



Monday, March 15, 2004

Eyes Wide Open

“Optimism is the faith that leads to achievement. Nothing can be done without hope or confidence.”

-- Helen Keller

Dear All,

There is no set schedule for these articles. Any value here lies in the substance of the message – not how often.

In this article, I pose some of the questions many are asking -- with commentary on each. There are no easy answers – but our employees are thirsty for dialogue to help them cope with the increasing uncertainty surrounding their future at Delta Air Lines.

There is much to mull. One answer doesn't get it in many cases. The discussions offer suggestions based on research, conversations, and facts. If one chooses to ignore facts you could probably stop right here.

But for those trying to keep an open mind and assimilate the onslaught of changes in our industry – you might find this piece up front and helpful.

We must face the realities of the marketplace and be forthright - which is getting harder and harder to find these days.

Perspective – Each is Unique

Each of you sits in a different seat. Each seat commands a unique, concerned view. And I don't just mean in the cockpit – where the differences in priorities between a 35 year-old First Officer and a 55 year-old Captain can be as polarizing as North and South. Those two seats are less than three feet apart – but the differences in perspective can be immense – and understandably so.

The other views I'm referring to are the perceptions of our spouses, our children, fellow employees, customers, management, the union, other airlines, politicians, and the general public.

We get up each morning and we all have a different frame of reference on what is most important today, tomorrow, and beyond. It's never easy to walk in other's shoes whether at the top or bottom of the food chain. Both have their own challenges to face.

18 Questions and Discussions

1. What are the real numbers on the table for a pay cut?

There is much confusion. Jerry says 30%. ALPA says it is more like 45-47%. AJC and the WSJ say it's 13.5% and 34%. The pilots think 15-20% is plenty. Other pilots in the industry say hold the bar high. Our spouses just want us to keep a job. Our parents hope we don't need a loan. And the customer doesn't care what we're paid as long as they get there somewhere close to on time.

Figure out a dollar figure. There are a dozen ways to make it work.

Don't gouge us. Be fair. A very fragile trust factor currently exists. Even the silent majority who want to help have a hidden fear. They can't shake their suspicions based on moves management made during the last two regimes - starting with Ron Allen - who they felt truly disliked them as a group or at the very least, was oddly jealous of their lifestyle.

Attach a reasonable extension or time frame to the existing contract. We'll need to give it a rest once some decisions are made. Come back if you need more. We aren't deaf, dumb or blind – although some of our landings might give that impression.

When we get healthy again - we all get healthy together. Increased wages and benefits will be a reward for hard work. We all share in the victories and defeats at the same time.

"He who likes cherries, soon learns to climb." -- German proverb

2. How much is enough?

United's ALPA reps offered \$450 million before United filed. The judge decided \$1.1 billion was needed from the pilot contract and it isn't over yet. The American pilots and employees have yielded close to \$2 billion in wages and benefits. USAir is asking to go back to the trough a third time. They'll be flying in their underwear and socks before too long. You don't want to put your life in a court's hands when you can maintain control of your fate outside bankruptcy.

Every 5% the Delta pilots give back in wages is approximately \$100 million in savings to the company. Other factors are harder to value depending on which side of the table you're on - but things like vacation pay, 401k match, and medical premiums are other places to achieve savings.

3. Jerry's Road Shows – Good idea?

Jerry is going out on the road to talk with the pilots. He used two words in the press regarding the road shows which got folks' attention – “provocative” and “blunt”.

To provoke the pilots during negotiations seems ill advised. Instead I believe Jerry's intent was to let folks know he will be fully engaged and ready to face the crowd. It was also a way to ensure SRO - standing room only. TicketMaster's supply for March 25/26th in Peachtree City and Cobb Galleria were gone in 45 minutes.

Jerry invited ALPA to join him to face the pilots – mano y mano – with straight answers. We aren't talking about negotiating in public. We're talking about addressing the facts and answering the hard questions face to face from pilots and their spouses.

Let's hear both sides – in the same room – at the same time. No place to run. No place to hide. What are we afraid of? We deserve honest answers to serious questions. Jobs and family's livelihoods are at stake.

