

Proposed Delta takeover jolts Atlanta, airline industry

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US Airways' proposed takeover of bankrupt Delta Air Lines throws another major curve at the tumultuous carrier, its stake in Atlanta and the airline industry as a whole.

If successful, the \$8 billion hostile bid would likely result in fewer airline workers and flights — and the uprooting of yet another corporate icon from Atlanta. Delta, which employs about 25,000 locally, would keep its name in the proposed deal but could lose its headquarters here.

Delta Chief Executive Gerald Grinstein rebuffed the bid Wednesday, saying the company has its hands full with its plan to emerge from bankruptcy — as an independent carrier — by next summer. But the 74-year-old CEO will still have to fight off Tempe, Ariz.-based US Airways, and that could drain energy and more money from a company that has suffered billions of dollars in losses under its 14-month-old reorganization plan.

And it may not end there.

The proposed merger, which aims to create the country's largest airline in terms of capacity, could set off a free-for-all among other carriers.

"We would not be surprised if other offers emerge for Delta," said airline analyst Ray Neidl of Calyon Securities. "The industry is fragmented and primed for consolidation."

US Airways, which just emerged from its own bankruptcy 14 months ago in a merger with America West, said Citigroup has committed \$7.2 billion in financing for the deal. Delta's unsecured creditors, who are owed billions of dollars, would get about half of that in cash and half in US Airways stock.

That represents a 25 percent premium over the amount that will likely be owed to Delta's unsecured creditors.

'Crunch time'

The US Airways proposal muddies Delta's bankruptcy proceedings, which began about a year ago. Delta has been aiming toward a Feb. 15 deadline to come up with its own reorganization plan that, if approved by the bankruptcy judge, would allow the company to emerge from court protection.

If US Airways were to win over significant support from major creditors for the takeover, the bankruptcy judge could yank Delta's exclusive rights over its reorganization efforts and allow US Airways to file a plan of its own.

"This is going to be crunch time for Delta management," said Robert Mann Jr., a New-York-based aviation consultant. "They've got to come up with a proposal that beats these economics and I don't think they can do it as a stand-alone proposal."

News of the proposed merger became public shortly after 6 a.m. Wednesday when US Airways released a statement declaring its intentions and its previous attempts to woo Delta.

US Airways said it first proposed a merger with Delta last spring and followed up with a letter to Grinstein in late September. Doug Parker, chief executive of US Airways, said that letter outlined the advantages of a merger, but Grinstein didn't bite.

Instead, Delta's chief executive wrote back in mid-October that he wasn't interested.

Grinstein told employees in a memo Wednesday that he's not likely to bite on the latest proposal, either.

"While Delta is obligated to review this proposal carefully, we remain skeptical that it would make sense to deviate from our plan," he said. "Our goal is for Delta to exit bankruptcy in the first half of 2007 as an independent, stand-alone company — not as a merged, acquired or otherwise consolidated airline."

He told employees that the airline industry has a long history of failed mergers that "over-promise of synergies and under-delivery of results."

By going public with its merger proposal, consultant Mann said, US Airways is appealing directly to Delta's creditors to pressure the airline's management to consider the deal. "They're playing the creditors committee to roll over on management," he said.

Delta's large creditors hold considerable clout in the matter. US Airways will need to woo a sizeable block of them for support, including the pilots union, the Pension Benefit

Guaranty Corp., and Boeing, which has provided most of Delta's fleet. The creditors committee plays a key role in supporting the reorganization plan and picking Delta's board after the airline emerges from bankruptcy.

Likewise, the Air Line Pilots Association also has a large stake, with a \$2.1 billion unsecured claim stemming from a concession deal earlier this year that cut pay and cleared the way for Delta to terminate the pilots' pension plan. A spokeswoman for ALPA said it's too early to know how the union will stand on US Airways' proposed deal.

"This is the first day of a big news story that will go on for days or maybe even months," said Kelly Collins, spokeswoman for the Atlanta unit of the union. (A separate unit of ALPA also represents pilots at US Airways.)

Scrutiny for the deal

Airline investors seemed to like the merger idea. US Airways' shares hit a 52-week high of \$59.50, up almost 17 percent, while Delta's unsecured bonds rose about 50 percent in market value.

