Imperial Airlines	11
2/11/1986	Arrow Airways	11
4/9/1986	Sea Airmotive	11
4/18/1986	SFO Helicopter	11
8/19/1986	Trans Air	11
8/28/1986	Frontier Airlines	11
2/19/1987	Chicago Airlines	11
2/23/1987	McClain Airlines	11
2/27/1987	Rio Airways	11
3/6/1987	Air Puerto Rico	11
3/10/1987	Gull Air	11
3/12/1987	Royal West Airlines	11
4/3/1987	Air Atlanta	11
6/17/1987	Air South	11
9/9/1987	Royale Airlines	11
1/5/1988	Sun Coast Airlines	11
1/14/1988	Air New Orleans	11
1/15/1988	Air Virginia	11
1/20/1988	Mid Pacific Airlines	11
3/4/1988	Exec Express	11
5/6/1988	Caribbean Express	11
5/25/1988	Pocono Airlines	11
6/20/1988	Virgin Island Seaplane	11
8/11/1988	Princeton Air Link	7
9/14/1988	Qwest Air	11
9/27/1988	Southern Jersey Airways	11
3/9/1989	Eastern Air Lines	11
3/14/1989	Big Sky Airlines	11
7/19/1989	Air Kentucky	7
9/28/1989	Braniff International	11
10/26/1989	Presidential Airways	11
11/12/1989	Resorts International	11
11/17/1989	Resort Commuter	11
1/23/1990	Pocono Airlines	11
5/10/1990	SMB Stage Lines	11
7/5/1990	CCAir	11
12/3/1990	Continental Airlines	11
12/3/1990	Britt Airways	11
12/3/1990	Rocky Mountain Airways	11
1/8/1991	Pan Am World Airways	11
1/8/1991	Pan Am Express	11
1/9/1991	L'Express	11

Source: ATA; DOT records.

Exhibit 3 (cont'd). U.S. Airline Bankruptcies Since Deregulation

6/8/1992	Markair	11
6/8/1992	Hermans/Markair Express	11
12/15/1992	States West Airlines	11
9/20/1993	Evergreen International Aviation	11
9/21/1993	Hawaiian Airlines	11
10/13/1993	Rocky Mt. Helicopters	11
1993	Key Airlines	11
3/21/1994	Resorts International	11
10/11/1994	Florida West Airlines	11
2/3/1995	Crescent Airways	11
4/14/1995	Markair	11
6/30/1995	Trans World Airlines	11
12/15/1995	The Krystal Company	11
11/28/1995	Grand Airways	11
1/10/1996	GP Express	11
1/22/1996	Business Express	11
1/23/1996	Conquest Airlines	11
9/30/1996	Kiwi International Airlines	11
7/25/1997	Mahalo	11
8/28/1997	Air South	11
10/5/1997	Western Pacific Airlines	11
11/6/1997	Mountain Air Express	11
2/26/1998	Pan American World Airways	11
7/29/1998	Euram Flight Centre	11
3/23/1999	Kiwi International Airlines	11
6/25/1999	Sunjet International/Myrtle Beach Jet Express	11
9/30/1999	Eastwind Airlines	7
11/29/1999	Access Air	11
2/29/2000	Tower Air	11
5/1/2000	Kitty Hawk	11
9/19/2000	Pro Air	11
9/27/2000	Fine Air Services	11
12/3/2000	Legend Airlines	11
12/6/2000	National Airlines	11
1/10/2001	Trans World Airlines	11
8/13/2001	Midway Airlines	11
1/2/2002	Sun Country Airlines	7
7/30/2002	Vanguard Airlines	11
8/11/2002	US Airways	11
12/9/2002	United Airlines	11
3/21/2003	Hawaiian Airlines	11
10/30/2003	Midway Airlines	7
1/23/2004	Great Plains Airlines	11
1/30/2004	Atlas Air/Polar Air Cargo	11
9/12/2004	US Airways	11
10/26/2004	ATA Airlines	11
12/1/2004	Southeast Airlines	7
12/30/2004	Aloha Airlines	11
9/14/2005	Delta Air Lines	11
9/14/2005	Northwest Airlines	11

Source: ATA; DOT records.

Companies Mentioned

AMR CORPORATION (AMR - USD 12.13) - Peer Perform

CONTINENTAL AIRLINES INC. (CAL - USD 12.15) - Peer Perform
DELTA AIR LINES, INC. (DAL - USD 0.71) - Underperform
NORTHWEST AIRLINES CORP. (NWAC - USD 1.87) - Underperform
AIRTRAN (AAI - USD 10.93) - Peer Perform
JETBLUE AIRWAYS CORP. (JBLU - USD 18.83) - Peer Perform
AMERICA WEST AIRLINES (AWA - USD 6.97) - Peer Perform

IMPORTANT DISCLOSURES

ANALYST CERTIFICATION

The Research Analyst(s) who prepared the research report hereby certify that the views expressed in this research report accurately reflect the analyst(s) personal views about the subject companies and their securities. The Research Analyst(s) also certify that the Analyst(s) have not been, are not, and will not be receiving direct or indirect compensation for expressing the specific recommendation(s) or view(s) in this report.

David Strine

Northwest Airlines Corp.(NWAC), JetBlue Airways Corp.(JBLU): Bear, Stearns & Co. Inc. is a market maker in this company's equity securities.

For important disclosure information regarding the companies in this report, please contact your registered representative at 1-888-473-3819, or write to Sandra Pallante, Equity Research Compliance, Bear, Stearns & Co. Inc., 383 Madison Avenue, New York, NY 10179.

The costs and expenses of Equity Research, including the compensation of the analyst(s) that prepared this report, are paid out of the Firm's total revenues, a portion of which is generated through investment banking activities.

