



Saturday, July 31, 2004

Note: I will continue writing these articles until every other airline in the business looks across the ramp at Delta Air Lines again and has to worry about what we will do next.

The intent of these "Delta articles" -- has been to disseminate objective information and dispel rumors for our employees - both active and retired.

We endeavor to be fair and unbiased to all sides. Sometimes we can convey what others can't or won't. Above all, we hope this effort will foster further understanding for all those affected by the severity of our plight.

Delta - Who Moved the Cheese?

Dear All,

Consider the quote below from an article in *Forbes* magazine.

"The U.S. airline industry is undergoing painful turmoil - that we all know. But where are the fare wars, bankruptcies, and confrontations with trade unions taking this vital American industry? In A Sixties Industry in a Nineties Economy, Howard Banks predicts the full-service airline, as we have long known it, is going the way of the Pullman sleeper train and the Ford Tri-Motor"

-- *Forbes* magazine article, May 9, 1994

The quote above was from the cover story in *Forbes*, **10 years ago** but as I re-read it this weekend, it could have been written last week.

We face a defining crossroads in our history. We are being asked to do our job more efficiently, effectively, and safely for substantially less pay and benefits. No one ever wants to go in that direction. But if every

Delta employee does not deal with that reality - which is being market driven by competition and the consumer - our pain will only get worse.

In the service industry we are expected to care about our customers. At Delta we have always provided great service. But we've slipped and it shows. To fix it we must each take a serious look at our responsibilities. How does each of us affect the bottom line every day? We must be accountable and try to contribute in a positive manner - in whatever position you hold in the company. No one else is going to do it for us.

We've known this possibility was coming for almost three years now - since 9/11. Additionally, as leaders in our own families, we have spouses and children who look to us for strength and guidance when times get tougher. Now is one of those times.

**As the present now
Will later be past
The order is rapidly fadin'.**

**And the first one now
Will later be last
For the times, they are a changin'.**

**-- "The Times, They Are A Changin" -- Bob Dylan,
1963**

Let's move forward with some questions:

1. What's necessary to regain the trust and pride? Why did the strategic review take so long? Where is the sense of urgency?

Trust must be mutual - both from management and labor. Without trust - we fail.

Both sides must restore confidence. Both must understand the challenges each confronts as we look forward, not backward.

It is natural to ask what will one get in return for deep, sacrificial concessions. The most important reward will be job security, followed closely by reasonable compensation and benefits, and in the end, to restore respect and pride in the company we work hard for everyday. If we allow ourselves to drop our heads in defeat with a "woe is me" attitude, we will never win back customers or beat our competitors in

this rapidly evolving marketplace.

To think we can escape similar sacrifice and still be competitive in this industry or remain bulletproof on an island in the storm is unrealistic. We have got to accept a dose of strong medicine soon or we face the specter of bankruptcy -- which should be avoided at all costs.

To rebuild the trust and accept a massive restructuring of the business model, employees must witness and believe their leaders have a plan. ALPA has been steadfast in this stance, during the duel with management to get mid-contract concessions. I think most employees agree with, and support this sentiment.

It can't all come on the backs of your labor force, but if you're willing to look around, Delta is taking increasing steps to save or make money in other places. The commitment to kiosks and Song are two examples of large gambles that could have gone either way - based on customer sentiment, perception, and acceptance.

Over the past six months, Jerry Grinstein has been trying to convey how bad the situation has gotten. Most employees understand but some folks still won't listen because they don't like the message or disagree with the sacrifices required. Those who continue to look back and say we "should have" or "could have" are not helping solve the problems.

We can all point to specific issues which should have been handled differently. But that doesn't matter anymore. We face a serious threat to our careers and livelihood - which will only get better if we work with a cooperative effort to turn the ship around together.

Jerry has directed what's been needed for years at Delta - a complete review of the company from top to bottom. This is no small task. (I originally used the word "autopsy" instead of "review", a Freudian slip, implying we were already dead - which is not the case. As Jerry reiterated at a meeting with analysts recently, -- "the reports of our death are premature.")

Again, the common criticism is - what took so long with "the strategic review"? The message from management has been confusing to many. If we are on the brink of bankruptcy, where is the sense of urgency and why does it take nearly seven or eight months to do a review of our operations?