“Truth. You want the truth? You can't handle the truth.”

-- Jack Nicholson in *A Few Good Men*

4. Why did ALPA decline to go out on the road with Jerry and face the pilots? If we're laying our careers on the line, why not?

Call or e-mail your reps and ask them to explain why. Our dues should cover any expenses our reps might have incurred and would be money well spent.

You have to ask yourself why a similar challenge didn't come from ALPA first or at all. This is more telling than we care to admit.

You won't see the word "comfort" included in any definition of leadership.

5. The Credibility Issue - What's different now?

Jerry is in charge as the CEO now. This is a much different role than being on the BOD. He is immersed in the day-to-day maelstrom. It may surprise many, but the Board of Directors is more isolated than we might realize concerning various decisions. And it doesn't help when you have a former CEO and President who may not have always listened to suggestions from other Board members as certain issues arose. The SERP is just one example and I'll leave it at that.

Mr. Grinstein deserves the opportunity to not only repair past mistakes, but create an environment of trust, camaraderie, and eagerness to move Delta Air Lines back to the front of the line. This takes time to cultivate, so don't expect a miracle in the first few months.

6. Do miracles really happen?

Yes, Dorothy – sometimes they do – but not in the airline industry. God decided the miracle of flight was an ample gift. They are all on their own from there. It's called business. Some will fly high. Others will crash. They each choose their own flight path.

Some folks appear to be hoping for a miracle to fix the airline's problems.

Maybe a tornado will hit AirTran's headquarters. If they relocate to Kansas and move into a double-wide it could happen.

Maybe Lorenzo will get pardoned and become Branson's partner and Fred's new boss.

Maybe customers will have an epiphany and only purchase Delta's tickets at \$100 bucks over the going rate of anyone else's fares.

And when you click those ruby heels together – the lime green blob on our airplanes will be replaced by proud and patriotic red, white, and blue widgets.

Oh Auntie Em, it feels so good to be home again.

7. What about the competition? What is Delta doing about the assault on our market share?

Our competitors continue to gain altitude and airspeed in our own backyard. Air Tran and JetBlue have got a double-barreled mix of both moxie and mission.

In fact, JetBlue, AirTran, and Southwest may be even bigger cheerleaders than the other legacy carriers when it comes to ALPA and management dragging their feet on a pay cut. The longer we wait to get our own house in order the more opportunity we present to our competitors. They will gain market share at our expense.

Who is directly in their sights? – Delta Air Lines – the mighty HCC – the higher cost carrier. In the same vein, Southwest is going after the jugular of USAir in Philadelphia – their most profitable hub.

We are the easy target, ladies and gentlemen. If you were the CEO of a Low Cost Carrier in the here and now of 2004 - who would you pick to compete against head to head? Someone whose costs were lower than yours or higher? Don't BS yourself and ignore reality or common sense. This is business and it is one of the toughest to be in – bar none.

Capitalism crushes those who refuse to believe markets shift over time. When Home Depot moves in, Ace Hardware either moves to another neighborhood or closes. Detroit either makes a better quality car or shuts down the assembly line. Dell will squeeze out every ounce of productivity possible – and they don't care who's left standing.

Compete or die.

*"Winning isn't everything. **Wanting** to win is."* -- Catfish Hunter

8. Full pay to the last day? How much sense does that make?

If we operate with blinders on – we continue to provide a big bulls-eye on our chest. It can't continue. Jerry knows it. This is not a man who has come to pick-pocket the pilots. There appears to be genuine interest and commitment on his part to fix our problems, but we have to give him the tools. He needs cash to be competitive and fight the good fight.

The press announces aggressive changes and advances by our competitors almost weekly. We either get lean and mean now or follow United and USAir into Chapter 11. Full pay to the last day? Think about it for a minute. Then ask your spouse if that sounds good to her or him.

If full pay to the last day is really what you want, it will become a self-fulfilling prophecy. Instead, we have two choices. Take the necessary pay cut now, climb out of this hole, and get competitively aggressive again. Or take a much larger court imposed pay cut, put twice as many pilots on the street, and run the risk of falling deeper into the abyss.

