

## Much Of Delta's Future Depends On Bankruptcy Judge

Prudence Carter Beatty has been described as eccentric, tough, funny

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New York — In most courtrooms, it's the lawyers who give the colorful quotes and raise the dramatic tension.

In Delta Air Lines' bankruptcy case, the judge provides much of the entertainment.

Judge Prudence Carter Beatty's out-of-the-blue digressions and caustic asides leave lawyers speechless and observers tittering. People involved with the 3-month-old case go to Beatty's Lower Manhattan courtroom not just for the latest proceedings but to hear what she'll say next.

"This is another one of Judge Beatty's horrible stories," Beatty warned during one hearing, when the day's discussion landed on international routes.

La Paz, Bolivia, she mused, is "one of the most interesting places to fly into" because the airport is high above the city. The local men, she added, become confused about which restrooms to use because "they wear little dresses" that look like the signs on the ladies' room doors.

During recent hearings on the need for new pilot pay cuts, a Delta lawyer offered to follow a stretch of painfully detailed testimony by going through each item of dispute between the airline and its pilots union.

"I might die," Beatty replied dryly, prompting an outburst of laughter.

Beatty has a reputation for being a slightly out-there figure in the bland world of bankruptcy law, and she's burnishing it with the Delta case. Private descriptions of the 63-year-old jurist run the gamut: eccentric, blunt, intelligent, tough, deliberate, unfocused, insightful, biased, fair, diligent, kind, temperamental, funny.

Whichever terms fit best, Beatty will have a huge influence on Delta's future as it plows through Chapter 11 proceedings for the next year or so and tries to emerge intact and poised to regain financial health.

Beatty has gotten a lot of attention for her offbeat comments, but more serious evidence of her handling of the case so far came one week ago, when Delta and the pilots union cut a tentative pay cut deal. The two sides both gave ground in agreeing to 14 percent wage cuts, subject to rank-and-file ratification by Dec. 28.

The deal followed nine days of tedious hearings on Delta's motion to void the pilot contract and impose terms, which union leaders warned might have led to a strike. Many courthouse observers thought Beatty deliberately prolonged the hearings to give the two sides time to reach a deal rather than force her to rule — not an uncommon judicial tactic in bankruptcy proceedings.

"I was very much of the view that you could settle a lot better than I could," Beatty commented in signing off on the deal last week.

It almost certainly won't be the last hot-button dispute she faces. Other simmering pocket — book controversies include potential cuts in retiree health benefits and the possible termination of Delta's under funded pension plans, which would shift responsibility for payouts to a federal agency. Delta hasn't said whether it will seek such a move yet.

Beatty will also deal with reams of lower-profile issues involving negotiations between Delta and creditors. Down the road, she'll have ultimate say-so over the company's reorganization plan, which must be approved for it to emerge from Chapter 11.

### **First woman on the court**

The judge, born in Rhode Island, reared near Raleigh and educated at the University of Michigan, has been on the U.S. Bankruptcy Court of the Southern District of New York in Manhattan for 23 years.

She made the move after an early career as a lawyer. Beatty lost every motion on her first day arguing a big bankruptcy case as a lawyer, recalls Harvey Miller, a veteran New York bankruptcy attorney who hired her in the 1970s. But then she "sort of took to it like a fish to water," Miller recalled, and eventually became a partner in the prestigious Strock, Strock & Lavan law firm.

She was the first woman on the Southern District court's bench when appointed by the U.S. Court of Appeals in 1982.

Beatty keeps a low profile outside court. She is divorced and has a daughter, Annie, who lives in Spain — a fact that often comes up in Beatty's travel musings. For the past three or four years, Beatty has tutored public school children once a week, and often spends Saturday afternoons volunteering as a conversation partner for people still learning English.

Delta is easily Beatty's biggest case, in terms of both the \$28 billion debt involved and the amount of attention. But she has had other notable assignments in the Manhattan court, known for taking on big, complicated cases.

She handled bankruptcy filings for a past owner of New York's Rockefeller Center as well as the owner, at the time, of the legendary Plaza Hotel. She's handled the cases of Coleco, distributor of "Scrabble" and "Parcheesi"; and mental health care giant Magellan Health Services.

Besides Delta, Beatty's current caseload includes a company that owns the rights to Richard Simmons' "Sweatin' to the Oldies" fitness videos. But not all her cases are mammoth. She's dealt with filings by individuals and Upper East Side restaurants.

In one past case, she horrified some of the 250 partners of Finley Kumble, once the nation's fourth-largest law firm, when she ordered them to disclose information on their personal wealth to the case's trustee.

