

December 9, 2006

Northwest Air to Hire Adviser, and Talk of a Merger Starts

By MICHAEL J. de la MERCED

[Northwest Airlines](#) plans to hire Evercore Partners as a financial adviser, signaling that Northwest, the nation's fifth-largest airline, may be considering a merger.

According to a hiring agreement that Northwest filed yesterday in federal bankruptcy court in Manhattan, Evercore would collect a \$2 million fee if Northwest closed a deal. The investment bank will also collect a \$3 million fee upon the carrier's emergence from bankruptcy.

Northwest's 7.6 percent notes maturing in 2023 rose to \$88.25 in trading yesterday, up from \$85 before the filing. Its shares jumped 48 percent, to \$4.90.

"It's probably in Northwest's interest to evaluate various M.& A. outcomes and really maximize value for its creditors," said William T. Warlick of [Fitch Ratings](#).

The most likely suitors for Northwest, analysts said, are American Airlines, a unit of AMR; [Continental Airlines](#); and [Delta Air Lines](#). All have strong Southern routes that would complement Northwest's network with its northern Midwest hubs. Northwest and Continental already have a code-sharing agreement for their flights, noted Bill Harrell of [Harrell Associates, an airline industry consultant](#).

A Northwest spokesman said the airline declined to comment beyond the filing. A spokesman for Evercore declined to comment.

Because Northwest is in bankruptcy protection, any plan to emerge from bankruptcy must be approved by its creditors. Scott L. Hazan, a lawyer representing the official unsecured creditors committee, declined to comment.

Analysts have seen Northwest as a potential takeover target since it entered bankruptcy protection in September 2005. And many investors and analysts have argued that the airline industry needs to consolidate to survive. Last month, [US Airways](#) announced an \$8 billion hostile offer for Delta, a bid

that was quickly rebuffed by Delta, also in bankruptcy protection. US Airways itself emerged from bankruptcy this year after merging with [America West Airlines](#).

Northwest, which has hubs in Detroit and Minneapolis-St. Paul, also draws significant revenue from its trans-Pacific routes. The airline has also been a partner with [KLM Royal Dutch Airlines](#) on several European routes.

“A lot of people would be willing to give their eyeteeth to get their hands on the Pacific international routes,” Mr. Harrell said.

Yet potential problems would await a Northwest sale. As an airline using both Airbus and [Boeing](#) planes, Northwest would need to integrate with a partner’s own fleet. Moreover, as with any airline merger, there are antitrust issues for regulators to weigh.

Perhaps the biggest potential problem for a Northwest buyer is the airline’s clashes with its labor unions. In October, the airline reached a contract agreement with its mechanics’ union, which had maintained a yearlong strike to protest wage cuts. It has also struggled in negotiations with the unions of its pilots and flight attendants.

Still, should Northwest end up in merger talks with another airline, that could weaken Delta’s defense against the takeover proposal from US Airways. Delta has yet to file its plan for exiting bankruptcy, but a large part of its argument for remaining independent is that a merger with US Airways entails too many risks — presumably the same risks that Northwest faces.

Evercore’s team will be led by its chairman, Roger C. Altman.

Jeff Bailey contributed reporting from Chicago.