For example, do you close DFW or SLC to save hub costs or do you figure out how to be more competitive in those cities? Which is more viable and likely to bear fruit? The final decision can affect thousands. Since 1990, we have only made money in Dallas two years out of the

last fifteen I'm sure those employees in those hub cities would prefer it be analyzed in detail.

The answer? I can offer what I believe is reasonable -- for those willing to listen. There are many, many moving parts to consider when one decision can dramatically affect the outcome of another.

More realistically - in any organization - until someone like Jerry Grinstein is put in charge and says there are no sacred cows - it would not get done. Reference the Forbes article above from a decade ago. We shouldn't be suddenly surprised by our current situation or the need for an overhaul. (The writing was on the wall when deregulation was enacted in 1978 and removed most barriers to entry in our industry. It just took a while to work as intended.)

Additionally, our entire senior management corps was replaced or re-shuffled. This new group is now responsible for our fate. They have been tasked to come back to us with "the plan". You too would appreciate the time to do it right and make credible recommendations. I would challenge any of us in the ranks to roll up their sleeves and spend 14-16 hour days to get it done sooner - with a reasonable level of confidence.

Things like block hours, route structure, marketing, fleet plan, vendor contracts, complex leases, work rules, benefits, training, infrastructure, hub cities, and other dinosaurs -- heretofore considered "sacred ground" -- take time to analyze, strip bare, and change.

Ultimately, this new team will suggest a new path for all to understand and embrace. If this takes a couple months longer than the vocal critic on the street thinks it should, let them continue to vent, but in truth, fundamental changes take time to tackle.

Let's be fair to both sides and acknowledge other similar undertakings like ALPA's Economic and Financial Analysis in 2003 also took many, many months to complete and present to the pilots. Even those numbers and conclusions became outdated soon after they were known. The marketplace is fast moving and complicated further by fuel costs - our 2nd highest expense after labor. Many of the numbers are moving targets.

Delta's employees truly want to trust their leaders. Thus, we should be considerate enough to give them time to bring us a plan which can and will work.

2. What "new plan" might we expect after 75 years in the business already?

Great question.

The simplistic but honest answer? Re-focus on our existing strengths. Concentrate on what we do best and do it well. Take care of your people first and good things happen.

We shouldn't expect a magic new model no one has thought of or discovered in the airline industry. There will be no epiphany passed down from heaven to JG or JK in a dream one night.

What we should expect -- and support -- is a renewed emphasis on our strengths and things we can control.

We can be consistent with reliable customer service, brand recognition and loyalty. Add in efficient routes, a simplified fleet, increased productivity, lower training costs, better scheduling, max aircraft utilization, fresh marketing, renegotiated leases, and other areas where we could do better. Put the right people in the right places. The doers. The motivators. Action Jackson.

What does the customer want? How do we provide it at a cost that allows us to make money? Any plan must enhance our ability to aggressively compete - but it can't all come from labor. The employees will make it happen, but not if you beat them into submission first.

The situation at American is different than USAir and United and should serve as a hint to the employees at Delta regarding the path to pursue. In the past 12 months, following a strong dose of cuts in pay/benefits with all their unions, American has re-built their unrestricted cash position to over \$3.5 billion. They got additional relief from suppliers, renegotiated leases, and an increase in the value of their stock which was exchanged for debt.

We've had ample time to observe all this from the gallery. Given the situations as they exist today -- of the other major carriers in financial trouble -- whose management team and labor leaders look smart to the average observer - United and USAir - or American?

Delta can do the same. A deal with the pilots, in concert with other efforts, could yield a recovery in the price of Delta stock to somewhere between \$15-20/share. These gains in the value of the stock could be exchanged for debt, improve our bond rating, regain access to the capital markets, lower the cost of borrowing, and actually grow the airline again. That's how it works. But you have to get control of the costs first -- to be believable and sustainable.

Delta Air Lines flies about one million flights per year. If we made

\$1,000 more each flight or saved \$1,000 each flight by being diligent in our jobs, we would see an extra \$1 billion dollars in cash flow. If all of us pitch in and are conscious of how we each affect our bottom line, we can turn this mother ship towards blue skies, fair winds, and following seas again.

3. Who moved the cheese? Years of watching cartoons should have given us a hint it would be a fella named Jerry, not Tom.

Credibility and trust are earned by consistency and integrity.

