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Trouble in the air

By Edward Wong
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American Airlines and Southwest Airlines on Wednesday reported results that painted a stark picture of the foundering airline industry.

The AMR Corp., parent of American, the world's largest airline, said it had a net loss in the fourth quarter of \$529 million, or \$3.39 a share. The company lost \$798 million, or \$5.17 a share, in the corresponding period last year. For the year ending on Dec. 31, it had a net loss of \$3.5 billion.

That is the single largest annual loss in airline history, surpassing the \$2.1 billion loss posted in 2001 by the UAL Corp., parent of United Airlines, now operating under bankruptcy protection.

"Clearly, results such as the one we reported today are unsustainable," Donald J. Carty, American's chief executive, said in a statement. "The core issue for our company remains a cost structure that is out of step with the revenue environment facing domestic airlines."

American had revenue of \$4.19 billion in the fourth quarter, a 10.1 percent increase over a year earlier.

Reflecting the industry's troubles in meeting pension obligations, American said it would have to take a \$1.1 billion charge to equity because of its significant pension liability. Delta Air Lines has also had to downgrade its net worth because its pension obligations surpassed its assets.

American said it would try to renegotiate loan covenants related to more than \$800 million of debt to remain in compliance with the borrowing terms beyond June 30.

American's rival in the Dallas area, Southwest, reported a net profit of \$42.4 million, or 5 cents a share, in the fourth quarter. That was a drop from the \$63.5 million, or 8 cents a share, in the corresponding period a year ago.

Southwest, the country's seventh-largest airline, said its fourth-quarter revenue rose 13.2 percent year-over-year, to \$1.4 billion.

Again, the large carrier using a hub-and-spoke system -- American -- failed to turn a profit. Again, the more nimble low-cost carrier -- Southwest -- defied the bleak economics of the industry to finish its 30th profitable year.

But even Southwest acknowledged that it was not immune to the sharp downturn affecting all the carriers, nor to the negative impact that a war with Iraq could have.

"Based on the uncertain revenue environment, we cannot guarantee a profitable first quarter 2003," James F. Parker, Southwest's chief executive, said in a statement on Wednesday.

The value of AMR shares closed Wednesday at \$3.77, down 23 percent. Southwest shares closed at \$12.30, down 4 percent.

Glenn D. Engel, an analyst at Goldman Sachs, wrote in an investor's note that Southwest would have to absorb labor cost increases during the next several years, and so would have to increase its fares or loads to lift profit margins. Winning over more business travelers is crucial for Southwest, he added.

But Engel also said that Southwest is "best positioned to capitalize on any industry shakeout."

American, on the other hand, is struggling to keep itself from joining the ranks of the industry's fatalities. The company said that it needed to cut costs by \$4 billion annually, and that it had pinpointed expenses it could trim to reach half of that amount. "Others will be harder to find and smaller," said Jeff Campbell, American's chief financial officer.

Campbell had more gloomy news: American's access to the capital markets "remains somewhat uncertain," and the company expects its first quarter loss this year to be equal to the \$529 million it lost in the fourth quarter.

A lawyer at Weil Gotshal & Manges, the New York law firm, said on Wednesday that American had asked the firm to look at issues surrounding a bankruptcy filing, but that the firm was in no way encouraging the airline to seek Chapter 11 protection right now. The firm has been retained by the carrier in the past.

Also Wednesday, the U.S. Senate killed a proposal to allow US Airways Group Inc. to restructure payments to its employee pension system, increasing chances the bankrupt carrier will terminate its pilots' retirement plan.

The proposal would have allowed US Airways to string out \$3.1 billion in underfunded pension payments over 30 years. The current schedule is seven years.

The pilots' union said its US Airways members could lose up to 75 percent of their current investment if their plan is terminated. The pension benefit corporation would guarantee roughly 25 percent.