

JOHN F. BROWN COMPANY EMAIL NEWSLETTER

Consultants to the Airport Industry

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✦ FINANCIAL STATE OF AVIATION INDUSTRY

AMERICA WEST APPLIES FOR BAILOUT CASH

Summarized from the Associated Press; and the New York Times, 11-13-01:

America West became the first airline to apply for federal government loan guarantees. The carrier applied Tuesday for \$400 million in loan guarantees. The airline's chief executive, W. Douglas Parker, said the airline is losing \$1 million every day and it needed liquidity to continue operating. He said that the \$400 million loan guarantee was sufficient to allow America West to make it through any significant downturn. The terms of the loan guarantee include a fee schedule that increases over time to encourage the airline to repay the loan early. Additionally, the federal government receives part of America West's profits during the term of the loan. While America West has about a 3 percent share of the passenger market, the \$400 million loan guarantee makes up 4 percent of the available \$10 billion in loan guarantees.

BOEING EXPECTS LOST PRODUCTION OF 1,000 AIRCRAFT OVER 3-1/2 YEAR PERIOD

Summarized from Reuters, 11-13-01:

The terrorist attack of September 11 will cost aircraft manufacturer Boeing Company about 1,000 aircraft in terms of lost production, said chairman Phil Condit. Furthermore, he expects the recovery to take between 28 and 42 months – about two to three times the recovery period following the post Gulf War slump.

US AIRWAYS TO RECEIVE 'MYSTERY FINANCING'

Summarized from Reuters, 11-13-01:

US Airways, which posted a \$766 million loss for the third quarter, has announced that it will receive "substantial financing" from an unnamed third party, in addition to its share of the government's \$15 billion bailout package. In an SEC filing, US Airways stated that it expects to have between \$800 million and \$900 million of cash, cash equivalents, and short-term investments at the end of 2001.

✦ AIRPORT SECURITY

HOUSE AND SENATE CONTINUE TO WRANGLE

Summarized from the New York Times, 11-14-01:

As House and Senate negotiators continue to seek compromise on an aviation security bill, Senator Kay Bailey Hutchinson, Republican of Texas, has offered a proposal that has received praise from both parties of both houses. The proposal calls for federal screeners at only the nation's 31 busiest airports (which account for roughly 70 percent of U.S. air traffic), while all other airports could either request federal screeners, or make use of private security screening firms. At the nation's 137 hub airports, any private screeners would operate under federal supervision. The Hutchinson proposal automatically disqualifies any firm with three or more "significant security violations" in the last two years. Argenbright Security would fail to qualify.

DELAY CRITICIZES AVIATION SECURITY BILL PROGRESS

From the Office of the Majority Whip, 11-13-01:

Representative Tom DeLay (R-TX) blasted Senate negotiators on the aviation security bill. Singling out Senators McCain and Hollings, he said they have made little effort to reach a compromise bill with House representatives. He called for the negotiators to work continuously until there is a bill on the President's desk. House and Senate negotiators are in conference attempting to resolve differences between their respective bills. DeLay's statement urged the negotiators to "preserve the President's flexibility to create the most comprehensive and effective airline security system."

SECURITY PROBLEMS IN SEATTLE AND BOSTON

Summarized from Reuters, 11-13-01:

Part of Seattle-Tacoma International Airport had to be closed and passengers pulled off planes waiting to depart Tuesday, after a food-service worker set off a metal detector, and then bolted for a shuttle train. By the time the employee was re-screened nothing illegal was found, but a terminal search with trained dogs was required by the FAA prior to a complete reopening of the closed area. Separately, at Boston Logan International Airport, hundreds of Delta passengers were herded back pre-security, after it was found that an Argenbright security employee had left her post unattended for up to four minutes. Argenbright suspended the employee and her supervisor, and dispatched a team to Boston to investigate the situation.

