

UAL Corporation Reports Second Quarter 2008 Results

2008-07-22

Taking Action to Offset Record Fuel Costs, and Position Company to Compete

Driven by a \$773 million increase in consolidated fuel expense, UAL Corporation (NASDAQ:UAUA), the holding company whose primary subsidiary is United Airlines, reported a net loss of \$2.7 billion or \$151 million, excluding certain largely non-cash accounting charges. For the second quarter ended June 30, 2008, the company:

Reported basic and diluted loss per share of \$1.19 excluding certain largely non-cash accounting charges described below. United's reported GAAP loss per share was \$21.47.

Recorded \$2.6 billion of previously announced accounting charges, including a \$2.3 billion non-cash special charge for goodwill impairment.

Continued its focus on controlling costs, with mainline cost per available seat mile (CASM), excluding fuel and the above mentioned accounting charges, up 2.6 percent versus the same period in 2007. Mainline CASM for the quarter was up 85.5 percent versus the second quarter of 2007, reflecting a 55.4 percent increase in mainline fuel price per gallon and the significant accounting charges.

Strengthened its cash position by raising \$90 million through new financings, asset sales and freeing up \$130 million in restricted cash. In addition, the company expects to raise \$330 million in cash in the third quarter through aircraft financings and the release of restricted cash, resulting in a total cash balance improvement of approximately \$550 million.

Announced further capacity cuts and the retirement of the entire B737 fleet as well as six B747s. In total, United will retire 100 aircraft and will reduce fourth-quarter mainline domestic capacity 15.5 percent to 16.5 percent year-over-year. In conjunction with the capacity reductions, the company expects to reduce its workforce by approximately 7,000 by year-end 2009.

Announced an alliance partnership with Continental Airlines -- a partnership that will create the most comprehensive domestic system by linking networks as well as creating potential for cost savings and operational efficiencies, while simultaneously benefiting customers.

Quarterly Net Loss Driven By Record High Fuel Prices

The company's financial results in the second quarter of 2008 were impacted by previously disclosed largely non-cash accounting charges that, coupled with a \$773 million or 54.1 percent increase in consolidated fuel expense, caused the company's net, pre-tax and operating results to be significantly lower year-over-year. The accounting charges include:

A non-cash special charge of \$2.3 billion for goodwill impairment.

Non-cash special charges of \$194 million relating to the impairment of B737 aircraft that are being retired from the company's operating fleet, aircraft pre-delivery deposits and certain indefinite-lived intangible assets other than goodwill net of a related tax benefit of \$29 million.

Severance charges of \$82 million related to the staffing reductions that will result from the capacity reductions the company has announced. Cash payments related to severance will be incurred over time as we implement our capacity reduction plans.

Other largely non-cash charges of \$54 million related to certain projects that have been terminated or deferred and a non-cash adjustment to increase certain employee benefit obligations.

A \$29 million cash gain from a litigation settlement.

These accounting charges added \$2.6 billion of largely non-cash expense to the company's operating costs for the quarter. The company may record additional accounting charges in future quarters related to its capacity reductions, including possible non-cash fleet and property and equipment impairment charges, further intangible asset impairment charges, expenses to terminate early certain facility and aircraft leases and additional severance costs. However, at this time, the company is unable to reasonably estimate the amount and timing of these future charges.

Excluding the above accounting charges, in the second quarter of 2008 the company generated an operating loss of \$87 million, versus operating income of \$537 million in the year ago period primarily as a result of the significant increase in fuel expense. The company generated a net loss, excluding these accounting charges, of \$151 million in the second quarter of 2008, \$425 million worse than the second quarter of 2007. Including the impact of these accounting charges, the company reported an operating loss for the quarter of \$2.69 billion and a net loss of \$2.73 billion.

Excluding a \$29 million tax benefit related to the impairment of intangible assets, the company did not recognize any income tax benefit in the second quarter of 2008. Because of its Net Operating Loss carry-forwards, the company expects to pay minimal cash taxes for the foreseeable future.

Despite continued unit revenue growth, and better cost performance compared to its prior guidance, these gains were insufficient to offset the more than 55 percent increase in average fuel price per gallon.

