Delta CFO Touts $3B Turnaround Plan

By ALEKSANDRS ROZENS_
The Associated Press_
Monday,
November 28, 2005; 3:47 PM

NEW YORK -- Delta Air Lines Inc., which lost $2.6 billion in the first nine months of this year, needs the $3 billion in annual cost savings from its reorganization plan to survive, chief financial officer Edward Bastian told a bankruptcy court on Monday.

But U.S. Bankruptcy Court Judge Prudence Carter Beatty said Delta may have been wrong to spend $2.4 billion to buy back its own shares. "It is a question of if you had that money rather than had spent it that way, you might not be in the position you are in," she said.

Beatty added that the buyback may have been undertaken to placate Wall Street's financial community. "I'm buying something worth nothing to me in order to make stock market price look good," she said.

"In my opinion it (the cost reduction plan) is absolutely necessary," Bastian told the court during the third day of a hearing on a Delta request to void its contract with pilots and impose $325 million in wage cuts.

"We are losing cash at a fairly alarming rate. If we don't stop losing cash we won't make it," he said.

The Air Line Pilots Association, the union representing the pilots, has offered $90.7 million in concessions and has threatened a strike if the court grants Delta's request.

Uniformed pilots were at the courthouse Monday, as they were in earlier sessions dealing with the contract. Monday's session was a resumption of a hearing recessed Nov. 17.

Atlanta-based Delta is seeking cuts from its pilots to help offset rising fuel costs and the impact of stiff competition from low-fare competitors.

If the court approves Delta's proposed cuts, they would be on top of $1 billion in annual concessions the pilots agreed to in a five-year deal reached in 2004. That deal included a 32.5 percent pay cut and has been held up by the union as a sign of their willingness to negotiate.

Delta, which filed for Chapter 11 on Sept. 14, has recorded losses of more than $11 billion since January 2001 and over that period has announced it would cut up to 33,000 jobs.

Delta's CFO said the airline's debtor-in-posession lenders were "very, very nervous" about the possibility of any future jumps in fuel costs. These lenders, Bastian added, agreed with the airline's belief labor cost reductions are needed to "eliminate cash bleeding. They tested our assumptions."

Bastian said the airline is also trying to cut costs by renegotiating aircraft leases, but said its employment costs are hobbling its ability to compete.

"We are in an intensely competitive industry. There is excess capacity. Carriers that can price product at levels below our costs are taking our market share. Our cost structure is significant reason why we have experienced losses," Bastian said.

In September, Delta announced that it plans to cut as many as 9,000 jobs, representing 17 percent of the work force at Delta's flagship operation. The cuts are part of Delta's effort to save an additional $3 billion annually by the end of 2007.

As part of its plan, Delta's goal is to save $970 million annually through debt relief, lease and facility savings and fleet changes and another $1.1 billion in annual savings is expected to be gained through changes to Delta's route network. The airline will reduce domestic mainline capacity by 15 percent to 20 percent; at the same time, it will increase international capacity by 25 percent in 2006 to pursue more profitable routes.

Delta has said it hopes to cut $930 million annually through reduced employment costs, employee productivity improvements and overhead reductions. That total includes savings of $325 million from Delta pilots and $605 million from the non-pilot work force, including management.

The pilot reductions would have to be agreed to by the pilot union or imposed on the union in bankruptcy court.

Earlier this month, Delta said it lost $2.60 billion for the first nine months of the year, compared to a loss of $3.01 billion for the same period a year ago. Nine-month revenue was $12.05 billion, compared to $11.36 billion a year ago.