During another case last year, Beatty announced: "One of the advantages I have is that I don't represent any one party. So, I can see things that others don't see."

When Delta filed for Chapter 11 protection on Sept. 14, it chose the New York court because of its experience in handling large cases. Beatty was assigned at random from among the court's judges.

At initial hearings late last summer, people used law books to prop open the windows of her sweltering courtroom on the top floor of the 98-year-old former U.S. Customs House on Manhattan's lower tip. The bankruptcy court shares the imposing building with a Native American art museum.

### **View from the bench**

Beatty's courtroom overlooks Ellis Island and New York Harbor, and the audience often has ample time to enjoy the view. Beatty, slowed by sciatica and two knee replacements, is known for late starts and long breaks, attorneys say.

Beatty's former law firm colleagues speculate she took a steep pay cut to become a judge, a position they think attracted her with a promise of intellectual rigor. Federal bankruptcy judges are paid about \$152,000 — almost certainly lower than the pay of most lawyers, executives and even some pilots who appear before Beatty in the Delta case.

Atlanta attorney Darryl Laddin has appeared before Beatty many times and considers her fair despite any idiosyncrasies. She also can quickly knock unprepared attorneys off their game by asking an unusual number of questions and interjecting comments, said Laddin, who heads the bankruptcy practice at Arnall Golden Gregory.

"She keeps a lawyer on his or her toes more than the average judge," he said.

She also has a penchant for pouncing on mistakes.

Early in the Delta case, she upbraided Delta lawyers for stating in court papers that Madrid was in "Espania" and that the Raleigh-Durham airport was in South Carolina.

"Here you have succeeded in making typographical errors in the two places where I have a personal connection," said Beatty.

Another time she second-guessed Delta's decision to scuttle its Song discount unit.

"You may be better off in the end turning the whole airline into Song. I'm not kidding," she said, explaining that customers might see Delta as a "failed airline."

"We believe the Delta name is attractive as well," countered Delta's lawyer.

"Ummm ...," responded Beatty, sounding doubtful.

### **Hardball with the boys**

During the recent hearings on the need for pilot pay cuts, a Delta lawyer threw raw meat at Beatty's feet by citing major raises pilots got in 2001, just as the company's fortunes nose-dived.

Beatty replied with an apparent reference to ex-Delta finance chief M. Michele Burns, who benefited from the notorious 2002 executive bonuses and bankruptcy-proof pension trust funds for the carrier's then-top executives. Lately, Burns has been in the news for fighting a move to revoke her first-class flight pass.

"Well, OK. That's great," Beatty told the lawyer. "Your friend is suing you so that she can have her lifetime pass ... Yeah, she's the one that fixed up the 10 trusts with the \$1 million in each one.

"I mean, you know, you guys were spending money like it was going out of style in this period of time. And so if the pilots were able to get you to sign it, so? That's your problem."

Beatty prefers using humor to help relieve tension in the courtroom, she explained at one hearing, adding that she once served cookies and milk to mellow the mood.

### **But she also can play hardball.**

"Shut up, please! Please be quiet," Beatty told Delta lawyer Jack Gallagher during a tense exchange over whether pay cuts already imposed on non-pilots should be a factor in whether to void the pilots' contract.

"We are asking for the consideration of the rights of 44,000 people," Gallagher loudly countered, adding later that "your remarks indicate your leaning."

"Don't put that burden on me. The company made that decision," Beatty replied.

Beatty's comments open her to complaints of bias — from both sides.

At the outset of the pilot hearings, union lawyer Bruce Simon asked Beatty to step aside because of remarks she'd made in earlier sessions about "hideously high" pilot pay and "weird" retirement clauses.

She denied the recusal motion, but her comments toward pilots seemed to soften. Lawyers similarly tried to get Beatty to step aside in another case last year and took the matter to another court when she refused, but a federal judge ruled the matter couldn't be appealed.

In the Delta case, Beatty tells court-watchers not to read too much into her comments.

"You have no idea where I stand," Beatty said during the exchange with Gallagher.

Beatty declined interview requests but had her staff confirm some biographical and personal facts.

When a Journal-Constitution reporter saw her at a Starbucks near the courthouse, wearing a sweat shirt and buying a pastry hours after a Delta hearing, she politely declined to talk for a story for Atlanta readers.

"Just tell them I'm from North Carolina," she said, adding that she needed to get home to tend to her cat. Then she couldn't resist going off on a quick tangent.

"It's an Abyssinian but my daughter has another description. She calls it a killing machine," Beatty said, holding her hands near her grinning face and curling her fingers like claws.