This report has been prepared in accordance with the Firm's conflict management policies. Bear Stearns is unconditionally committed to the integrity, objectivity, and independence of its research. Bear Stearns research analysts and personnel report to the Director of Research and are not subject to the direct or indirect supervision or control of any other Firm department (or members of such department).

This publication and any recommendation contained herein speak only as of the date hereof and are subject to change without notice. Bear Stearns and its affiliated companies and employees shall have no obligation to update or amend any information or opinion contained herein, and the frequency of subsequent publications, if any, remain in the discretion of the author and the Firm.

Bear, Stearns & Co. Equity Research Rating System:

Ratings for Stocks (vs. analyst coverage universe):

Outperform (O) - Stock is projected to outperform analyst's industry coverage universe over the next 12 months.

Peer Perform (P) - Stock is projected to perform approximately in line with analyst's industry coverage universe over the next 12 months.

Underperform (U) - Stock is projected to underperform analyst's industry coverage universe over the next 12 months.

Ratings for Sectors (vs. regional broader market index):

Market Overweight (MO) - Expect the industry to perform better than the primary market index for the region (S&P 500 in the US) over the next 12 months.

Market Weight (MW) - Expect the industry to perform approximately in line with the primary market index for the region (S&P 500 in the US) over the next 12 months.

Market Underweight (MU) - Expect the industry to underperform the primary market index for the region (S&P 500 in the US) over the next 12 months.

Bear, Stearns & Co. Ratings Distribution as of June 30, 2005:

Percentage of BSC universe with this rating / Percentage of these companies which were BSC investment banking clients in the last 12 months.

Outperform (Buy): 38.5 / 19.5

Peer Perform (Neutral): 50.4 / 12.4

Underperform (Sell): 11.1 / 6.0

Securities covered by the author(s) of this report include:

David Strine (Airlines): AMR Corporation, Airtran, Alaska Air Group Inc., America West Airlines, Continental Airlines Inc., Delta Air Lines, Inc., Frontier Airlines, JetBlue Airways Corp., Northwest Airlines Corp., Southwest Airlines

David Strine (Asia-Pacific Airlines): Cathay Pacific Airways, China Airlines, China Eastern Airlines, China Eastern Airlines ADR, China Southern Airlines, China Southern Airlines ADR, EVA Airways Corporation, Korean Airlines, Qantas Airways Ltd, Singapore Airlines, Thai Airways International Public Co. Ltd.

David Strine (Asia-Pacific Transportation (non-airline)): Cosco Pacific Ltd, Guangshen Railway Co Ltd ADR, Guangshen Railway Co. Ltd.

OTHER DISCLAIMERS

This report has been prepared by Bear, Stearns & Co. Inc., Bear, Stearns International Limited or Bear Stearns Asia Limited (together with their affiliates, "Bear Stearns"), as indicated on the cover page hereof. This report has been adopted and approved for distribution in the United States by Bear, Stearns & Co. Inc. for its and its affiliates' customers. If you are a recipient of this publication in the United States, orders in any securities referred to herein should be placed with Bear, Stearns & Co. Inc. This report has been approved for publication in the United Kingdom by Bear, Stearns International Limited, which is authorized and regulated by the United Kingdom Financial Services Authority. Private Customers in the U.K. should contact their Bear, Stearns International Limited representatives about the investments concerned. This report is distributed in Hong Kong by Bear Stearns Asia Limited, which is regulated by the Securities and Futures Commission of Hong Kong. Additional information is available upon request.

Bear Stearns and its employees, officers, and directors deal as principal in transactions involving the securities referred to herein (or options or other instruments related thereto), including in transactions which may be contrary to any recommendations contained herein. Bear Stearns and its employees may also have engaged in transactions with issuers identified herein. Bear Stearns is affiliated with a specialist that may make a market in the securities of the issuers referred to in this document, and such specialist may have a position (long or short) and may be on the opposite side of public orders in such securities.

This publication does not constitute an offer or solicitation of any transaction in any securities referred to herein. Any recommendation contained herein may not be suitable for all investors. Although the information contained in the subject report (not including disclosures contained herein) has been obtained from sources we believe to be reliable, the accuracy and completeness of such information and the opinions expressed herein cannot be guaranteed. This publication and any recommendation contained herein speak only as of the date hereof and are subject to change without notice. Bear Stearns and its affiliated companies and employees shall have no obligation to update or amend any information or opinion contained herein.

This publication is being furnished to you for informational purposes only and on the condition that it will not form the sole basis for any investment decision. Each investor must make their own determination of the appropriateness of an investment in any securities referred to herein based on the tax, or other considerations applicable to such investor and its own investment strategy. By virtue of this publication, neither Bear Stearns nor any of its employees, nor any data provider or any of its employees shall be responsible for any investment decision. This report may not be reproduced, distributed, or published without the prior consent of Bear Stearns. ©2005. All rights reserved by Bear Stearns. Bear Stearns and its logo are registered trademarks of The Bear Stearns Companies Inc.

This report may discuss numerous securities, some of which may not be qualified for sale in certain states and may therefore not be offered to investors in such states. This document should not be construed as providing investment services. Investing in non-U.S. securities including ADRs involves significant risks such as fluctuation of exchange rates that may have adverse effects on the value or price of income derived from the security. Securities of some foreign companies may be less liquid and prices more volatile than securities of U.S. companies. Securities of non-U.S. issuers may not be registered with or subject to Securities and Exchange Commission reporting requirements; therefore, information regarding such issuers may be limited.

NOTE TO ACCOUNT EXECUTIVES: For securities that are not listed on the NYSE, AMEX, or Nasdaq National Market System, check the Compliance page of the Bear Stearns Intranet site for State Blue Sky data prior to soliciting or accepting orders from clients.