Right now it might be 500 more pilots on the street - maybe less. But if we wait another 18 months it'll be 1000 or more. Guaranteed. And the cap will be at 85 the next day. How can we continue to ignore the fact our competitors are flying 85-90 hours with their pilots?

ALPA can continue to hold their breath and hope, but at some point somebody has to have the strength and G2 to acknowledge the facts and not jeopardize the careers of the entire pilot group.

"In this world, there are only two tragedies. One is not getting what one wants. The other is getting it." -- Oscar Wilde

9. Why is Jerry calm and sure-footed? Why doesn't the company appear to have a sense of urgency for a deal? We must not be in trouble, right?

"Wisely and slow. They stumble that run fast." -- Shakespeare

Jerry is holding what I would call the “cards of reality”. He knows the consumer marketplace is driving down the cost structure of every other airline in the industry. This is not happening out of spite because Americans think pilots are paid too much. It is not a personal assault on pilots because your neighbor wonders if you ever work. (And when you do work you seem to like it a lot. We should all be so lucky.)

Despite our good fortune of having a job we enjoy, Jerry knows we either have to take a meaningful pay cut voluntarily or eventually face an even deeper cut and potential loss of jobs. It surprises me some of our pilots still think “it can’t happen here”.

Jerry is also listening and evaluating - a necessary step. He needs to make an assessment of who his strong players are and decide which team will take the company forward. Once he completes that process you will see less time spent on discussion and more time spent on execution.

10. Why is ALPA not being more aggressive?

A Delta solution to a Delta problem sounds logical and professional, but let's face it - if you know you need a deal done, pick up the phone or knock on the door. Those who are hoping "the economy" will fix our problems are mistaken.

The same quote above from Shakespeare could also be applied here. ALPA has taken their time because they've been burned before. And I would normally agree with their methodical business-like approach.

But our competitors are not treading water. We are losing the battle in the marketplace on the revenue side. Everyone is so focused on cost-cutting, we have taken our eye off the ball on revenue generation. These negotiations are sapping energy that should be focused externally vs. internally.

ALPA says the company is not serious about a deal. The truth is the company's numbers are higher than ALPA's MEC, LECs, financial analysts, attorneys, and ALPA National believe they need to be.

ALPA is at 13.5% which includes the May pay raise of 4.5%. If you have looked at any financial analysis, this is clearly not enough to help turn the ship around.

The company appears to have 45-47% on the table. Does more help? Of course. But this is clearly too much to ask of any family in one bite. You might lower the costs of the airline but you'll destroy any semblance of goodwill or leadership remaining with your pilot group. In any situation like this we must address not only the monetary but also the human values involved.

Jerry says this is not a normal negotiation. I understand he has to be firm but mutual cooperation is going to yield more gain than “my way or the highway”. Let's not completely crush all remaining goodwill within a great pilot group.

ALPA can't be afraid to act and remain paralyzed. We understand they are in a very tough spot. No one is going to be recalled for doing the job this time. We need decisive action no one feels comfortable doing on their watch. Leadership isn't about being comfortable. 85-90% of Delta's

pilots were trained in some branch of the military. We understand teamwork, sacrifice, and pain. We get it.

There has been a seismic shift - in consumer habits, accessibility, attitude, and demands for greater efficiency and productivity. While one small group twiddles its thumbs, Delta - the darling of the industry - runs the risk of being left behind - eating everyone else's dust.

11. Why can't ALPA and Delta management come to an agreement? What other reasons hamper the process?

Besides the confusion on the numbers there are other reasons. Egos, personalities, and leadership for starters. And currently -- the productive order appears reversed.

Ego. We all have egos – so it is hard to chastise and be critical here – but you have to get past that part of it to act in good faith. Otherwise, pass the baton to someone who can. Good leaders channel their ego and gain respect. This is complicated and if I have to explain it – you aren't there.

