

Better bottom line, pilot deal lift Delta

Union members, bankruptcy judge OK pay cut extension

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Beleaguered Delta Air Lines got a lift Wednesday as the company's latest financial report showed the best bottom line since it entered bankruptcy proceedings.

That came just hours after Delta's pilots union announced that members voted in favor of a new contract that extends pay cuts and is expected to save the airline about \$280 million a year.

Delta's bankruptcy judge quickly approved the pilot contract, clearing the way for the three-year deal to take effect today. Delta executives say the deal is a crucial part of their effort to recover from five years of losses totaling \$14 billion.

The airline's monthly financial report for April added a rare dash of black ink to that picture.

Delta said it had a net loss of \$27 million for the month, far less than in any of the six prior monthly reports since it went into Chapter 11. Moreover, the airline said its so-called operating result — a reflection of basic daily operations that excludes restructuring costs and other expenses — was a profit of \$84 million.

Delta had not reported any profit in a monthly or quarterly financial report since early 2003, when it benefited from federal aid related to the war in Iraq.

"April's results are an encouraging indicator that our plan is working," Delta's financial chief, Ed Bastian, said in a statement. "They serve as a great motivator to continue to act quickly to achieve our remaining restructuring objectives."

The airline's usable cash reserves rose for the fourth straight month, to \$2.45 billion at the end of April.

Skeptics cite challenges

Despite the relatively positive news, some industry watchers cautioned that Delta still faces big challenges. They include resolving billions in pension plan

liabilities and developing a viable plan to emerge from bankruptcy. Some also said Delta's cash reserves could come under pressure as the summer travel season wanes.

Calyon Securities analyst Ray Neidl said the pilot contract ratification is better than further labor fights, but he thinks the cost savings from the deal are "a little on the light side."

Like other big carriers this year, Delta is benefiting from "very solid" boosts in airfares to offset fuel costs and strong travel demand, Neidl said. That has helped boost revenue and cash levels, but travel demand may reverse if the economy weakens.

"They have to have the cost structure for the next downturn," Neidl said.

Even with the pilot deal in place, Delta's mile-for-mile costs are still about 30 percent higher than rival AirTran Airways, said Vaughn Cordle, chief executive at Airline Forecasts in Washington.

But Delta CEO Gerald Grinstein and other top executives told the pilots in a memo that the carrier is "making real and measurable progress" on closing revenue and productivity gaps with rivals, and on improving customer service.

Grinstein said management hopes to bring Delta out of Chapter 11 protection in the first half of 2007.

\$3 billion target

The airline's plan hinges on cutting costs or boosting revenue by a combined total of \$3 billion annually. In addition to pay and job cuts for pilots and other workers, it has restructured routes and boosted international flights that executives hope will be more lucrative.

The airline said it hit more than \$1 billion of the \$3 billion target in April and expects to reach 70 percent of that level by year-end.

The Air Line Pilots Association, which represents Delta's 6,000 pilots, said 95 percent voted and 61 percent of those were in favor of the new contract.

"It tells you that the pilot group is very realistic about the state Delta is in," said Cordle.

The deal was negotiated over several months and led to strike threats by ALPA's leaders during March and early April. Those threats could have been revived by a defeat in the ratification vote.

Delta pilots were the industry's highest-paid under their last contract, inked just three months before the Sept. 11, 2001, hijackings turned a cyclical industry downturn into a tailspin, especially at larger, old-line carriers.

Pilots agreed to a nearly one-third cut in wages in late 2004 as part of an unsuccessful plan to avert a Chapter 11 filing. Just before filing for bankruptcy last September, Delta went back to the pilots union for more cuts.

The new deal extends the additional 14 percent pay cut negotiated in December as a temporary measure. But pay would start rising next year. ALPA also would get a \$650 million note to use as compensation for retirement benefits cuts if Delta terminates the pilots' pension plan and turns it over to the Pension Benefit Guaranty Corp. The agency continues benefits payments but only up to caps that are below typical pilot benefits.

The PBGC objected to the new contract in a hearing before Delta's bankruptcy judge, Adlai Hardin, but he overruled the objection.

Cuts common in industry

With the deal in place, Delta pilots' annual pay will range from \$43,000 for new hires to \$167,000 a year for senior captains flying the biggest jets.

Pilots at most big carriers have negotiated pay cuts in recent years, and Delta pilots join those at United, US Airways and Northwest in doing so under the duress of bankruptcy court proceedings.

Other Delta workers also have taken two pay cuts since late 2004, and the company has slashed thousands of additional jobs since entering Chapter 11 proceedings.

Grinstein called the agreement "a significant, necessary and appreciated component of Delta's restructuring plan" in a written statement. "Our company has a solid plan for the future, and Delta people are making real progress together."

ALPA Chairman Lee Moak said in a statement that the amended contract "provides a framework for Delta to successfully reorganize and emerge from bankruptcy ready to win in today's competitive marketplace."

Not all Delta pilots were happy.

"We're giving away 30 years of contract negotiations, it seems to me," said Bruce Kennedy, a Boeing 737 captain based in New York.

He said he voted against the deal because it allows Delta to shift more flying to smaller jets flown by regional carriers and provides too little compensation if Delta sheds the pilot pension plan.