

## **Delta's Grinstein faces retiree groups**

CEO: Bankruptcy process 'insulting,' 'expensive'  
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Bankruptcy court is an expensive place fraught with peril and distractions, but it gives Delta Air Lines a fighting chance to restore its financial health after a grueling five-year slump, Chief Executive Gerald Grinstein told about 1,700 of the carrier's retirees.

"Bankruptcy is beyond strange," Grinstein said Friday. "I now know why we fought so hard to avoid it."

In his first public comments before a large audience since leading Delta into Chapter 11 proceedings six weeks ago, Grinstein called the process time-consuming, "in many ways insulting," and "very, very expensive."

"After you pay all your own lawyers, there are all these niche players," he said, who also hire lawyers and financial advisers.

"This is all done with Delta's resources," added Grinstein, who was also trained as a lawyer but has spent much of his career heading companies such as Delta, Western Airlines and the Burlington Northern Santa Fe railroad.

Grinstein and other top Delta executives met at the Georgia International Convention Center with two retiree groups that want seats at the table in Delta's bankruptcy reorganization.

A group that represents about 5,000 of Delta's non-pilot retirees, DALRC, won the bankruptcy court's approval Thursday to form an official committee that will represent retirees' interests as Delta considers cutting health and other benefits.

However, the federal bankruptcy court judge declined to name a similar committee to represent retired pilots, whose benefits are defined by contract.

The Delta executives often cited the urgent need to stop the airline's financial bleeding but said little about the retirees' biggest worry --- whether Delta plans to cut their health benefits or terminate their pension plans.

The latter move would shift responsibility for payouts --- up to certain limits --- to the federal Pension Benefit Guaranty Corp., which estimates Delta's pension plans are underfunded by \$10 billion.

Delta executives said no decisions have been made regarding pensions and other benefits, pending the outcome of efforts to get legislative relief and other events.

"The future is incredibly unpredictable," said Ed Bastian, Delta's chief financial officer. "That's not a cop-out. It's just part of the process."

Delta has already stopped some pension payments to pilots, but those payouts resulted from a supplemental pension plan and are not guaranteed the way basic pensions are.

Meanwhile, Delta and its pilots union have opened talks on a request for \$325 million worth of annual givebacks, including a 20 percent pay cut and contract changes that would allow Delta to expand the amount of flying by regional carriers and lower pay for a new category of pilots of 100-seat aircraft.

Delta can ask its bankruptcy judge to impose terms if the union doesn't agree.

Pilots took deep pay cuts in 2004, and Grinstein acknowledged that many are angry.

"There is a sense of a loss of control," he said. "It's got to have a huge irritation element."

But he added: "It's a choice between what we propose and no company at all. We have no ability to borrow additional money. What we have is what we have."

Grinstein and other executives told retirees that Delta had achieved \$1.6 billion in cost savings this year from earlier turnaround efforts.

However, soaring jet fuel prices added \$1.5 billion to Delta's expenses, they said, forcing the bankruptcy filing when cash dwindled.

Now, Delta is cutting pay for non-pilot workers, shedding thousands more jobs and reworking routes as it seeks an additional \$3 billion in cost cutting or additional revenue over the next two years.

Delta expects to lose about \$2 billion this year.

The carrier has lost \$10 billion since early 2001, including \$1.5 billion through June.

In October, "43 percent of our revenues were being consumed by the cost of jet fuel," said Grinstein. Noting that few airlines have survived bankruptcy, he added: "It is a high-risk process. It is not a slam dunk."

Still, Grinstein said the Chapter 11 filing has allowed Delta to stop debt payments and seek concessions on leases and other costs.

"We had \$4 billion in unsecured debt. It is gone. [The bondholders] are now part of the creditors committee," he said.

Unsecured creditors typically recover only pennies on the dollar in large corporate bankruptcies, often in the form of new stock when the company re-emerges from bankruptcy, while previous shareholders' stock becomes worthless.

Delta has targeted \$970 million in savings from restructuring debt and leases, along with \$930 million in labor cost reductions and \$1.1 billion in new revenue or cost savings.

"Through the court process, we'll be able to bring everybody to the table," said Bastian.

In past cost-cutting rounds, he said a narrow group, including employees, bore the brunt.

The airline has eliminated 23,000 jobs in previous rounds, but plans to cut up to 9,000 more jobs and to cut non-union employees' pay up to 10 percent starting next week.

"We're moving fast. We're moving at a furious pace, but we need to for survival," Bastian said.

Also Friday, Delta said its board of directors is reducing members' compensation. Non-executive board Chairman John F. "Jack" Smith Jr.'s pay will drop to \$112,500 from \$150,000, mirroring a 25 percent cut in Grinstein's compensation.

The board said other non-employee directors' pay will drop to \$20,000 from \$25,000 annually.