

JOHN F. BROWN COMPANY EMAIL NEWSLETTER

Consultants to the Airport Industry

28 June 2002

✈ FINANCIAL STATE OF THE AVIATION INDUSTRY

GDP IS REVISED UP TO 6.1 PERCENT

Summarized from The Wall Street Journal, 6-27-02:

GDP grew at 6.1 percent for the first quarter, outpacing the Commerce Department's estimate of 5.6 percent. This is the strongest growth in more than two years. Although this increase is a positive sign, the growth only shows the past progress of the economic recovery and not the current progress. Several economists believe the recovery to be slowing, including Federal Board Chairman Alan Greenspan. In fact, some analysts are putting the current quarter's GDP growth at only 2.5 percent. First-quarter economic growth received its biggest boost from slower inventory liquidation by businesses, which added 3.39 percentage points to GDP. Consumers, whose spending accounts for two-thirds of all economic activity, also gave a lift to the economy in the first quarter. Consumers increased spending at by 3.3 percent, but that was down from a brisk 6.1 percent pace in the fourth quarter.

US AIRWAYS FACING FINANCIAL FAILURE

Summarized from The Washington Post, 6-26-02; Air Transport World, 6-25-02; The Philadelphia Inquirer, 6-25-02:

Richard Bittenbender, bond analyst with Moody's Investors Services, said US Airways has a "high probability of failure." US Airways is running out of time to revise its loan application before the federal deadline of June 28. The airline is attempting to create a cost cutting plan but is still at odds with its largest union, made up of pilots, over pay cuts and other reductions. US Airways is seeking approximately \$1.3 billion in annual cost savings from its unions, creditors, lessors and vendors. In a filing with the government, US Airways said it would defer payments on some older aircraft and ask creditors to alter the obligations of its contracts. If US Airways's loan application is rejected, company officials have said they will be forced to seek bankruptcy protection. In the meantime, US Airways' financial troubles continued to worsen as its credit rating was lowered and an airplane leasing company filed a lawsuit claiming it had not been paid.

UNITED AIRLINES SEEKS LOAN GUARANTEES

Summarized from The Washington Post, 6-25-02; Reuters, 6-24-02, 6-20-02; The New York Times, 6-25-02, 6-21-02; Chicago Tribune, 6-21-02, Dow Jones Business News, 6-21-02:

Citing its loss of \$2 billion last year and more than \$1.5 billion in debt coming due by 2003, United Airlines is asking the government for \$1.8 billion in guaranteed loan. Jake Brace, CFO of United Airlines, said the airline would use its \$3.4 billion in aircraft assets as collateral. Many analysts believe the government will reject United Airlines' application because it has other financing options. However, United Airlines says that independent private financing is very expensive and the company would be better off obtaining money from government sources. United Airlines is attempting to further strengthen its financial position through a board approved a plan to allow United Airlines pilots to obtain stock options for 9.75 percent of the fully diluted common stock in exchange for a 10 percent pay cut. However, the pilots' union still has to approve the cut and the airline is still attempting to come to terms with its machinists and flight

attendants. The flight attendant union recently rejected a proposed wage and pay concessions that totaled about \$90 million over three years.

PROPOSED MEASURES WOULD CAUSE MAJOR COST INCREASE

Summarized from the Aviation Now/Aviation Daily, 6-24-02:

Claiming the proposal would do nothing but impose enormous costs on carriers, the airlines and the Air Transport Association expressed their opposition to both congestion pricing and slot auctions in their comments on a list of demand management alternatives for LGA prepared by FAA. The congestion fee, suggested by the Port Authority of New York and New Jersey, ranges from \$350 to \$2,000 per operation. Slot auction prices would range from \$20,000 to \$30,000 per reservation per month.

SMALLER PLANES ALLOW DELTA'S REGIONAL PARTNERS TO GROW

Summarized from the Atlanta Journal and Constitution, 6-21-02:

Due to the more expensive operating costs, Delta has been forced to park some of its larger jets, while its regional partners with smaller planes are expanding. Analysts see this as a good strategy due to the fact that it helps Delta control its pricing strategy and capacity and their ability to rebuild their network. Atlantic Southeast Airlines, Delta's primary partner in Atlanta, added nearly 22 percent more seat capacity in the first five months of the year than it had in the same period of 2001, while Delta as a whole shrank about 9 percent. Due to its ownership of smaller carriers like Atlantic Southeast Airlines and Comair, Delta has more flexibility to use regional partners than most big carriers. Atlantic Southeast Airlines and Comair alone make up 35 percent of the world's regional jet fleet. "We obviously didn't want to give up the routes, so we subbed in regional jets," explained Fred Buttrell, president of Delta Connection Inc., the business unit overseeing Delta's regional operations. People in those cities still need to fly to conduct commerce and business. We also want to maintain a network presence. This is our structural DNA, and we don't like to alter it much," Buttrell said.