One of Jerry's strengths with his selection as CEO -- relayed to us by countless Western employees and via the industry grapevine -- was that Jerry could be trusted. He was a man who listens. High energy. 72 years young. Sense of humor. Intelligent. Quick wit. Doesn't mince words. Answers any question - direct and candid. Tough bulldog. Knows the business. Has a genuine concern and respect for the employees of Delta Air Lines.

He displayed these traits in person by walking around and being accessible - town hall meetings, employee gatherings, meetings with analysts, and via his memos and letters. He also kicked some rats off the ship into their lifeboats. His message overall has been consistent and truthful -- we need to cut costs and be more efficient to compete in today's marketplace. Adapt or die. Pretty straight forward.

Thus, the "\$\$--One Billion--\$\$" number that sprung out of **USA Today** on July 6th was hard to accept. The billion dollar number did not originally come from Jerry or "the 4th floor", but an unnamed source. I believe this to be true, but the perception on the line was a blow to management's credibility. They let it float out there on the airwaves and in the media. They didn't deny it was the number they wanted. Jerry, Joe, Gary, and Dean all tried to assure us, but the cynics usually win that argument - regardless of fact.

So -- a billion dollars is the number management wants - or say they need. They just didn't know how to say it any earlier than now. The losses reported in the 1st and 2nd Quarters combined with \$35-40/barrel oil should have been a clue. But again - it is what it is because we haven't done enough yet as the clock continued to tick. It's hard to believe, but it will be soon be three years since 9/11 occurred.

ALPA made a significant proposal for a concessionary deal to help the company - doubling their previous offer. But, the company raised the bar. Or maybe the real answer is that the competition raised the bar. Probably a little of both.

One issue which hindered earlier progress is ALPA was not given good financial numbers or revenue projections by the previous administration. It wasn't until Jerry took over as CEO that ALPA received more realistic numbers and the severity of the situation was revealed. And it matters not, at this point, whose fault that may have been. There are too many nuances, egos, and finger pointing which don't solve anything.

Even so, the billion dollar number is hard to swallow, and verifies every doubter -- as well as supporters -- worst nightmare that the company doesn't intend to get a deal with the pilots. Personally, I still don't believe this to be the case or that Chapter 11 is the "secret" plan, but it doesn't look good when we finally get a hefty offer from the pilots - and then move the cheese. However, keep in mind both sides still have room to maneuver and get a deal. Soon.

Could the company use a billion dollar concession from the pilots? Of course. Can they get it in bankruptcy or Section 6? Maybe.

In real dollars, the pilot contract (pay and benefits) is worth about \$2.1 billion in total costs to the company. Every 5% in wages the pilots give back equals \$100 million. The 23% ALPA is currently offering is equal to slightly less than \$500 million. The rest is primarily embedded in work rules and benefits. A billion dollars in concessions would mean nearly 50% cut in pay/benefits and work rules. The majority of pilots appear willing to vote favorably on a package to help the company -- but a 45-50% cut seems excessive and almost punitive.

A problem which might hinder this new offer is that the company needs cash now vs. some of the efficiencies the proposal will eventually yield in 6/12/18 months. Things like training costs, efficient scheduling, vacation pay, etc. take time to realize the potential savings.

One solution might be a higher percentage pay cut combined with a higher cap to gain productivity and offset some of the loss in W-2 wages. There will be trade-offs for both sides in any deal - but the most immediate relief comes from cold hard cash - which is easier for labor to recover -- down the road -- when the company grows the airline and revenue stream again.

This is also the smart way to bring furloughed bodies back to what should be considered the best job offered in the industry. I challenge our management team to keep the Delta pilots at the top of the pay scale - not in the middle - even if it is only \$1 dollar/hour more than the overall competition. Why? Because we'll continue to draw the best qualified folks 10-20-30 years from now. That mentality should prevail at any top notch company - regardless of the industry you're competing in or against. We should expect to be the worldwide airline of choice

for future employees - who are in kindergarten now - as well as future customers.]

Or resign the profession to mediocrity, with lower and lower pay, and eventually, a spike in commercial aviation accidents - as the quality of potential candidates drawn to the profession declines over time. There are definite reasons many qualified pilots passed through Delta's doors but weren't hired. Has that changed?

My fear is we will consummately destroy the loyalty, trust, and dedication that have taken years to nurture, build upon, and be proud of at Delta. The pilots have always been and will always be, looked to for leadership among the ranks. Some will scoff at that notion due to our painfully slow reaction time since 9/11 but most understand it for the right reasons.

