

US Airways boosts Delta bid; Northwest in game too?

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The Atlanta Journal-Constitution

Published on: 01/10/07

US Airways boosted its buyout bid for Delta Air Lines on Wednesday, while a new report surfaced that Northwest Airlines is offering itself as an alternative down the road.

Northwest and Delta have had talks about a potential marriage, perhaps after both carriers completes their Chapter 11 reorganizations later this year, the Wall Street Journal reported on its Web site Wednesday afternoon.

The Journal cited "people familiar with the matter."

It said Delta's bankruptcy court creditors may see a post-bankruptcy link-up with Northwest as a realistic alternative to the US Airways bid.

The Journal also said there have been contacts between Delta and United Airlines.

Delta's top executives have rebuffed the US Airways bid and insisted they want to bring the airline out of Chapter 11 on its own. But they have not ruled out later deals. Indeed, CEO Gerald Grinstein has long predicted an eventual industry consolidation.

A merger involving Delta and any of those possible partners would create the world's biggest airline. It would require approval by the U.S. Justice Department, which historically has taken a dim view of such large-scale deals.

For its part, US Airways boosted its buyout bid for Delta Air Lines by 20 percent to \$10.2 billion Wednesday, a move that came as the days ticked down toward a bankruptcy court hearing on Delta management's plan to leave bankruptcy court as an independent company.

The fattened bid is aimed at Delta creditors, who could effectively force management to pursue a deal as part of its Chapter 11 exit strategy. The new offer comes with a Feb. 1 deadline for an indication of creditor interest.

"Simply stated, it is time for the process to move forward," US Airways Chief Executive Doug Parker said in a conference call Wednesday.

Delta said in a statement that its board will review the revised offer. But, the airline added, "On its face, the revised proposal does not address significant concerns that have been raised about the initial US Airways proposal and, in fact,

would increase the debt burden of the combined company by yet another \$1 billion."

Parker said he's confident the richer offer will win Delta creditors' support, giving them \$5 billion in upfront cash — up from \$4 billion originally — and a 49 percent stake in the combined companies.

"We've taken away any doubt as to whose proposal is worth more," said Parker. He said he expects creditors will agree to support the initial steps of a merger, such as beginning so-called "due diligence" of the proposed combination and asking federal regulators to begin an antitrust review.

Delta's unsecured creditors committee — a key group including big suppliers, banks and the carrier's pilots union — has been evaluating both Delta's standalone plan and the US Airways offer. So far it hasn't given any indication of which way it is leaning, although pilot union leaders oppose the deal.

In addition to the Feb. 1 deadline, US Airways said its higher offer is contingent on Delta agreeing to postpone a Feb. 7 bankruptcy court hearing on Delta's standalone plan. Delta would be able to begin seeking creditors' votes for support of its standalone bankruptcy exit plan if the court approves procedural documents related to the plan.

Delta management values its standalone plan at \$9.4 billion to \$12 billion, and it proposes to pay creditors through newly issued stock in the reorganized airline.

Both airlines dispute the others' valuations.

Objections to Delta's plan must be filed by Jan. 25, which could give an indication of how much support the rival bids get from creditors.

Daniel Golden, a lawyer for the unsecured creditors committee, did not immediately return a call Wednesday.

Parker, who led the 2005 merger in which his America West Airlines absorbed US Airways and took its name, has publicly maintained supreme confidence ever since launching the Delta buyout effort in mid November, brushing off management and labor objections, along with any suggestion that federal regulators would block the deal.

In an interview with the Atlanta Journal Constitution eight days ago he said, "We don't feel any need to amend the (initial) offer."

Parker said in an interview Wednesday that his airline decided to raise the offer after "more conversations with creditors," including a meeting Monday with retired Continental CEO Gordon Bethune, recently hired by the unsecured

creditors committee to help it evaluate the US Airways bid vs. Delta's standalone plan.

Parker said Delta's creditors said they saw higher risks with US Airways that made it hard for them to decide on one deal or the other.

"It was quite clear as we had more conversations that they ... didn't see as clearly as we did that our proposal had so much more value that it justified the risk of going forward with us," he said. "We came to the conclusion that we should make the decision much, much easier for them" by raising the bid.

Parker said one reason for the higher bid is to offset the risk that the Department of Justice might ultimately block a merger and delay Delta's bankruptcy exit. But he insisted the risk is not high, and that the DOJ would give fairly quick feedback.

"The way to do this is to go ask," he said.

The original US Airways offer was valued at \$8.5 billion. Under the revised proposal, Delta's unsecured creditors would get \$5 billion in cash and 89.5 million shares of US Airways stock.

On Wednesday, US Airways said Citigroup estimates that the new proposal would provide between \$12.7 billion and \$15.4 billion in value to Delta's unsecured creditors.

It repeated an earlier promise that "there will be no furloughs of frontline employees of either Delta or US Airways" if a merger occurs.