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Vice President and Controller

March 24, 2011

Financial Accounting Standards Board
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116
Attn: Technical Director
(via email) director@fasb.org

Re: File Reference No. 1820-100, Exposure Draft: *Revenue from Contracts with Customers*

Dear FASB Technical Director:

As Controllers for the 5 largest U.S. passenger airlines we felt compelled to express our concerns about certain recent deliberations on the Exposure Draft, *Revenue from Contracts with Customers* (the "ED"). Although we support the Boards' efforts to clarify and provide comprehensive guidance covering revenue recognition, we are concerned with the tentative conclusions reached on March 1, 2011 regarding the onerous contracts, as follows:

Onerous Contracts

The IASB and the FASB continued their discussion from February 2011 on how an entity would test a contract to determine whether it is onerous.

The Boards tentatively decided that the onerous test should apply to all contracts, including those that are intentionally priced at a loss in expectation of profits to be generated on subsequent contracts with the customer (that is, "loss-leader" contracts).

The Boards tentatively affirmed the proposal in the Exposure Draft, Revenue from Contracts with Customers, that the costs to be included in the onerous test and in measuring an onerous liability should be the costs that relate directly to satisfying the remaining performance obligations (as described in paragraph 58 of the Exposure Draft). The Boards observed that when an entity is committed to cancelling a contract and has the contractual right to do so, the costs would reflect the amount that the entity would have to pay to cancel the contract (for example, the amount it would have to refund the customer, including any penalties). The Boards also observed that cancelling the contract may give rise to other obligations that would be accounted for in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets, or Topic 450, Contingencies, of the FASB Accounting Standards Codification®

We have been monitoring the Boards' progress and commentary during redeliberations and we have concerns that the Boards' tentative conclusions with

regard to onerous contracts potentially create significant volatility in our industry results. Further, we do not believe the accounting resulting from the tentative conclusions results in a better presentation of the true economic performance of the industry.

Our concerns are specific to the onerous performance obligation provisions of the ED (paragraphs 54.-56.) and the application of such provisions to accounting and reporting in the airline industry. We noted that the ED indicates that an entity would apply the requirements of the proposed revenue recognition model to a single contract with a customer.. Each ticket purchase by one of our customers (which range from being purchased several months in advance to being purchased on the flight date) is an individual contract. The basis of our specific concerns relates to applying the "cost trigger" method (as defined in paragraph BC138(a)) to individual tickets in a manner that is substantially inconsistent with the revenue management systems we used to price and determine profitability of our products. Part of our strategy to sell tickets involves multiple sales prices depending on the length of time someone is willing to commit to purchase and refundability of the ticket. In essence this strategy has been developed over the years as the best way to optimize the total yield for our commodity product (effectively an airline seat is a perishable commodity spoiling at the time of the flight if unused). As we understand your proposal, we would be required to identify and record a loss at the individual ticket level. This would include being required to recognize a loss on certain advance tickets at the time of sale; even though we expect that the contract would be fulfilled on a profitable flight. As a result, under this model, profitability reported in periodic financial reports would be more of a function of the volume and mix of tickets sold rather than passengers flown.

This is substantially inconsistent with how we operate and evaluate the profitability and success of our business and how our investors evaluate our results. To better explain our concerns, we have included below some key aspects of our business to demonstrate why it is not practical to test profitability at the ticket level and why we believe it will not improve airline financial reporting.

Measurement level- The proposed revenue recognition guidance is founded on the principle of fulfilling an obligation. An airline's obligation is generally fulfilled on a flight or group level with other passenger tickets and, absent a refund, never on an individual contract or ticket level. In the airline business we can only reasonably assess profitability at a flight level and even then with some limitations as described below. The real difficulty in going below the flight level is the inability to allocate costs to individual seats in a way that reasonably resembles how we operate our business. In simple terms we do not believe that all seats are equal, such that an airline's per seats cost is simply a ratable allocation of total cost. The airline pricing model places different value and price on the first advance purchase seats sold on a plane versus a last minute seat on the same flight, similar to other commodity pricing models. As a result, a model that only permits a ratable cost allocation to the seats disregards the most significant economic reality of our business - supply and demand.