To squeeze every possible nickel from the pilots' pockets might be counter-productive over the long haul. And I would hope someone is looking at the potential ramifications if another round of your most experienced pilots exit stage left -- whereas many would gladly stay if they didn't fear losing their lump sum in Chapter 11.

One is compelled to ask where we would be today if we had taken an immediate 10-15% pay cut -- post 9/11, and then rescinded the pay raises of 4.5% in both 2003/2004? Would the pain feel the same? Or are we now going to take it all in one fell swoop because we waited so long? Unfortunately, we can't turn the clock back - but we still have the chance to be smarter as we move forward and allow the company to compete toe-to-toe in the industry.

Bottom line - the hole has gotten deeper -- both for Delta and the other legacy carriers. Time continues to work against us. Six months ago, the Delta pilots may have been able to get a deal that would have been a sizeable pay cut but still maintain a 10-15% pay premium over their counterparts. That possibility has lost steam as each month passed.

ALPA has covered alot of ground to tame their dragons and demons. But they also don't have the same leverage they had with the C2K contract in 2000. No labor union does -- in the airline industry today -- as observed by the painful realities pilots at USAir and United currently live with each day. Anyone who still believes we hold the better cards now is in denial. And to admit it has no bearing on the final outcome. The marketplace will win, regardless of rhetoric or posturing. Our best bet is to negotiate, maintain some control, and restructure outside of court.

American's pilots may have caved in on the courthouse steps but it's now hard to argue with their cash position back at over \$3.5 billion and

in the black this past quarter. They will survive and be competitive with both the LCC and hub/spoke models. Their pilot union (APA) also protected their retirement benefits as a primary consideration. ALPA wasn't able to do it at USAir and now United is looking very questionable. Further food for thought.

The new ALPA proposal and the company's counter is the next step to avoid Chapter 11. Now we wait - but not for very much longer. The "guns of August" will be upon us.

"you're always living in the past and have a hard time dealing with what's going on today."

-- Barbara Tuchman, Pulitzer Prize author of "The Guns of August"

We are all in this together. Anyone we do business with needs to help out. The other suppliers and vendors need to see a meaningful deal from the pilots first. Then the company will have more leverage and credibility to place efforts and pressure elsewhere. If you were a supplier or vendor looking across the table at Jerry right now, what would your attitude be concerning helping Delta -- given what you know about the pilot's current compensation levels vs. the rest of the industry.

In 2003, AMR was able to wrestle an additional \$175 million annually from its vendors/suppliers outside of bankruptcy. Delta can do the same or better.

Look at it another way - and try to be honest. If Delta Air Lines was your own company and you were writing the checks for all expenses, salaries, and benefits - what would you do - given what your competitors are doing and your customer is telling you? Do you want to stay in business, make money, and increase the value of the company for your shareholders - or not?

Jerry may indeed get a billion dollars in concessions from the pilots on the courthouse steps, but in the end, the only legacy Jerry would leave behind is being lumped in with Ron and Leo instead of Mr. Woolman and Mr. Garrett. If you were CEO, which would you choose? Is that worth another \$100-200 million as the "make it or break it" number in a \$14 billion dollar corporation? Loyalty, trust, and respect -- lost at what price?

All good sense and judgment tells me Mr. Grinstein would prefer to be honored in the same breath as Mr. Woolman and Mr. Garrett. Delta employees thrive on good leadership and would follow those respected gentlemen anywhere. It would be a pleasure to be able to include Jerry

in an esteemed trilogy at our 100th anniversary celebration. Jerry will be gone by then -- but not forgotten. The pilots and employees I know would love to feel a genuine desire to lead the toast to all three of these men, if earned. Two of them already have their place reserved. The 3rd is still open.

History verifies that when the company wants a deal, it happens. I read Jerry's letter on Friday - more than twice. I read it again today. It was his best communiqué yet, since taking the reins.

Anytime there is more than one concerned party involved - it is still a negotiation.

Let's be fair to both sides and get the deal done. We're too close to fail now.

"To fear the worst often cures the worse." - Shakespeare

This is the end of the first in a new, on going series of Q&A. Send any questions, comments, criticism, or suggestions anytime.

Take care.

Respectfully, Mike Stark

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