"Our industry is challenged as never before by the unrelenting price of oil, and United is taking aggressive action to offset unprecedented fuel costs and to strengthen the competitiveness of our business," said Glenn Tilton, United president, chairman and CEO. "The elimination of our entire B737 fleet and our alliance with Continental are examples of the different approach we are taking to respond to dramatically changed market conditions to deliver better results for all our stakeholders."

Taking Additional Actions to Address Unprecedented Fuel Costs

While the price of jet fuel has steadily increased over the last few years, the rise in 2008 has been unprecedented, with fuel increasing by more than 37 percent since the beginning of the year. United is executing an aggressive plan to address the skyrocketing cost of fuel by:

Sizing the business appropriately for the environment, leading the industry in permanently reducing capacity. United is removing 94 narrowbody aircraft and 6 widebody aircraft from its operations, retiring its entire fleet of B737s in the process.

Using its capacity discipline to pass higher commodity costs to customers through fare and fuel surcharge initiatives.

Creating new revenue streams by charging for a la carte service, such as checked bags.

Reducing costs across the business.

Reducing capital expenditures.

United also recently announced a framework agreement to form a unique partnership with Continental Airlines, one that responds to the need for different thinking and solutions in an industry confronted by extraordinary and volatile fuel costs and dramatically changed market conditions. This agreement will result in extensive cooperation, linking networks and services worldwide to the benefit of customers while creating revenue opportunities, cost savings and other operating efficiencies. In addition, Continental plans to join United in the Star Alliance, the largest airline alliance in the world. This week, Continental Airlines, United Airlines and eight other member airlines in the Star Alliance plan to ask the U.S. Department of Transportation (DOT) to allow Continental to join the group of carriers that already hold antitrust immunity. Approval by the DOT would enable Continental, United and the other immunized Star Alliance carriers to work closely together to deliver highly competitive flight schedules, fares and service.

Strengthened Cash Position With \$550 Million Raised From New Transactions

During the quarter, the company raised \$90 million through new aircraft financing transactions and asset sales and freed up \$130 million in restricted cash by replacing it with a \$100 million letter of credit.

In addition, early in the third quarter, the company received funds from a \$241 million aircraft financing transaction whereby it raised additional debt. The company freed up another \$50 million of restricted cash by replacing it with letters of credit worth \$34 million. The company also reached agreements in principle for the sale of assets worth approximately \$40 million.

As a result of all these actions, the company raised approximately \$550 million in cash.

Despite escalating fuel prices, the company generated positive operating and free cash flow during the quarter. The company realized \$217 million of operating cash flow and \$127 million of free cash flow, defined as operating cash flow less capital expenditures, during the second quarter.

The company reduced total on and off balance sheet debt by \$292 million in the quarter to \$11.1 billion, despite entering into new debt financing. The company ended the quarter with an unrestricted cash balance of \$2.9 billion and a restricted cash balance of \$655 million. The company's quarter-end cash balance does not include any cash deposits associated with collateral from its fuel hedge counterparties.

In addition to its strong cash balance, and subsequent to the financings and asset sales previously discussed, the company continues to have over \$3 billion in unencumbered hard assets that it can use to further enhance liquidity through asset sales and/or secured financing transactions.

"We continue to take the difficult, but necessary action across the company to reduce our costs, including reducing our workforce by more than 7,000 people," said Jake Brace, United executive vice president and CFO. "We are maintaining our cost guidance for the year even as we dramatically reduce capacity, and are improving our liquidity, ensuring United is well positioned to weather the current environment."

Capacity Discipline Drives Revenue Growth

The company's focus on capacity discipline and strong revenue management drove continued revenue growth. Total revenues increased by 3.0 percent in the second quarter of 2008 compared to the same period in 2007, as growth in passenger unit revenue and cargo more than offset the year-over-year reduction in capacity. The company's mainline RASM increased by 5.1 percent year-over-year from the second quarter of 2007 due to strong passenger and cargo yield performance partially offset by lower passenger load factors.

The company's cargo business continued its strong performance with a 30.9 percent year-over-year increase in revenue. Higher fuel surcharges, foreign exchange gains and strong yield improvements contributed to the cargo revenue increase.

Total passenger revenues increased by 2.6 percent in the second quarter compared to the prior year as a result of a 7.7 percent gain in consolidated yield, more than offsetting the 3 point decline in system load factor. Mainline domestic PRASM for the quarter increased by 5.9 percent, aided by a 4.8 percent reduction in capacity. International PRASM grew 3.2 percent in the second quarter compared to the same period last year, despite a 3.7 percent increase in international capacity year-over-year. Consolidated PRASM increased 3.9 percent year-over-year.