Cost structure- The airline industry has a significant portion of its costs that are fixed in nature, such as capital costs (to buy or lease aircraft) which after fuel and labor represent one of our most significant costs. However, their fixed nature do not necessarily lend themselves well to simple allocations. To illustrate an airline that flies an aircraft for 8 hours a day and is considering adding an additional daily frequency to increase the aircraft utilization to 10 hours a day. In this example the basic capital cost of the aircraft does not change, and in fact declines on a per unit basis. As a result an airline may make a decision to fly one extra trip between two cities in the evening knowing the demand may not be as great for that flight as the other flights during the day. In reaching this conclusion, airlines frequently use a variable cost recovery model to evaluate this additional frequency, such that as long as the flight covers its variable costs (fuel, food, maintenance, etc.) then it contributes to the recovery of the fixed costs. In this example, using a ratable allocation of the per seat capital costs does not represent the economics of how our business is operated or how we make scheduling decisions.

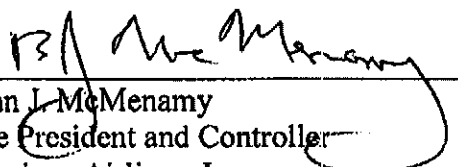
Network benefit- Although, not all airlines use a network model, it is common and used by 4 of the 5 airlines signatories on this letter. A network model or hub and spoke model flies a number of flights to an airport hub to connect passengers with other departing flights to create the maximum possible flight options. Airlines that use this model will frequently fly certain routes that would not be fully profitable on a standalone basis, but provide valuable feed for other, more profitable flights, operated by the Airline. In addition, certain flights, for example the last flight of the day, may frequently be operated below an optimal profitability, in order to properly position the aircraft for the following morning's flight that is very profitable.

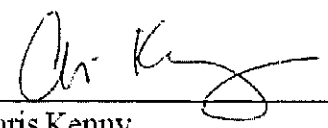
Ancillary Revenue- A final complicating factor is the growth of ancillary revenues sources associated with passenger transportation, such as baggage fees and change fees. These revenues now represent over 10% to total industry revenues and are a disproportionately larger percentage of advance purchased tickets, which is the population most at risk to result in a potential ticket level onerous contract provision. These fees are frequently not paid until after the initial purchase, but yet are anticipated as part of the original contract or ticket (e.g. based on ticket type, if the passenger changes their flight or checks a bag we would earn additional revenues). While not all customers use these services and pay these fees, historically we can easily estimate that a high percentage of these customers ultimately incur these fees. As a result, we believe any ticket level assessment would need to include an estimate of additional fees as part of the computation, adding an additional layer of complexity to this effort.

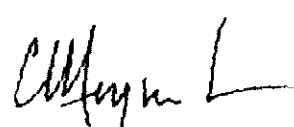
The explanations above hopefully give you a better understanding as to our view that this accounting does not match the economic reality of our business and would in fact result in less meaningful financial reporting. To further support our views, we polled a few of the primary airline analysts and described for them the onerous contract accounting and the currently proposed allocation methodologies to the airline business. In each case they indicated they did not believe that this would help their evaluation, and in fact, would dramatically change many of the measures that they traditionally used to evaluate the industry, complicating their evaluation of the airline industry.

We would appreciate the opportunity to discuss our thoughts in-person, and to discuss how possible alternate models might better achieve the desired objective, specifically we believe that the Boards should either permit aggregation of performance obligation in situations where the company can demonstrate consistency with their model for fulfilling such obligations or alternatively, provide that cost allocation methodologies may be prepared consistently with how the company operates and evaluates their business. We are sensitive to your time constraints in reaching a final Accounting Standards Update regarding this matter, and we appreciate the opportunity to take part in the process for creating a comprehensive and simplified revenue recognition standard.

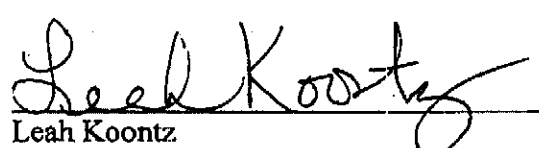
Very truly yours,


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