Personalities. Sometimes changing the players can bear fruit. ALPA understands who Terry Erskine is and what his role demands. However - dash two - Human Resources' Bob Colman in particular – is out of kilter in Delta's culture. With Leo and Fred leaving, a few more changes might help. Maybe pilots should be talking with pilots to help get a deal done – or at least be well-represented in the process.

Leadership. Jerry and John must keep talking. As a pilot and employee I trust both men's abilities, intellect, and integrity. But standing behind the veiled ALPA shield isn't helping any pilot - on or off the property. There has been a paradigm shift in our industry. We can't pretend the changes in the marketplace aren't dramatic.

Communication and cooperation are more important than ever in our 75 years at Delta Air Lines. Stonewalling will kill us. The problems we face are not secret. There is a reasonable solution both sides can live with and then forge ahead. Jerry and John must keep talking. One more time. Jerry and John must keep talking.

12. Is taking Delta Air Lines into bankruptcy a smart strategy?

Only if you also believe bungee jumping off a 100 foot bridge with a 101 foot cord is also OK.

Only someone who has never run a business or taken a business course would answer “Yes” to this question. Why would anyone possibly think putting your entire contract of negotiated items for the past four decades (wages, work rules, benefits, retirement formula and pension funds) into the hands of an unemotional court is a better idea?

Who is better off right now – the pilots and employees at American or the pilots and employees at United and USAir? Who is already starting to get the attention of the LCCs and squeeze their margins?

What's even more frightening is we have professional pilots flying passengers in aircraft who actually believe bankruptcy is the way to go. Maybe it hadn't occurred to them that taking a pay cut, pulling up their bootstraps and showing up for work ready to kick some booty might be a better plan.

13. When can the 1060 furloughees expect to return?

No one really knows. But they'll never be back if we don't get competitive and make money again.

The only chance our furloughed pilots have to return to Delta and fly for a living is if we bite the bullet now, get lean and aggressive, and start to gain more market share. Then we grow the airline again and bring pilots back to a healthy entity. Nobody wants to get a pink slip twice.

They could be joined by another 500-1500 furloughees in bankruptcy with one swipe of the judge's pen.

Delta could fly this airline with 5000 pilots if they were ruthless and chose to go that route – based solely on projected block hours and market share.

Both United and American have close to 2100 and 2500 pilots respectively on furlough. At USAir, a 16-year pilot is currently furloughed and probably not coming back. The same 16-year pilot at Delta is flying Captain on the 767.

Productivity is a major issue ALPA is going to have to deal with one way or the other. When all the other airlines are flying 85-90 hours a month, we as Delta pilots cannot remain entrenched in the 75 hour country club.

This is not being callous. And I am not by any means a kool-aid drinker. You're witnessing business and capitalism in a democracy where competition is the name of the game. It's a tough issue when you're on the receiving end, but these are the consequences of running a public company or any business for profit. It's not a gravy train.

If you've seen the show "The Apprentice" just be glad Trump isn't our new CEO. We need to face up to the dynamics of our industry and work it out – before somebody else works it out for us. Let's not get "fired" from the airline business due to ignorance or apathy.

Pilots still on the property are going to want to fly more hours to offset any pay cut. The furloughed pilots with only a few years at the company are going to say pilots who still have a job are greedy SOBs.

This is a knife fight no one wins when your retention is based solely on seniority instead of performance. There is no good answer to keep all parties satisfied with the ultimate decision.

As I've said before, to believe any company in America should not have the ability to adjust the size of their company or number of employees is just not realistic. No one wants to talk about it. But that's what our elected ALPA leaders signed up for – to solve the tough problems in an ever changing environment.

“To most men, duty means something unpleasant which the other fellow ought to do.” -- George Lorimer

14. Why isn't Delta making money yet?

Our top line revenue coming in the door is shrinking. We no longer enjoy a 20-50% premium on a Delta ticket in markets we dominated for decades. We are living on borrowed dollars. And they are high cost dollars. This cannot continue indefinitely.

Our benchmark competitor is no longer just United, American, Continental, Northwest and USAir. The sooner we face it - the better.

