

Deal gives pilots stake in reorganized Delta

Pilots to vote on \$280 million in concessions

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The new contract deal that Delta Air Lines pilots will vote on next month continues — but does not expand — a 14 percent pay cut in place since last December, and it promises raises starting next year.

Pilots also would get a stake in the reorganized company when it emerges from Chapter 11 proceedings, while Delta would benefit from more flexible work rules.

Pilot union leaders late Friday endorsed the pact, and the first details are being shared with the nearly 6,000 rank-and-file pilots who will vote on whether to ratify.

The three-year deal shows that in exchange for the pay cut and cost-saving work rule changes, Delta pilots stand to gain at least \$650 million and perhaps \$1 billion in notes and future stock in the reorganized company if the airline successfully completes its reorganization.

Delta says the deal would save it about \$280 million a year, or close to the \$305 million it had sought during negotiations. The union also would agree not to oppose any move by Delta to terminate its pilot pension plans, a cash-saving move that would reduce most pilots' benefits. The notes and stock given to pilots would be partly in compensation for such a move.

Voting will start in mid-May and run to the end of the month, and the contract would take effect June 1.

If ratified, the agreement will give Delta a major element of its overall restructuring plan, which has already included fresh rounds of pay and job cuts for other workers.

If pilots reject the deal, the agreement states that a panel of arbitrators will issue a decision on Delta's previous court motion to void the current contract and impose new terms. The arbitration panel had been set to issue such a ruling just before Delta and ALPA negotiators reached an agreement on April 14.

The union had threatened to strike if its contract was voided.

Lee Moak, chairman of Delta's Air Line Pilots Association unit, said the deal "provides strong returns for our sacrifices."

Calyon Securities analyst Ray Neidl said Delta got concessions "pretty close" to what it needs to stay on track with its reorganization plan, in which it seeks to net \$3 billion in annual cost cuts or revenue gains by reshaping operations.

Neidl added that the deal seems to be similar to pilot deals cut at other airlines in Chapter 11, including United and Northwest.

Delta pilots' future payback "sounds like it was roughly what United's pilots got" during that airline's bankruptcy reorganization, which ended earlier this year.

Delta pilots, the industry's highest-paid from mid-2001 through 2004, agreed to a 32.5 percent pay cut in late 2004. The 14 percent cut was in an interim deal last December aimed at buying time for talks on the broader new contract.

Delta had sought to expand that to an 18 percent cut. The net effect is no immediate change in pilot wages.

However, Delta's pilots will receive annual increases of at least 1.5 percent starting next year. That number could go as high as 6 percent starting in 2008 if the airline meets certain financial goals.

ALPA's leadership council, which reviewed the deal for three days last week, called the package a necessary step to preserve Delta and their careers.

The council voted 12-1 in favor of the pact Friday. In addition to pilot ratification, it also must be approved by Delta's bankruptcy judge.

The leaders' backing of the deal likely increases its odds of being ratified, even though many pilots are angered at taking their second round of deep pay cuts in two years.

Besides pay and compensation issues, the new agreement includes work rule changes that allow Delta to begin adding up to 30 larger regional jets with up to 76 seats to its fleet.

The company has said it's likely the pilots pension plan will be terminated, which would shift responsibility for payouts to the federal Pension Benefit Guaranty Corp. The PBGC ensures benefits but only up to amounts that are less than typical pilot payouts. The deal calls for ALPA to get \$650 million in cash or notes that it could use to offset benefits cuts.

Delta also agreed to give the union a \$2.1 billion unsecured claim that would be converted to stock. Based on other cases, it would likely be worth \$200 million to \$500.