

New Financing Plan to Get Air Hawaii Restarted Is Rejected

By Russ Lynch
Star-Bulletin Hawaii

A new financing plan to get stalled Air Hawaii flying again was rejected by a federal bankruptcy judge yesterday on grounds that the financing was inadequate and too much of a risk for Air Hawaii's creditors.

Visiting Judge Lloyd King told Air Hawaii it will have to come up with a much more solid financing proposal before it can get court approval.

That leaves the airline facing the probable cancellation of its operating certificate later this month, making it difficult for Air Hawaii, which stopped flying in February, to resume its low-cost Hawaii-Mainland service.

King, a federal bankruptcy judge from San Francisco who is filling in for ailing Judge Jon Chinen, made his decision after the creditors' representative told him that restarting Air Hawaii could result in a bigger debt load.

THEY SAID THAT the airline would need to incur more debt for aircraft leases, fuel and other services and if service is not successful, there would only be more creditors to share whatever assets are left.

If the airline is allowed to sell tickets in advance for future flights, that will only create "new injured consumers," said Pamela Matsukawa, attorney for

the state Office of Consumer Protection.

"We do not want consumers becoming investors in Air Hawaii," said Matsukawa, a member of the creditors' committee of the airline.

Owner Raymond Gray recently put \$100,000 into the airline to keep its office operating, hoping that the judge would approve top-priority loan status for that money yesterday.

King, however, denied that request, which would have placed Gray's loan first in line for repayment.

HE ALSO REJECTED Gray's proposal to lend the company money from day to day, at the lowest end of the credit priority list, to finance its start-up.

Gray, who bought the airline after it stopped flying and after its two leased DC-10s had been seized by the leasing company, has maintained that the best way to get some return for the creditors is to get the airline flying and earning money.

He proposed to guarantee Air Hawaii whatever day-to-day financing it needs and 5 percent of any profit it should make. His attorney Alan Smith told the Honolulu bankruptcy court hearing that the airline could be flying within about two weeks of court approval of the financing.

The airline is still able to lease one of the DC-10s it used before



Raymond Gray
Financing offer rejected

which is still painted in the Air Hawaii colors, he said.

Randolph Slaton, attorney for Air Hawaii, said the Federal Aviation Administration has given the airline notice that it intends to revoke Air Hawaii's operating certificate.

AN FAA LETTER introduced in court yesterday said that the certificate will be revoked July 25.

Revocation of the license would require the airline to begin the certification process all over again, which aviation industry sources say could take months.

Slaton said that an appeal by the airline would automatically suspend the order but there is no point in making an appeal unless the airline has an aircraft in place and is in position to resume service.