MORE NATIONAL GUARDS FOR THE HOLIDAYS

Summarized from Air Transport World, 11-12-01:

The number of National Guardsmen protecting U.S. airports will increase by 57 percent to nearly 11,000 under the direction of President George W. Bush. The officers and men will be used for searching vehicles, searching garages, guarding air traffic control facilities, and monitoring security screening.

✈ AIR TRAFFIC

NUMBERS CONTRADICT PERCEPTIONS

Summarized from Forbes.com, 11-13-01:

Images of airplanes crashing into the World Trade Center, the Pentagon, and now the crash in Rockaway Beach have convinced many that flying is a dangerous business, but numbers tell a different story. For example, in 2000 there were only 83 passenger fatalities on U.S. commercial carriers. In fact, 2000 was considered a bad year since only 12 fatalities occurred during the three-year period from 1997 to 1999. According to the National Highway Transportation Safety Administration, there were 41,821 traffic fatalities in 2000. Excluding 4,739 pedestrian deaths, that is still over 700 deaths per week. In fact, according to Boeing, fewer people have died in commercial airplane accidents over the past 60 years than are killed in U.S. auto accidents over a typical three-month period.

POTENTIAL TRAVELERS SEEK THE 'GOLDEN DEAL'

Summarized from the New York Times, 11-14-01:

Following the September 11 attacks, and now the recent crash in Queens, potential passengers seem to be having difficulty making up their minds about holiday travel plans. Agents at AAA auto club offices are reporting hesitation in finalizing travel plans. What is making airlines more nervous than this hesitancy, however, is an increase in people requesting extremely low fares, and then saying, "That's O.K., I'll wait," when they are turned down, according to Michael Schott, owner of International Tours of Atlanta.

✈ RENTAL CAR INDUSTRY

ANC RENTAL CORP FILES FOR CHAPTER 11

Summarized from the Los Angeles Times, 11-14-01; and Auto Rental News, 11-13-01:

Citing a drop in business following the September attacks, ANC Rental Corp., the parent company of both Alamo and National rental car chains, has filed for Chapter 11 bankruptcy protection. ANC Chairman and CEO Michael Egan states that Chapter 11 will allow "...us to restructure our balance sheet, improve our operations and position ourselves for future profitability while continuing to serve customers with our traditional high level of service and quality." ANC is the nation's third largest car rental chain, and was regarded by experts to be particularly vulnerable to air traffic fluctuations, as 90 percent of its business comes from on-airport sales. ANC was hurting prior to September 11 as well, cutting employees and considering the possibility of selling the company.

✈ VIEWPOINTS

AIRLINES NEED TO CHANGE

Summarized from Frank Lorenzo commentary, Wall Street Journal, 11-14-01:

Airlines will need to change, according to Frank Lorenzo, chairman of Savoy Capital and former chairman and CEO of Continental Airlines. The environment following the September 11 terrorist attack requires airlines to adapt to decreased air travel demand and increased price sensitivity. However, given the current influence that unions have in the cost structure and operations of many airlines, it may not be reasonable to expect airlines to make the necessary changes. The federal government should allow and encourage airlines to restructure and adapt to the marketplace. Rather than providing a short-term liquidity fix, the government should insist that airlines take steps to ensure financial viability in the long term.

CAN AIRLINES SHRINK TO PROFITABILITY?

Summarized from Michael Linenberg commentary, CBS MarketWatch, 11-13-01:

Third quarter airline industry losses of \$2 billion are stark but not unprecedented, says Merrill Lynch analyst Michael Linenberg, citing the Gulf War traffic slowdown of the early 1990's. "Industry losses could once again act as a catalyst for meaningful change," says Linenberg. With drastically reduced revenue and continued economic deterioration, airlines are fast becoming commodity businesses. Linenberg also speculates "airlines will not be able to shrink to profitability." Even 20 percent cuts in capacity may be insufficient in an environment in which 70 to 80 percent of costs are fixed.