



JOHN F. BROWN COMPANY EMAIL NEWSLETTER

Consultants to the Airport Industry

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SIGNATURES REQUESTED IN SUPPORT OF EDS FLEXIBILITY

Summarized from AAAE/ACI-NA, 11/5/2002:

Airport managers are being requested to sign a letter urging Congress to support flexibility in the December 31, 2002 deadline for installation of EDS equipment. A similar effort in August of this year gathered 133 signatures.

NORTHWEST TAKING NONCASH CHARGE ON PENSION

Summarized from Reuters, 11/6/2002:

Like a number of its peers, Northwest announced on Wednesday that it expects to take a charge to stockholders' equity at the end of this year. The charge, which may exceed \$700 million, would be due to an underfunded defined benefits pension plan. Other airlines that have recently announced similar situations include Delta (\$700-800 million), United (\$1.5 billion), and American (\$1 billion). These charges do not affect current earnings. To conserve liquidity, Northwest has asked the IRS for permission to extend its 2003 pension contributions over five years rather than the usual 18 months, and has asked the Department of Labor for permission to partly fund its pension obligation using the stock of its regional Pinnacle Airlines.

TOUGH ISSUES ON BAGGAGE SCREENING REMAIN

Summarized from The New York Times, 11/4/2002:

By January 1, 2003, all checked baggage on passenger flights is to be screened for explosives. Among the unresolved issues related to this deadline are how screeners should open locked baggage, liability for claims of damage to or theft of travelers' property, responsibility for reuniting passenger with baggage in the case of baggage missing a flight, and responsibility for flight delays due to delays in baggage screening. Part of the problem lies in the fact that EDS machines routinely generate 25-30 percent false positives, mistaking chocolate for explosives for example; bags rejected by the machines must be examined by hand.

TWO AIRLINES GET INITIAL LOAN OKS

Summarized from AP, 11/5/2002:

Aloha and Frontier received conditional approval for federal guarantees totaling about \$103 million on loans totaling about \$115 million. They join United, who recently received conditional approval for a \$900 million guarantee, and America West, who has already received a \$429 million guarantee.



COMPETITORS ADD FLIGHTS IN US AIRWAYS' TERRITORY

Summarized from USA Today and The Washington Post, 11/5/2002:

"Like vultures," other airlines are encroaching onto US Airways' routes. The risk to US Airways is that even if it emerges from bankruptcy it may not be able to regain lost market share. This is true particularly since US Airways alienated some of its customers by leading the move to restrict non-refundable tickets. Meanwhile, David Bronner, Alabama's state pension director, believes that US Airways has a bright future. He has invested \$240 million in the company, and provided \$500 million in financing to the company in exchange for 37.5 percent of the company when it emerges from bankruptcy.

DEVELOPMENTS RELATED TO UNITED

Summarized from Reuters and others, 11/6/2002:

On Monday, United's pilots union tentatively agreed to \$2.2 billion of concessions (including allowing up to 600 pilots to be laid off, and the retirement of about 50 mainline aircraft), contingent upon concessions from the other unions and approval of a federal loan guarantee. United's CEO Glenn Tilton believes that the airline's other unions will soon agree to concessions as well. On Tuesday, one of the airline's creditors agreed to restructure \$500 million of the \$875 million United will owe over the next four weeks. On Wednesday, Lufthansa indicated that it would consider helping United, its Star Alliance partner, with a "payment." Because of these recent positive developments, United's pilots union is "dismayed" and believes that the recently announced sales of ESOP stock by the plan's adviser now are ill advised.

An airline analyst remarked that despite these developments, a "bankruptcy-based reorganization is still the most likely outcome." Another analyst believes that the airline is not giving enough attention to "getting more people on airplanes." At least three groups of investors (respectively headed by David Bonderman, Marvin Davis, and George Soros) are preparing plans to bid on United if it does declare bankruptcy. A merger between Continental and a bankrupt United is another possibility. [USA Today 11/5, Rocky Mountain News 11/5, New York Times 11/5, Reuters 11/4 and 11/6, The Chicago Sun-Times 11/6, Chicago Tribune 11/6]



AMERICAN TO CUT U.S. FLIGHTS

Summarized from The Dallas Morning News and Reuters, 11/7/2002:

In its effort to compete with Southwest, American said on Wednesday that it will reduce domestic flights by 16% while seeking to expand international flights. It will also seek to slow (if not "roll back") wage escalations, delay spending on aircraft, ask Congress to reduce ticket taxes, and incorporate various technological efficiencies. American's goal is to reduce costs by about \$4 billion (up from an earlier goal of \$3 billion) in order to compete effectively on price with Southwest.

AIRPORT PARKING FEE AND SERVICES CHANGING

Summarized from The Dallas Morning News and others, 11/5/2002:

Dallas Love Field is facing a revenue shortfall this year and next. The city council hopes to mitigate that by increasing parking rates rather than increasing landing fees since the airlines are ill-equipped to bear that burden now. Across the city, DFW has reconfigured its parking services, apparently enhancing value to its customers without increasing parking fees. Meanwhile, Detroit is seeking to reduce costs to airlines by closing several parking facilities completely. [other sources: The Detroit News, DFW press release 11/3]

EU-U.S. "OPEN SKIES" AGREEMENTS RULED CONTRARY TO EC LAW

Summarized from The Court of Justice of the European Communities and others, 11/5/2002:

The recent ruling by the European Court of Justice objects to certain provisions in the bilateral agreements between the US and certain EU member states. Notably, clauses favoring airlines of the EU signatory over other EU airlines were ruled discriminatory and therefore illegal. Thus, EU countries may lack motivation for continuing with bilaterals with the US. This may eventually create conditions within the EU conducive for the EU to negotiate a community-wide bilateral with the US.