AMERICAN AIRLINES SEEKS TO REACH PACT WITH PILOTS UNION

Summarized from Dow Jones Business News, 6-26-02; Associated Press, 6-26-02; Reuters, 6-26-02; PR Newswire, 6-26-02;

Due to an impasse in negotiations, the Allied Pilots Association and American Airlines are asking the federal government to act as a mediator between the two sides. American Airlines pilots are seeking a raise that matches the one received by both Delta and United Airlines pilots in the past two years. American Airlines is hoping to avoid a work stoppage that would be detrimental to its already sagging bottom line.

COMAIR FLIGHT ATTENDANTS AGREE TO TENTATIVE PACT

Summarized from the Boston Globe, 6-27-02:

After three and a half years of negotiations, flight attendants at Comair have tentatively agreed to a five-year, industry-leading contract. The 680-member bargaining unit will vote on the proposed contract during the next month. The contract includes a 45 to 66 percent salary increase, a signing bonus of \$400 per year of service, a defined contribution retirement plan, improved scheduling rules, and increased sick and vacation leave.

✈ AIR CARGO

CHINA AIRLINES BOOSTS CARGO CAPACITY

Summarized from the Business Wire, 6-25-02:

China Airlines first 747-400F model aircraft arrived in China and is ready to service the cargo market. This aircraft will service the China to United States market. Since April 2000, China Southern Airlines' Shenzhen to Chicago service has offered three flights per week. The second 747-400F model aircraft, set to arrive in September 2002, will service the European and Middle Eastern markets. In October 2003, China Southern Airlines will begin using the "New Baiyun International Airport Air Cargo Terminal" that will cover a total construction area of more than 100,000 square meters with 5 special freighter parking aprons and an annual cargo throughput of up to 800,000 tons.

FEDEX SEES FOURTH-QUARTER PROFITS DOUBLE

Summarized from the Dow Jones Business News, 6-25-02:

FedEx Corporation saw its fourth-quarter profit more than double. Due to FedEx offering home-delivery service everywhere in the U.S., volume growth at its home-delivery division drove the company's strong performance from its ground operations. The ground business's operating income doubled to \$128 million as revenue rose 27 percent to \$743 million. Average daily package volume grew 21 percent, with about one-third of the growth coming from its home-delivery unit. FedEx said it expects volume and results at its home-delivery business to continue to improve in fiscal 2003. Revenue grew 4 percent to \$4 billion, largely because of strong growth in weight related to the company's agreement to ship packages for the U.S. Postal Service. U.S. domestic average daily package volume declined 3 percent from a year earlier, while international volume increased 3 percent, led by strength in Asia and Europe.

HOUSE COMMITTEE OKS O'HARE EXPANSION

Summarized from Business Week, 6-27-02:

The House Transportation Committee voted unanimously to advance a compromise measure that is intended to solidify into federal law an agreement to expand O'Hare International Airport. The legislation will now be sent to the House floor for a vote.

✈ AIR TRAFFIC

AIRLINES WANT SMARTER SECURITY

Summarized from Air Transport World, 6-27-02; The Dallas Morning News, 6-27-02; Business Week, 6-26-02:

In an attempt to ease the security delays in airports, an industry committee is suggesting creating a biometric security card for both airline employees and passengers who want to avoid long security lines. The airline employees and passengers would be subjected to a rigorous government background check that would include either an iris scan or thumbprint that could be matched with their biometric ID. Passengers would pay a fee of \$100.00 for the card; it is unclear if airlines will be required to pay this fee for employees. The hope is that by having a group of individuals who do not require vigorous screening, security will have more time and resources to scan a reduced, but still large, passenger population. Several airlines in the Air Transport Association plan to submit proposals to the Transportation Security Administration and the Homeland Security Dept. by mid-July to conduct 90-day pilot projects with already-screened airline personnel by year-end.

NORTHWEST TIGHTENS WORLDCLUB SECURITY RULES

Summarized from Detroit Free Press, 6-25-02:

Revising its club rules, Northwest Airlines will now required WorldClub members to schedule a meeting 24 hours in advance in order to go through an airport security checkpoint without a ticket. Until May, only people carrying airline tickets, boarding passes or itineraries were permitted to enter airport concourses, gates and other areas behind security checkpoints. However, last month, Transportation Security Administration granted Northwest and at least three other big carriers' requests to allow club members to pass through checkpoints without tickets, relaxing a security restriction in force since after the September 11 attacks.