

JOHN F. BROWN COMPANY EMAIL NEWSLETTER

Consultants to the Airport Industry

13 December 2001

✈ FINANCIAL STATE OF AVIATION INDUSTRY

UAL'S AVOLAR TARGETS CORPORATE SHUTTLE MARKET

Summarized from the New York Times, 12-12-01:

United Airline's business jet subsidiary, Avolar, plans to use Airbus Corporate Jetliners for part of its operations. As many as 15 of the business jets will be used for trans-Atlantic and domestic shuttle operations for corporate customers and clients such as sports teams. This reflects a strategy at Avolar to make corporate shuttle service a constituent part of its new business. The company is counting on a fundamental shift in corporate air travel, and a growing market for companies that operate corporate jets. Those businesses who do not wish to run a corporate flight department with their own planes, but want to shift some long-distance travel from commercial airlines, could be potential customers. Stuart Oran, Avolar CEO, explained that the Corporate Jetliners would feed into some of United's overseas routes rather than competing with them, and expects that most customers will "mix and match" commercial and corporate flights depending upon situational needs.

BRITISH AIRWAYS PONDERES ITS FUTURE

Summarized from the Financial Times, 12-11-01:

British Airways is examining eight reorganization plans, the most drastic of which is an option to drop short-haul operations in favor of intercontinental long-haul operations. Another option includes a BA pull out from London Gatwick. Some financial analysts believe that BA will ultimately decide to reduce its short-haul operations to a few main business destinations in Europe and allow franchised operators to take on a greater role in the short-haul market. According to an unnamed BA executive, the carrier has been carefully studying where it could get "the best returns per square foot of cabin," especially on short haul flights. According to the executive, "We think there is a business model that can be an alternative to the low cost carriers in short haul with some added value that people will pay for. We are not going to slug it out toe to toe with Ryanair." The final recommendations will go to the board in early February.

DFW COMPLETES \$650 MILLION BOND SALE

Summarized from DFW International Airport press release, and Wall Street Journal, 12-12-01:

Dallas-Fort Worth International Airport has completed the largest bond sale in the airport's history. The \$650 million of joint revenue and refunding bonds will be applied to construction of an automated people mover system and the airport's new international terminal. The bonds have been rated A1 by Moody's, A-plus by S&P and Fitch, and will be insured by Financial Guaranty Insurance Corp. at a AAA rating. Yields offered on serial bonds ranged from 2.48 percent in 2002 to 5.67 percent in 2021. Yields offered on 30-year term bonds were 5.72 percent.

SMALL AIRPORTS HIT HARDEST

Summarized from the Washington Post, 12-12-01; and the Seattle Post-Intelligencer, 12-13-01:

In the months since September 11, airports have seen falling levels of passengers and revenue, and rapidly rising security costs, but the nation's smallest regional airports have extra problems to

contend with. With smaller budgets, many are finding it difficult to afford the costly bag screening equipment mandated by law. Most regional airports feed passengers into larger hubs, but bags must be screened at the smaller airports, since transferred baggage does not get re-screened at the hubs. Also, regional airports have taken a disproportionate share of the airline capacity cuts that have occurred in the recent months, something that could lead to less AIP grant money. While this is upsetting to the airport operators, following closely on the heels of the government's airline financial bailout which forbids carriers from abandoning small airports, there seems to be little they can do since the DOT has ruled that, so long as all carriers do not leave the airport, it has not been abandoned. While 50 lawmakers have asked the DOT to restore service to their communities, DOT Deputy Secretary Michael Jackson considers the agency's hands tied. "The bill does not authorize the Department of Transportation to reregulate the airline industry, and we are not authorized to order people to provide levels of service or service to particular cities," Jackson said. Darryl Jenkins, director of George Washington University's Aviation Institute, adds, "If you can figure out how to serve small cities with small planes and make money, that's where new start-ups will be coming."

