

DAILY REPORT

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\$688.7M Delta deal would use jets as collateral

AIRLINE SET TO CLOSE deal on pass-through trusts that will hold security interest in 22 jets in order to refinance both the old and new planes

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DELTA AIR LINES is expected to close a complicated \$688.7 million public offering today that involves using 22 of its jets as collateral.

The airline, represented by attorneys at Kilpatrick Stockton and Debevoise & Plimpton's New York office, is creating two pass-through trusts to issue enhanced equipment trust certificates, or EETCs, a specialized form of financing used commonly by larger airlines to fund the costs of their jets.

According to information in a pricing supplement filed with the U.S. Securities and Exchange Commission on Thursday, the airline will issue \$568.8 million of Class A pass-through certificates at 7.75 percent, and \$119.9 million of Class B pass-through certificates at 9.75 percent with expected distribution dates in 2019 and 2016, respectively.

Kilpatrick's W. Benjamin Barkley, who led his firm's representation of the securities and disclosure aspects of the deal, declined to comment because the transaction was pending at press time. Kilpatrick partner David M. Eaton, as well as associates Adwoa M. Awotwi and Megan K. Callahan, also worked on the deal. Debevoise, which represented Delta in its bankruptcy, served as the company's aircraft finance counsel.

The transaction was underwritten by Goldman Sachs and Morgan Stanley, which were represented by attorneys from Shear-

man & Sterling's Washington and New York offices.

Transactions of this type have been popular in the airline industry this year because investors find them more attractive both in terms of interest rates and risk compared to other investments such as real estate and the stock market. United Airlines Inc. issued \$810.3 million in pass-through certificates earlier this month; Continental Airlines issued \$644.4 million in October; and American Airlines issued \$520.1 million in August.

In the Delta deal, the pass-through trusts will hold security interests in 17 jets that are about a decade old and five new ones purchased this year from Boeing, and on which Boeing holds liens. This deal essentially will serve as a way to refinance both the old and new jets.



Ben Barkley

Several aspects of the deal, as outlined in a prospectus filed with the SEC on Friday, show how Delta is attempting to make it attractive to investors.

First, the transaction is structured as a pair of trusts, an efficient format for investors because the trust holds the assets, acts as the conduit for Delta's interest payments on the promissory notes and divides payments up according to each investor's interest. All the debt is cross-collateralized, which means that if Delta defaults on one mortgage, all the mortgages are in default.

And in the event of a default, there's a liquidity backstop provider, the New York branch of French investment bank Natixis

SA, which, as a component of the enhanced equipment trust certificates, will pay the interest on the loans for 18 months if Delta cannot.

Finally, according to the prospectus, the planes securing the transaction range in value from about \$21 million to \$144 million each. The total value of the jets is just more than \$1 billion, which means the loan-to-value ratio is about 61 percent.

Both the liquidity backstop and the loan-to-value ratio help pump up the investment's rating with Moody's, and lower the rate of interest Delta must pay.

The prospectus also lists risk factors connected with the investment, including high fuel costs in 2008 (Delta's price per gallon was 41 percent higher than in 2007), recession-induced weak demand for travel (the airline reduced its capacity between 7 percent and 9 percent this year), the impact of the H1N1 flu virus on people's desire to travel and potential difficulties in resolving some integration issues related to the company's year-old merger with Northwest Airlines Inc.

Even though the year is drawing to a close, the prospectus indicates that Delta will be keeping its lawyers and investment bankers busy through the holiday season.

First, there's the company's possible marketing alliance and joint venture with Japan Airlines. Second, Delta plans to launch two additional financing transactions before year end. One would be a tax-exempt debt of up to \$300 million through the Clayton County development authority; the other would involve a secured revolving credit facility of up to \$120 million to replace an existing letter of credit. **DR**