



JOHN F. BROWN COMPANY NEWSLETTER

Consultants to the Airport Industry

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UAL BANKRUPTCY - 6TH LARGEST IN US

Summarized from Dow Jones Newswires, 12/9/2002:

It's the eleventh time since the industry was deregulated in 1978 that an airline has declared bankruptcy, and at more than \$25 billion in assets, it is twice as large as the next largest such filing by an airline (Continental in 1990). The result is likely to be fewer flights, continued fleet simplification, additional layoffs and wage cuts to reduce labor costs from 20 to 25 percent, and other cost cutting (possibly even dissolution of the employee stock ownership plan) under the supervision of the bankruptcy court judge.

DIP BANKERS PUT UAL 'IN A VERY TIGHT BOX'

Summarized from USA Today, 12/12/2002:

Under the terms of the debtor-in-possession financing United has obtained, the airline must meet very strict monthly cash flow targets while making demonstrable progress in cutting costs. One observer commented that the lenders are "attempting to club everybody into the position that the company would have liked them to be in before the bankruptcy," and are reportedly trying to force everyone involved "to face reality."

MOODY'S AFFIRMS UAL AIRPORT HUBS RATINGS

Summarized from Reuters, 12/12/2002:

Citing strong O&D markets, strategic importance to the airline, the airline's desire to limit competition at its five hubs, and airline agreements incorporating a residual rates and charges methodology at all but LAX, Moody's affirmed the credit ratings of United's hub airports after the airline filed for bankruptcy.

UNITED SAYS BANKRUPTCY WON'T AFFECT O'HARE EXPANSION

Summarized from Dow Jones Newswires, 12/10/2002:

Included in the current O'Hare expansion plan is the relocation of three runways, the lengthening of two others, and the building of a new one, all over about 15 years. By eliminating use of intersecting runways, this would cut weather-related delays by 95 percent and overall delays by 79 percent. The City says that United's bankruptcy will not affect the airport's plan, which is to be submitted to the FAA at the end of this year. Nevertheless, analysts are unsure about the bankruptcy's long term effects on the airport's development.



UNITED PARTNERS ABROAD ARE WARY BUT READY TO HELP

Summarized from New York Times, 12/9/2002:

Chapter 11 bankruptcy--that is, reorganization--is not what Europeans think of when they hear the word "bankruptcy". To them, the word is more synonymous with Chapter 7 bankruptcy, or dissolution. Nevertheless, although "People don't like booking on bankrupt airlines," as a London-based analyst observed, United is an essential, crucial link for its Star Alliance partners into the U.S. market. This is particularly true of Lufthansa, which code shares 330 flights daily with United. Lufthansa said that "The [labor-dominated] ownership structure brought United down to where it is today." Lufthansa has indicated that it would be willing to invest in United if the ownership structure was overhauled and its investment secured.

BANK ONE NEEDS HEALTHY UAL TO SAVE CREDIT-CARD BUSINESS

Summarized from The Wall Street Journal, 12/12/2002:

Bank One is providing debtor-in-possession financing to United. Why would a financial services company be stepping into the volatile airline industry? Consider the fact that Bank One's Visa card, co-branded with United and tied to United's Mileage Plus program, is one of the biggest in the United States. Also, Bank One's credit card business generated about a third of the company's operating income last year (which was \$2.9 billion). Nevertheless, a credit-research analyst says it is unclear "whether Bank One is taking undue credit risk to defend its credit card business."

UAL FLEET PLANS

Summarized from S&P press release and others, 12/9/2002:

"United is simply rejecting leases on planes they're not operating" said one observer. S&P expects United will reject additional leases related to B747-400, B767-200, and B737-300 aircraft. Routes normally serviced by 747s include those in the Asia-Pacific region, Latin America, and U.S. transcontinental flights. Plans to offer point-to-point service would likely rely on Boeing 737s and Airbus 320s. [other sources: Dow Jones Newswires 12/10, 12/12; New York Times 12/10]



LENDER THREATENS LIQUIDATION OF US AIRWAYS

Summarized from New York Times, 12/7/2002:

David G. Bronner, head of the Retirement Systems of Alabama (RSA), threatened that RSA, as the primary lender of US Airways, may liquidate the airline if unions refused to provide another \$200 million in concessions. Mr. Bronner agreed with the airline that he would have seven of the 13 seats on the board with 72 percent voting control of the airline and unions would have three seats without veto power. US Airways has already drawn on all loans provided by RSA except \$200 million which could only be accessed after emerging from bankruptcy. Representatives of US Air's mechanics union said several key issues need to be resolved before accepting another \$200 million concession. US Airways reached a tentative agreement with its pilots union on \$100 million in labor related cost savings, representing half the cost cuts required to secure financing from the Retirement Systems of Alabama

US AIRWAYS GETS MORE TIME TO FILE PLAN

Summarized from Reuters, 12/12/2002:

US Airways, the other major airline currently under bankruptcy protection, was granted a deadline extension to January 31 for filing its bankruptcy reorganization plan. CEO David Siegel said "We continue to work to secure final approval of our loan guarantee from the Air Transportation Stabilization Board and file our plan of reorganization by December 20."

AMERICAN -- DOWNSIZE, FREEZE WAGES, CHANGE WORK RULES

Summarized from Reuters and others, 12/6/2002:

AMR asked its employees to give up pay increases next year to avoid an immediate annual cost increase of \$130 million. The airline is also asking its unions for rule changes that will boost productivity. For example, the airline's pilots average fewer than 700 hours per year in contrast to Continental's and Southwest's, who fly at or near the 1,000 hour federal limit. American's CEO Don Carty, in a letter to employees, said "As we witness the downsizing and layoffs taking place at most carriers--including our own--it is clear that we will emerge a smaller airline with fewer people." [other source: The Wall Street Journal, 12/10]

US AIRLINES WANT TAX RELIEF TO AVERT MORE TROUBLE

Summarized from Reuters, 12/11/2002:

Delta CEO Leo Mullin and other industry executives are continuing to push Congress for additional aid during these difficult financial times. Particularly, they would like Congress to absorb the tax on tickets for security upgrades. The airlines are not in a position to pass the taxes on to passengers since, due to the weak business climate and competition from lo-cost carriers, they are unable to raise fares. And since the taxes cannot be passed on, they must be absorbed by the airlines, reducing their net incomes. Commenting on where the security costs should land, Mullin said "We believe Congress should review the cumulative effect of the airline tax burden and develop a fairer, more equitable approach. The government must accept those aviation security costs which are part of the nation's fight against terrorism as a national security responsibility."

DELTA FIGHTS PRIVATIZING ATLANTA AIRPORT

Summarized from The Atlanta Journal-Constitution, 12/13/2002:

A battle is intensifying between Delta Air Lines and the Fulton County Taxpayers Association, a non-partisan anti-tax organization in Atlanta, over a proposal to privatize Atlanta Hartsfield International Airport. While Delta remains opposed to the idea, the association, which has already gathered 18,000 of the necessary 30,000 signatures to send the issue to ballot, believes privatization could help to raise funds to pay for an expected \$3 billion in sewer repairs.

NWA FILES COMPLAINT OVER RELIEVER AIRPORT CHARGES

Summarized from PRNewswire, 12/12/2002:

Northwest has filed a complaint in district court against the Minneapolis/St. Paul Metropolitan Airports Commission, alleging violations of its statutory obligation to set user charges at six reliever airports at levels sufficient to cover the operating costs of those airports.

EU AIR CHIEF CRACKS DOWN ON STATE AID TO AIRLINES

Summarized from Dow Jones Newswires, 12/11/2002:

Loyola de Palacio, European Union air policy chief, has announced an intensive crackdown on those European carriers benefiting from the use of public funds. In particular, Ireland-based Ryanair, national flag carriers Olympic Airway of Greece, Air France, and Spanish charter carrier Intermediacion Aerea, are being formally investigated. Olympic Airway and Air France must pay back millions of euros of state aid, and Ryanair and Intermediacion Aerea are being investigated for alleged illegal subsidies from Belgium's Charleroi airport and the Catalanian government, respectively.



FAA TO SET STAGE FOR PRIVATIZED AIR TRAFFIC CONTROL

Summarized from Airline Financial News, 12/9/2002:

All government agencies must categorize their job functions as being either "commercial" or "inherently governmental," according to a 1998 law known as the FAIR Act. While commercial functions are subject to being contracted out, inherently governmental functions are considered as being "intimately related to the public interest," and are required to be performed by federal employees. The FAA intends to declare air traffic control a commercial activity, thereby providing for the possibility of privatization, similar to the current Canadian system.

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