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Northwest Airlines Corp. Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions). And our first question comes from the line of Ray Neidl, with Calyon Securities. Please proceed.

Ray Neidl - Calyon Securities

Good morning, everyone.

Doug Steenland

Good morning Ray.

Ray Neidl - Calyon Securities

Let's see. First thing is, I'm just wondering with the regional system, and with the merger coming up with Delta, do you have a plan yet for the owned airlines that Northwest has? Will they stay in the system or will that be diversified out, IPO, sold, or has that decision not been made yet?

Doug Steenland

This is Doug, Ray. First, the plan is that on the Northwest side, Compass and Mesaba will continue to be the key parts of the network going forward. Delta owns Conair. There have been no plans made regarding any spin out, but we do think that there are clear cost efficiency opportunities in terms of duplicative overhead, back office functions and the like that the regional carriers now do that they'll be able to economize on when they're all under one roof. So we think that's part of the upside of the merger transaction.

Ray Neidl - Calyon Securities

And your contract carrier, Pinnacle, what's their future in the combined system?

Doug Steenland

Well, we have a long-term contract with Pinnacle. They operate 124 CRJ-200s for us. For the Northwest network, that's properly sized and that contract will remain in place post closing, and the expectation is that they'll continue to provide regional lift according to the terms of that agreement. We restructured that agreement when we went through Chapter 11, but we believe we have very

economic terms under which Pinnacle provides that lift and the expectation is that they will continue to do so and both sides will abide by the contractual terms.

Ray Neidl - Calyon Securities

Okay. And, Doug, being a long-time industry manager who, I guess, will be exiting the industry pretty soon at least as an active manager, if you want, would you share your thoughts on some of the macro developments that could be coming our way, such as possible re-regulation, and environmental taxes that seem to be spreading from Europe, and what's going on their with the oil future trading contracts that have the airlines (so 28.39) upset?

Doug Steenland

Well, I think on those three points, Ray, one, I think the horses are out of the barn regarding the deregulation of the industry. I think, by and large, the consumer since post 1978 has been the big huge winner here and you know how the consumer fares going forward is going to be largely dependent on the price of fuel and the ability of the carriers to pass it through. But I think it's too late to regulate, to go back into the re-regulation mode. I think if there's any area of focus that might make sense it's that there's an existing EAS program to small communities. And I think as a public policy matter, it's legitimate to look at as to whether the government wants to provide some assistance to make sure that the truly small communities in the country remain on the national air transportation system.

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