BOEING CONFIRMS COMMITMENT TO 717

Summarized from Boeing press release, 12-13-01:

Boeing has confirmed that, after a complete evaluation of the 717 program and its target market, it will continue to produce the aircraft, albeit at a slower pace. At the same time, the company has announced that it will take a non-recurring, after-tax charge in the fourth quarter of approximately \$700 million, primarily for September 11-related events.

GENERAL AVIATION FINANCIAL RESCUE ON THE WAY

Summarized from AAAE/ACI-NA Airport Alert, 12-13-01:

Financial relief for general aviation airports passed the first of many hurdles today when the House Aviation Subcommittee approved the General Aviation Industry Reparations Act. The bill provides \$2.5 billion in direct compensation and \$5 billion in loan guarantees to fixed base operators, flight schools, GA manufacturers, nonscheduled commercial aviation enterprises, and GA airports that are part of the National Plan of Integrated Airport Systems. The Transportation and Infrastructure Committee will consider the bill next. The House Financial Services and Budget Committees are also reviewing the bill.

MIDWAY RISES FROM THE ASHES

Summarized from AviationNow.com, 12-12-01:

A \$10.1 million federal grant will bail out Midway Airlines and allow it to return to service. The airline filed for Chapter 11 bankruptcy on Aug. 13 and shut down operations the day after the September 11 attack. With the cash infusion, Midway will initiate service from Raleigh-Durham on December 19 to six East Coast cities.

✦ AIRPORT SECURITY

PRESIDENT BUSH NAMES AVIATION SECURITY HEAD

Summarized from the L.A. Times, 12-11-01:

President Bush nominated John Magaw for the position responsible for transportation security. The 66-year old faces Senate confirmation hearings before taking over his newly formed post. Magaw has served in various law enforcement positions, including top positions with the Secret Service, and the ATF, over his 40-year government career.

✈ AIR TRAFFIC

SOUTHWEST TO ADD ROUTES

Summarized from the Los Angeles Times, and Bloomberg News, 12-13-01:

Reversing a post-September 11 suspension of route expansion, Southwest CEO James Parker has announced that the carrier does indeed intend to add new routes in the coming year. However, the carrier has not yet decided whether it will add new cities to its system, increase frequencies on existing routes, or add new routes between currently served but unconnected cities. Traditionally, Southwest has added one or two new cities to its network annually. This year, 144 cities are asking to be added.

WILL AIRLINES CHANGE HOW THEY PRICE BUSINESS TRAVEL?

Summarized from the Wall Street Journal, 12-13-01:

The days of "free spending" for corporate travel are gone according to the National Business Travel Association. Some airline executives believe business travel will rebound when the economy strengthens, and prices will have to go higher, not lower, before they can be profitable again. However, as business travel gets slower and more expensive, its value declines. Others believe that airlines must offer a business fare structure with more price points. Northwest, for example, offers the "BizFlex" fares, which are 50 percent off full coach fare with a 14-day advance purchase and at least a one-night stay. The advance purchase requirement does not dilute revenues from last-minute, full-fare flying.

HOLIDAY ON ICE? NOPE, IT'S A HOLIDAY ON WHEELS THIS YEAR!!!

Summarized from the L.A. Times, 12-12-01:

Already reeling from worries of aviation security, holiday air travel is likely to take an additional hit thanks to extremely low gasoline prices. AAA estimates that the number of holiday air passengers will be down 20 percent, or 10 million, as compared to last year.

✈ THE ECONOMY

NO QUICK RECOVERY FOR MANUFACTURERS

Summarized from the Los Angeles Times, 12-13-01:

The National Association of Manufacturers, in its annual economic forecast, is predicting no significant economic recovery until the latter half of 2002. Factory output levels may not reach 2000 levels until the latter half of 2003. The group lists business reluctance to invest in new equipment, and the combination of a strong dollar and weak overseas economies as hindrances to a quick recovery.