United Air Looking for Exit Financing

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By Kathy Fieweger

CHICAGO (Reuters) - Bankrupt United Airlines on Monday said it has started preliminary talks to secure financing for its eventual exit from bankruptcy protection but so far the amount it may want is unknown.

Potential options for money include using loan guarantees from the federal government or private equity funds including possibly from banks, said sources familiar with the matter.

Jeff Green, a spokesman for United, confirmed to Reuters that initial discussions about exit financing have begun.

"We've had conversations with (financial backers) on both the debt and equity sides, but it's really been just that -- conversations," Green said.

Green said how much, if any, money United will seek is unclear at this point. The airline is on record saying it is considering both the fourth quarter of 2003 and the first quarter of 2004 to emerge from court protection.

"We're looking at the fourth quarter, we're looking at the first quarter," he said. "We haven't made any determination."

The airline's board of directors is meeting on Monday and will be discussing a business plan to become financially viable, sources said. The plan is not the formal reorganization plan required by the court. It will also be presented to creditors' committee on Wednesday.

BUSINESS PLAN AWAITED

Other than reducing costs, details of the business plan are not yet known. Green declined to comment on what it contains or when it will be released publicly, including the possible launch of an low-cost, no frills airline within an airline.

Analysts and union sources have told Reuters that United's so-called "Starfish" low-cost carrier endeavor has become less essential after the airline won huge hourly pay cuts on Airbus A320s and Boeing BA.N 737s. Delta Air Lines DAL.N has launched its own low-cost unit named Song, but its reach is very limited.

United, the world's second largest airline, a unit of UAL Corp. UALAQ.OB , filed for bankruptcy in December after failing to win backing from the federal government for $1.8 billion in loans needed to make huge debt pavements. It predicted an 18- to 24-month stay.

Just prior to the bankruptcy filing -- which was the largest in U.S. aviation history, the Air Transportation Stabilization Board in Washington, D.C., said United's business plan submitted in support of its loan application was flawed.

BACK TO UNCLE SAM?

But the ATSB, an agency created to dole out up to $10 billion in loan guarantees after the disastrous Sept. 11, 2001, attacks, also left the door open for United to return. The airline earlier this year won $2.5 billion in annual labor concessions and has other cost cuts in place.

A rival airline, US Airways Group, filed for bankruptcy protection last August and emerged March 31, after the Retirement System of Alabama put up money and unions gave big concessions. The ATSB backed an exit loan from Bank of America.

In United's case, $1.5 billion in bankruptcy loans called debtor-in-possession financing came from Citigroup Inc. C.N , J.P. Morgan Chase and Co. Inc. JPM.N , CIT Group CIT.N and Bank One Corp. ONE.N . Sources said any of those institutions could also provide exit financing.

In an unprecedented financial crisis, the nation's major airlines continue to struggle to turn a profit and will not see positive year-over-year traffic figures until at least the end of the year, said J.P. Morgan analyst Jamie Baker.

"The airline environment is anticipated to be more hospitable than it was in December, 2002," Baker said. "If and when United emerges, it will be under clearer but by no means sunny skies."