The company's change to deferred revenue accounting for the Mileage Plus program, from the previous incremental cost method, decreased consolidated passenger revenue by approximately \$42 million in the second quarter of 2008. The change to the expiration period for Mileage Plus accounts without activity from 36 to 18 months, which the company instituted in January 2007, did not impact the company's revenue results in the second quarter of 2008, as it did in the second quarter of 2007.

In the second quarter of 2007 deferred revenue accounting increased consolidated passenger revenue by a net \$1 million, including \$47 million of non-cash revenue recognized from the expiration policy change. In total, these Mileage Plus accounting changes resulted in a net year-over-year decrease in consolidated passenger revenues of \$43 million for the second quarter of 2008 compared to the same period in 2007.

As the company no longer follows the incremental cost method of accounting, differences between the two accounting methods are calculated using the company's best estimate of the incremental cost method. Excluding Mileage Plus accounting impacts, consolidated PRASM increased 4.9 percent year-over-year.

Regional affiliate PRASM was up 0.3 percent compared to last year, with a 6.6 percent increase in yield and a 1.1 percent capacity decline. Load factor for regional affiliates decreased 4.7 points in the second quarter of 2008 compared to the second quarter of 2007, while stage length for regional affiliates was up 5.3 percent for the same period.

Comparison of 2008 Second Quarter Geographic Passenger Revenue
Versus 2007 Second Quarter

Geographic Area	2Q 2008	Passenger		
	Passenger Revenue (millions)	% Increase/ (Decrease)	PRASM % Increase/ (Decrease)	ASM(1) % Increase/ (Decrease)
North America	\$2,414	0.9%	5.9%	(4.8)%
Pacific	\$830	1.7%	2.4%	(0.7)%
Atlantic	\$723	13.0%	0.8%	12.1%
Latin America	\$132	11.2%	16.0%	(4.1)%
Total Mainline	\$4,099	3.3%	4.7%	(1.3)%
Regional Affiliates	\$797	(0.9)%	0.3%	(1.1)%
Total Consolidated	\$4,896	2.6%	3.9%	(1.3)%
Adjusted				
Consolidated(2)	\$4,938	3.5%	4.9%	

(1) ASM (available seat miles)

(2) Consolidated Passenger Revenue and PRASM adjusted for Mileage Plus effects (See Footnote 5[b]).

Focus On Improving Operating Performance

For the twelve month period ending May 31, 2008, the latest available, United ranked fifth among the six major U.S. network carriers in Department of Transportation on-time rankings. As part of the company's efforts to improve performance, it has implemented an operational agenda that stresses the day-to-day actions required to provide a reliable product, deliver good service and maintain industry leading safety standards and practices. To improve reliability performance, the company is increasing crew reserves, increasing average scheduled ground time and improving its arrival readiness at gates. This, coupled with the reduction in ground delays expected to result from the industry-wide cut in capacity as well as the new O'Hare runway that will come online in November, is expected to materially improve the company's on-time performance.

"Our focus and our energy are all about generating a step change in our performance," said John Tague, United executive vice president and COO. "We've set the targets, put the right leaders in place, and we're executing against our plan with a clear understanding of what we need to achieve, how we need to do it, and that we are ultimately accountable for that outcome."

Continued Focus on Cost Control

Mainline CASM increased by 85.5 percent year-over-year to 20.39 cents reflecting the large special charge and other largely non-cash accounting charges that the company took in the second quarter, as well as the steep increase in fuel expense. Second quarter mainline CASM, excluding these charges and fuel, increased by 2.6 percent from the year-ago quarter to 7.80 cents, better than the company's guidance due to lower than expected maintenance costs and an airport rent cost. This result demonstrates United's continued focus on controlling non-fuel costs.

	Second Quarter Increase/(Decrease)					
	Mainline			Consolidated		
	2008	2007	% Chg.	2008	2007	% Chg.
CASM (cents)	20.39	10.99	85.5%	20.41	11.68	74.7%
CASM excluding accounting charges (cents)	13.03	10.99	18.6%	13.81	11.68	18.2%
CASM excluding fuel and accounting charges(cents)	7.80	7.60	2.6%	8.23	8.08	1.9%

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