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AMR Corporation Q3 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Our first question comes from Jamie Baker - J.P. Morgan.

Jamie Baker - J.P. Morgan

Gerard, having joined in 1982 you've been in the industry through two recessions and obviously one terrorist attack. I think that's a bit more industry experience than some of your peers. Given the current size and shape of AMR and the industry and given the spot jet [carol] price in the \$230 range, have you ever witnessed a demand environment that you couldn't handle at today's fundamentals? Because quite frankly I'm struggling and I think others are as well to come up with a plausible scenario where you don't make money next year unless the economy does something meaningfully worse by several orders of magnitude than anything that's ever happened.

Gerard J. Arpey

You've been around a long time as well so you've seen many cycles. I do think that we're sitting here compared to where we were in July with oil at \$147 a barrel and the crack spread then I can't remember what it was, but the leverage in that oil number is obviously very significant and it has obviously moved significantly in our direction since mid-summer. But oil is still, and again it's moving every day, but it's still up a little bit from where it was a year ago and it's very volatile.

I think we can't necessarily depend on oil one way or the other, and we've been I think for many years focused on the fact that we were going to get in difficult times again whether that was going to be the economy, whether it was going to be the oil or God-forbid something else that would put the industry in some difficulty. So we have been building our cash reserves, paying down debt and preparing for difficult times.

We've certainly had them this year and I think the wild card which you highlighted is the economy, and this industry is highly correlated, traffic is highly correlated to GDP. That's going to be the wild card along with oil for next year. I don't think anybody really knows what the fallout is going to be from all of this financial turmoil but I do think the capacity reductions that we decided on early this year are coming just in time and we've got lots of degrees of freedom to work next year if GDP really significantly goes in the wrong direction or if oil likewise goes in the wrong direction.

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