Delta's shares rose five cents to \$1.52. Meanwhile, the stock of Delta's largest rival in Atlanta, AirTran Airways, rose 16 percent to \$12.83.

Federal regulators will scrutinize the deal. The U.S. Justice Department would look at how the combined airlines would fly to more than 350 destinations across five continents. Delta, the third-largest U.S. carrier, and US Airways, the seventh-largest, have heavily overlapping route maps in the East — which might create too much dominance in some markets.

Proposal could change to get feds' OK

A Delta-US Airways combo would account for 75 percent of flights out of Birmingham, for instance, noted Mike Boyd, an Evergreen, Colo., airline consultant who often represents communities in air service issues.

"I don't think [regulators] will spend 10 minutes looking at this proposal before they turn it down," Boyd said.

Other experts believe US Airways will be able to modify the deal to gain regulatory approval, particularly since the goal of the merger seems to be to weed out overlap and

thereby cut capacity, versus typical airline mergers that look to add networks through acquisitions.

US Airways said it plans to cut capacity by 10 percent, resulting in \$935 million in annual savings from over-hauling the combined airlines' networks and fleets. US Airways CEO Parker projected another \$710 million in savings from combining overlapping facilities at airports, cutting overhead and redundant computer systems, and dropping "non-operating space" — presumably much of it concentrated at Delta's headquarters.

US Airways ditched its Arlington, Va. headquarters, for example, soon after America West bought the company in 2005. The resulting airline kept the US Airways name but dropped much of its management.

Parker said in an interview Wednesday that there has been no decision whether the combined company's corporate headquarters would be in Atlanta or Tempe, a suburb of Phoenix.

"It's a decision that's just too early to comment on," Parker said. In either case, he said both the Atlanta and Phoenix operations will need "very large numbers of management employees."

He also minimized the impact on Delta's other operations in Atlanta, saying he "wouldn't anticipate any major changes to the hub" and expected to keep Delta's large maintenance hangars.

"All that would happen is the [customers] of Delta would have the ability to fly more places on Delta Air Lines and have more choice and know that their . . . hometown airline was one that could compete in any economic environment over the long term," he said.

Parker also said the deal hangs on the ability to get much of the cost savings while Delta is still in bankruptcy by renegotiating aircraft leases, grounding planes and eliminating unprofitable routes.

Another reduction at Delta would come through Parker's plan to cut out 50-seat regional jets and shift to bigger aircraft. That would likely impact Delta's former regional subsidiary, Atlanta-based Atlantic Southeast Airlines, as well as its Cincinnati-based regional carrier Comair, both of which both operate large fleets of small jets.

Consultant Mann downplayed the chances of wholesale job cuts. He said Delta and US Airways both have senior work forces, and predicted that many reductions could come

from retirements over the course of the merger, which probably wouldn't be completed until 2009.

Fallout fears

Local officials worried about the possibilities, though.

U.S. Sen. Johnny Isakson (R-Ga.), who helped push through legislation in August that helped Delta slow down payments into its other pension plans, indicated he opposes US Airways' move.

"As the largest employer in Georgia, Delta Air Lines is vital to Georgia's economy and to the thousands of Georgians it employs," Isakson said in a written statement. "Delta has put in place an aggressive plan to emerge in 2007 as a strong, stand-alone carrier and I am very confident it will succeed."

Atlanta Mayor Shirley Franklin called Delta's presence here a "primary concern."

"Delta is an important partner in everything Atlanta has done, including building Atlanta into an air passenger center for the world, and we look forward to their continued partnership in building a healthy city," Franklin said.

The news added another chapter in what has been a painful time for Delta employees. Delta pilot Mark Brown, 49, based in Salt Lake City, asked, "What next?"

Meanwhile, travelers wondered about yet more changes in the airline industry.

Mac Hess, 62, of Kennesaw estimates that he has logged 3 million miles on Delta, Continental and American. "I've flown US Air a few times and they are the worst airline flying. I hope it (the merger) doesn't happen," Hess said. "Delta really has done a good job in the last few years . . . it has really improved."

The threat of a "New Delta" that would be the biggest airline in the nation could trigger a wave of additional mergers, analysts said.

One analyst, Susan Donofrio of Cathay Financial, said likely pairings could American and Northwest airlines or a deal between United and Continental.

Staff reporters S.A. Reid and David Pendered contributed to this article.