

JOHN F. BROWN COMPANY NEWSLETTER
Consultants to the Airport Industry

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BONDERMAN BACKS US AIRWAYS

Summarized from The Washington Post, 8-12-02; The Wall Street Journal 8-12-02; The New York Times, 8-13-02; Aviation Daily, 8-13-02; USA Today, 8-13-02:

Texas Pacific Group has agreed to invest \$200 million in US Airways once it emerges from bankruptcy in exchange for a 38 percent ownership stake and 5 of 13 seats on the board. The equity firm, led by David Bonderman, provided financing to Continental and America West, helping them emerge from bankruptcy in the early 1990s. Involvement by the firm, which now holds 60 percent of the voting stock of America West, suggests the airline has a viable business plan.

FUTURE SIZE AND SHAPE OF US AIRWAYS

Summarized from The Washington Post, 8-12-02; The Wall Street Journal 8-12-02; The New York Times, 8-13-02; Aviation Daily, 8-13-02; USA Today, 8-13-02:

US Airways' bankruptcy filing improves its leverage in negotiations with aircraft lessors, and the pilots' agreement allows the airline to reduce its mainline fleet to 245 aircraft from 311 under bankruptcy. David Siegel, president and CEO, said if third parties do not assume some of the aircraft leases, "we are anticipating some changes to the size of the airline."

SMALLER SIZE AND SHAPE FOR AMERICAN

Summarized from the PR Newswire-First Call, 8-13-02; The Wall Street Journal, 8-13-02; London Financial Times, 8-13-02:

Maximizing efficiency rather revenue is the new focus for American, according to Don Carty, chairman and CEO, who believes that "that those that don't follow this will perish." The new objectives will require more than \$1.1 billion annually in cost-saving measures, which include cutting 7,000 jobs, implementing the "rolling hub" concept at DFW, reducing current capacity 9 percent by November, simplifying the fleet and its configuration, and deferring or canceling new aircraft deliveries where possible. In addition, first class service will be eliminated on secondary routes to Europe and Latin America.

UNIONS RESPOND TO UNITED'S 30-DAY WARNING

Summarized from Bloomberg News, 8-16-02; Chicago Tribune, 8-15-02; The Washington Post, 8-15-02; The New York Times, 8-15-02:

United has allotted 30 days to "dramatically lower its costs," but is simultaneously "preparing for the potential of a Chapter 11 bankruptcy filing this fall." While pilots are supportive of concessions, other unions are not. Representatives of the flight attendant's union said they "will not support short-sighted, quick-fix schemes that are doomed to fail to solve United's problems for the long-term."

NATIONAL AND SPIRIT DENIED

Summarized from The Wall Street Journal, 8-15-02:

ATSB denied loan guarantee applications for both airlines based on a determination that the proposals did not provide reasonable assurance the airlines would be able to repay the loans.

BUSH REDUCES AIRPORT SECURITY FUNDS

Summarized from Bond Buyer - The American Banker, 8-14-02; The New York Times, 8-14-02: Airports will lose about \$120 million that was a part of a \$5 billion portion of a bill that President Bush said he will not spend. Airports had been appropriated \$738 million in the bill to cover the costs of installing explosives detection systems to meet the December 31 deadline. The \$120 million may possibly be recovered through amendments to the 2003 budget.

"I BUILT THE LINE; I'M GOING TO GET IN IT."

Summarized from The Dallas Morning News, 8-14-02; St. Petersburg Times, 8-12-02: Airport officials are complaining that TSA security policies are being created without their input and will cause extreme delays for passengers, waste hundreds of millions of dollars, and exacerbate the airlines' financial woes. Adm. James Loy, head of the TSA, is attempting to correct the errors of his predecessor through visits to airports and analyzing his own department. He is meeting with airport directors to better address security needs and to reduce the "distance" and alienation between airports and the TSA. Loy also is exploring replacing several of the new airport security directors that he says lack the proper expertise. Adm. Loy now supports extending the baggage-screening deadline as well as obtaining additional funds through a budget amendment.

ECONOMY AT RISK OF STALLING

Summarized from New York Times, 8-14-02; Wall Street Journal, 8-12-02: The Federal Reserve, while more pessimistic about the economy, opted to keep interest rates unchanged at their current 40-year low, believing that its accommodative monetary policy and the underlying growth in productivity should be sufficient to foster a favorable business climate and lead to economic recovery.