The number I quoted from Deutsche Bank's Susan Donofrio's report two weeks ago was wrong. Susan said Delta's exposure to the LCC was only 16%. I have since seen better numbers and a more realistic picture of the overlap that occurs with O&D passengers – origination and destination customers who have many choices to get from A to B.

Our true competition against the LCC model is somewhere between 35-70% and growing. Doesn't matter whose number you believe. It's increasing, not decreasing.

Additionally, the Lower Cost Carriers finally figured out a formula that works. They have the cash to weather a storm. They came to the arena well capitalized this time.

Southwest is still following their same methodical formula and winning – but their costs are rising gradually towards 8 cents per mile. We're still at 10.25 cents per mile. That's still a large gap between the two. But if we can get back down around 9 cents we can compete again. We used to be there. And we were all well paid. We can get there again if we work together.

“Knock the ‘t’ off the can't.” -- George Reeves, aka Superman

JetBlue might be too arrogant and moving too fast. They aren't getting hit yet with the normal costs of running an airline like heavy maintenance, pilot training and seat movement, parts supply, and higher benefits and salaries. But when they do, we need to already be in position to strike back hard and fast.

AirTran is in our own backyard - taking dollars away from the cash cow of the South – Atlanta. We can only rise to the challenge if we can be competitive. Delta's employees should come to work everyday ready to kick some rear-end around the Atlanta tarmac. When Delta Air Lines can't make money in Atlanta, we have a problem. With our current cost structure – we can't do it. And they'll eat our lunch.

USAir and United both filed for bankruptcy to reduce their costs and American went right to the brink. 150+ other airlines have failed in the past 30 years.

Delta would not choose Chapter 11 as a business strategy – no company in their right mind would – if for no other reason than they have a fiduciary responsibility to uphold shareholder

value. Otherwise the common stock goes to zero. Our laws in the U.S. do not allow you to run a business with Chapter 11 as part of your strategy.

Delta can compete with these guys and win. But to do it we need lower costs and cash to fight the necessary fight. Folks are going to discover Grinstein is a competitive bastard – but he’s our bastard and in Martha’s vernacular (even in pinstripes) – “it’s a good thing”.

15. How and why did the customer and the marketplace change so suddenly?

Millions of customers have become their own travel agents. This paradigm shift is happening because the consumer has completely changed their buying habits. They will not spend a dollar more than they have to for a seat on an airplane. The Internet and high speed access has empowered our customers to ferret out the lowest price. Who wouldn’t?

In an odd twist of fate, the speed of the airliners has not changed much in the past 30 years, but the ease and speed of acquiring the seat has been magnified infinitely and indefinitely.

The other reality is they don’t need to buy any ticket at all. Technology has given corporate America options. High speed data streaming presents video conferencing with a renewed look and feel – a viable option that allows the business community to stay at home more nights, yet still get the same job done. No traffic, no TSA, fewer hassles.

Some markets will still capture a premium. A few examples include serving smaller cities with RJs, the Atlantic, certain International destinations, non-stop service to some destinations, connections and convenience, etc. etc. -- But in many prime markets the prices are simply going to be lower because of the number of players.

What’s really happening? The legacy carrier’s costs are being forced to come down. The LCC’s costs will be rising – slowly. The problem is we don’t have the luxury to wait that long for the LCC’s cost to get higher. ALPA would love for that to be the case but it isn’t reality. The clock is running.

Ultimately the cost structures will meet somewhere in the middle on the graph. Then we’ll all get back to good ol’ customer service, availability, and reliability. But we are all going to do it with a lower cost of doing business.

Supply and demand. Worked before there were ever planes, trains, or automobiles. Still works now.

“No man is an island.” -- John Donne

16. Why do some guys not get it or resist the fact we need to take a pay cut? Why are some heads still buried in the sand?

When faced with life changing events we naturally resist. This is human nature. But in the case of pilots at Delta, we have not previously faced such a dramatic shift in one fell swoop. This is very hard for competitive, high achievers to accept. Especially individuals who have been under continuous scrutiny, evaluation, and “checking” during their entire aviation career.

