

US Air makes \$8 billion hostile bid for Delta

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US Airways has launched a hostile \$8 billion takeover attempt of Delta Air Lines -- if completed the deal would create one of the world's largest airlines.

While US Airways said the resulting airline would fly under the Delta name, it was not immediately clear if the company would be headquartered in Tempe, Ariz., US Airways' home, or in Atlanta, Delta's base. However, it seemed unlikely that Atlanta would remain the headquarters.

The bid by US Airways follows apparently futile attempts by the airline to engage Gerald Grinstein, Delta's CEO, in discussion of a possible merger.

In a written statement Wednesday, Grinstein said Delta plans to remain independent.

"We received a letter from US Airways this morning and will of course review it," said Grinstein. "Delta's plan has always been to emerge from bankruptcy in the first half of 2007 as a strong, stand-alone carrier. Our plan is working and we are proud of the progress Delta people are making to achieve this objective."

"The bankruptcy court has granted Delta the exclusive right to create the plan of reorganization until Feb. 15, 2007. We will continue to move aggressively towards that goal," he added in the statement.

The court has granted Delta's management a number of extensions since it filed Chapter 11 last year to control its reorganization efforts under the court's supervision. However, if US Airways were to win over significant backing from major creditors, the court could decide to end Delta's exclusive rights over its reorganization efforts after that deadline.

A Delta executive, interviewed in London by Bloomberg News, said the airline can't be distracted by the merger proposal.

"The focus of this management team is getting out of bankruptcy, not mergers."

Lee Macenczak, Delta executive vice president of sales and customer service, told Bloomberg: "We'll have to discuss the US Air offer internally before saying anything more. It's always difficult to see the value of mergers before they actually happen."

Atlanta Mayor Shirley Franklin, hearing the news, said, "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. We can't rest on our laurels. I have assumed Delta would be a strong and successful airline partner well into the future. That is my primary concern."

The news represented still another chapter in what has been a painful time for Delta employees.

The initial reaction of Delta pilot Mark Brown, 49, based in Salt Lake City, was, "What next?"

He had heard rumors of the possible merger offer so it didn't come as a surprise. "Whatever anything happens or not, I really don't know."

Mac Hess of Kennesaw, 62, estimates that he's flown 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. I don't think it will be good for Atlanta. I'm hoping someone puts a stop to it. Delta really has done a good job in the last few years ... it has really improved."

US Airways' appealed directly to Delta's creditors and employees to support the deal as a way to create a stronger, more valuable company, but said the deal will have to be completed before Delta exits bankruptcy.

"There's not an airline out there today that is producing \$1.65 billion in profits," said US Airways CEO Doug Parker in a teleconference call with industry analysts and reporters Wednesday, referring to the projected savings from the proposed deal. "It only happens by putting these companies together."

Parker said the deal, which would create the largest airline in the nation in terms of capacity, would benefit passengers, employees, Delta creditors, and US Airways' shareholders. The proposed merger of Delta and US Airways would combine the third- and fifth-largest carriers in the nation, respectively.

It "creates a more effective competitor in a fragmented marketplace," he said, adding that he expects it to boost the combined carrier's profits while resulting in better job security for employees.

"There's a lot of long-term job security" from creating a stronger airline, he said.

However, it's likely that the proposed combination of Delta, with 51,000 employees, and U.S. Airways, with 35,000 employees, would also result in thousands of additional job cuts.

Parker said employee reductions if the airlines merge were expected to come from attrition and voluntary leaves rather than furloughs or layoffs, but didn't indicate where most of the cuts would take place.

US Airways will have to gain the backing of creditors as well as approval from its own shareholders and federal regulators.

Parker said he expects to resolve any concerns the U.S. Department of Justice or other federal regulators may have about the impact the deal would have on competition.

"We feel strongly that there are no issues that can't be resolved," he said.

In the letter Parker sent to Grinstein, he said he first proposed a merger of the two airlines last spring and followed up with a letter to Grinstein in late September. Parker 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.

"I was disappointed that you declined to meet or even enter into discussions in your letter of October 17, 2006," Parker wrote in the letter today.

"Because the benefits of a merger of US Airways and Delta are so compelling to both of our companies' stakeholders, we believe it is important to inform them about our proposal. Therefore, we are simultaneously releasing this letter to the public."

The offer to buy Delta once the Atlanta-based airline emerges from bankruptcy protection would give Delta's unsecured creditors \$4 billion in cash and 78.5 million shares of US Airways stock.

If completed, the airline would serve more than 350 destinations across five continents.

"We believe that the combination of US Airways and Delta, like the US Airways/America West merger we completed in September 2005, is extremely compelling and will create significant value for each of our stakeholders," Parker said in a press release. "The combined company will be a more effective and profitable competitor in the current fragmented marketplace, with the ability to better meet the continuing evolution of the airline industry. We will be flying under the Delta brand name, which is recognized around the world."

Parker went on to say that "Delta creditors will receive significantly greater value under this proposal than they would under any standalone plan for Delta. US Airways shareholders and Delta creditors will benefit from the significant upside potential of the combined company through their respective ownership stakes."

Paul Reeder, president of PAR Capital Management, US Airways' largest shareholder, said in the same release that he "enthusiastically supports this transaction, which we believe offers the opportunity to build upon US Airways' current competitive position."

US Airways said it expects to get \$935 million in annual savings from overhauling the combined airlines' networks and fleets to cut capacity by 10 percent. Parker said the company projects 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.

Parker said the deal is contingent on being able to get much of the cost savings while Delta is still in bankruptcy by renegotiating aircraft leases, grounding planes and eliminating unprofitable routes. The changes would result in a 10 percent reduction in overall capacity.

Parker said about half of the savings from the deal would have to be realized while Delta is still in bankruptcy. "We will all regret not having acted sooner" if that doesn't happen, he said.

Parker said the merged company would also sell one of the two shuttle carriers that both US Airways and Delta operate in the Northeast, partly to reduce potential opposition from federal regulators who might have antitrust concerns.

He said the airlines would also likely cut flying by smaller 50-seat regional jets and shift it 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, which both operate large fleets of such jets.

However, some industry analysts raised questions during the teleconference call about U.S. Airways' ability to reach its cost-saving targets, noting that Delta had already re-tooled many of its leases for jets.

"We've done it before, and we know how it works," Parker said in response to one question. While US Airways wouldn't be able to change lease contracts that the bankruptcy court has already approved, he expressed confidence that plenty of leases remain untouched and that voluntary deals could be reached with other aircraft owners.

US Airways said it has committed financing from Citigroup for \$7.2 billion, representing \$4.0 billion to fund the cash portion of the offer and \$3.2 billion in refinancing at both companies.

The US Airways proposal is conditioned on satisfactory completion of a due diligence investigation, approval by Delta's bankruptcy judge, regulatory approvals and the approval of the shareholders of US Airways. US Airways said it believes that this process could be completed in the first half of 2007.

-- Staff writers David Pendered and Stephanie A. Reid contributed to this report.