discounters such as Jet Blue and Southwest, which either had sufficient cash reserves to hedge on fuel costs or labor costs lower than the major airlines. By 2006, most airlines had reduced labor costs and downsized sufficiently, except for Northwest and Delta which were still in bankruptcy. In 2007, the financial projections for most airlines indicated a return to profitability assuming stable fuel costs, no recession, and other external impacts.

Airline Industry after 9/11

With the onset of the U.S. recession in 2001, the airlines' losses mounted. The terrorist attack on 9/11 plunged the airlines into more red ink. The fourth quarter of 2001 saw substantial airline losses. These losses continued into 2002, 2003, 2004, and for some airlines into 2005. Over these years, the airlines' cash balances declined significantly. For example, United Airlines, which was in bankruptcy, reported a $1.4 billion loss in the second quarter of 2005. In 2004, the current ratio and the quick ratio for the airline industry were .8 and .7, respectively, which compares unfavorably with the S&P 500 standard of 1.5 and 1.2.

On July 17, 2005, aviation experts reported that airlines were in desperate shape. The airlines had been short of cash and had carried a heavy debt load. For example, the big five Delta, United, Northwest, American, and Continental incurred billions in debt and with soaring fuel costs the question arose whether the airlines could stay the course. Even though the industry reduced costs, borrowed more funds, or sold assets, many other external risk factors impacted the airline industry (see Table II).

These risks, particularly the social factors, could immediately and adversely affect the airlines. SARS and the bird flu could shut down airports and quarantine passengers at airports. Scenarios for this type of possibility already existed.

The soft economic conditions starting in 2000 and 9/11 prohibited the airlines from showing any substantial improvement in revenues. This revenue problem continued until the summer of 2003 because of continued terrorist threats, adverse weather conditions, and the acts of foreign governments. The supply and demand conditions in the oil industry added to airline costs. From 2001 to 2006, oil prices fluctuated, and in 2006, they increased to all time highs. Those airlines that had the cash to hedge a large percentage of their fuel costs were able to decrease the red ink. Southwest Airlines avoided a loss by hedging 100% of its fuel costs in 2002. Other airlines, particularly the big five with less cash, had to totally or partially absorb the jet fuel price increases.

The major airlines were projected to lose $5 billion each in 2005, based solely on the rise in fuel costs. This projection was based on the assumption that oil prices would return to $40 a barrel. Fuel prices did not return to $40 a barrel; and therefore, losses were greater than projected. With labor and other costs higher than the discounters, the majors lost money as they continued to match the lower prices offered by

Table II External Airline Risk Factors

Global instability	Military presence in Iraq and Afghanistan
Potential or actual terrorist attacks	Social risks—SARS and avian flu (bird flu)
Government regulations	Insurance costs because of global instability
Interest rate fluctuations	Soft economic conditions (GDP)
Fuel price increases	Financing availability to fund future business
Industry competition	Cyclical affects of the travel-airline industry
Union relations with the industry	Competitive practices in the airline industry
Unfunded pension obligations	Changes in federal and state laws