Delta’s pilots earn a high salary and they deserve every dollar for the stress they manage each flight. Good pilots make it look easy – which is the reason they were selected in the first place.

Additionally, the ever present threat of the FAA or a failed physical means it could all come crashing down on any given day. Remember – we don't pay pilots for 99% of the flying they do. We pay them for the 1% no one else would or could - or as Tom Wolfe eloquently captured - the right stuff.

The hardest thing for us to accept is that there are other capable pilots willing to do the same job for less. These are not inferior pilots. Many are former military pilots, general aviation pilots, and commuter pilots with excellent skills and experience. Many have come from the ranks of other bankrupt carriers. So let’s not kid ourselves about who these other guys are. They can fly a jet safely and will do it for less compensation.

And should it surprise us that some folks just have a genuine love of flying. Of course they are like the rest of us and would take all they can get – but just being in a cockpit is half their reward. They love to fly and it shows. Where have I heard that before?

Another interesting idea was suggested by one fellow I spoke with which I think may hold a good deal of truth at its core. Many of us went through college – which was paid for – and then went straight into the military. There was very little financial strife or pressure during those years.

Then we finally reached the pinnacle – Delta Air Lines – the one airline everyone wants to work for – with the best employee relations, the best pay, and the best compared to the other guys in most every other category. At least – that’s been the perception on the outside looking in when you wanted a job with the airlines.

So we finally made it. Now they want to take much of it away.

This is no easy situation to accept. But there aren't many workers across America crying in their beer for us either. We must be positive, pro-active and get tough. I see no other way to make Delta Air Lines successful in the future. Regardless of the current situation, we should be aiming to still lead the pack - wherever that may be.

17. What about Fred Reid's departure?

Delta will be fine with Fred gone. The Board knew what they were doing this time. Fred supported the SERP and when push came to shove Fred's interests somehow centered around Fred first and Delta second. It took me awhile to figure this out, but a key mistake Leo may have made was putting Fred in charge of the day to day operations and not staying more involved himself.

Fred handcuffed people who should have been empowered and berated others who should have been given more consideration. Calm, cool, and collected in public - but not the leader we desperately needed on the inside with a trusting and reliable compass.

He's a primary reason there are independent silos operating at Delta's upper level management today. Instead of smooth cooperation and crosstalk between departments, Fred fostered an environment where folks worried more about whose fault it was vs. getting the job done with shared goals for the good of all. Too much finger pointing and not enough pats on the back.

Folks have asked why Delta didn't demand a non-compete clause with his departure and subsequent move to a potential competitor like Virgin. The organization might be glad he went to work for the competition. Fred is no virgin in the industry but leopards can't change their spots.

18. What do the letters DELTA stand for?

Damned Executives Leading The Airline

This tongue-in-cheek "joke" was passed to one of our Captains by a Platinum business customer in First/Business Class.

It should ring out loud and clear as a significant wake-up call to all of us, and especially upper management, concerning our current image and Delta branding. What was once the proud and dignified leader of the industry has been tarnished and maligned.

Leo leaves the property April 23rd. Fred Reid will also soon be gone. That's a start. (I'm surprised Branson isn't asking why.) Couch it any way you want to but our former CEO and President had the power to decide "to be or not to be – that was the question". They chose not to be and are now exiting - stage left.

From numerous discussions with our employees, we all hope Jerry makes it clear anyone who prefers their bonus over the fate of Delta should pick up their check on the way out the door.

And by the way, granting Long Term Incentive Pay (LTIP) rankles your employees' view of management when the airline ranks 5th and 7th out of a possible 9 (nine) players. My Golden Retrievers could have done that well just occupying the seat - waiting to be pet

again.

How about a meaningful reward for spots like 1, 2 or 3? Then you're justified to accept all the incentive pay allowed by law and also look in the mirror.

Twelve pages of questions and answers is enough for one sitting.

To be continued.

"No one can defeat us unless we first defeat ourselves."

-- Dwight D. Eisenhower

Respectfully, Mike Stark

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