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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

IN RE: . Case No. 05-17923 (PCB)
DELTA AIR LINES, INC., et al, . New York, New York
Debtors. . Friday, December 2, 2005
. 1:53 p.m.
.

TRANSCRIPT OF HEARING
BEFORE THE HONORABLE PRUDENCE C. BEATTY
UNITED STATES BANKRUPTCY JUDGE

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(Appearances continued)

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1 (Proceedings commence at 1:53 p.m.)

2 **TIMOTHY COLEMAN, DEBTORS' WITNESS, PREVIOUSLY SWORN**

3 THE COURT: I expect to have it explained to me this
4 afternoon how zero times zero equals six.

5 (Counsel confer.)

6 THE WITNESS: I've actually done a new chart for you,
7 Your Honor, but ...

8 THE COURT: Oh, well, good. Because, you know, I
9 don't even think my daughter thinks zero times zero is six.

10 (Laughter.)

11 THE WITNESS: It's actually, as you know, that just
12 meant that neither of those pieces --

13 MR. GALLAGHER: Mr. Coleman, we need to get on the
14 record, first.

15 THE WITNESS: Oh, I'm sorry.

16 MR. GALLAGHER: Your Honor, may we proceed? Thank
17 you. We were told we have a new reporter today, and we need to
18 --

19 THE COURT: Well, except that they're reporting
20 electronically.

21 MR. GALLAGHER: I'm sorry.

22 THE COURT: It's not the same kind of reporting that
23 we normally have.

24 But I will remind you that you were sworn yesterday,
25 and you're still under oath.

1 THE WITNESS: Correct.

2 MR. GALLAGHER: For the record, Your Honor, appearing
3 for Delta, Jack Gallagher of Paul, Hastings, Janofsky & Walker.

4 THE COURT: Okay.

5 MR. GALLAGHER: And we are continuing direct
6 examination of Timothy Coleman.

7 **DIRECT EXAMINATION**

8 **BY MR. GALLAGHER: (Continued)**

9 Q Mr. Coleman, when we broke yesterday, we had your Exhibit
10 No. 90 in front of us, and we just started to talk about
11 EBITDAR, and I think that we quickly agreed with the Court that
12 Exhibit 90 was perhaps a bit confusing. Is that right?

13 A I think that was correct.

14 Q Do you have a new exhibit with you today?

15 A I do. It's Exhibit 91.

16 MR. GALLAGHER: And that has been distributed, Your
17 Honor, to the Court and counsel for ALPA.

18 THE COURT: Okay. But 91 now talks about all sorts of
19 things.

20 MR. GALLAGHER: Yes, Your Honor. 91 --

21 THE COURT: Okay. It wasn't an EBITDAR problem that I
22 had; I didn't have a problem with EBITDAR. I had a problem
23 with how you got zero times zero is 6.6 percent, and I had a
24 problem with how the chart at the bottom, which began
25 "Southwest, AirTran, Jet Blue," related in any way to what was

1 on the top, so ...

2 MR. GALLAGHER: Your Honor, we're prepared to withdraw
3 Exhibit 90, and we'll end up hopefully --

4 THE COURT: Okay. Well, I'm just making sure that we
5 understand that --

6 MR. GALLAGHER: We hope to end up in the same place
7 after going through Exhibit 91, but we're certainly --

8 THE COURT: Okay.

9 MR. GALLAGHER: -- happy to going -- to answer Your
10 Honor's questions.

11 THE COURT: Okay. So everything on Page 1 is, you
12 know, what we had yesterday.

13 MR. GALLAGHER: That's correct.

14 BY MR. GALLAGHER:

15 Q Mr. Coleman, would you tell us what --

16 THE COURT: Except that we don't have -- I mean, you
17 know, I can read -- except that we don't say what it is the
18 financial covenant is that Delta is required to meet.

19 THE WITNESS: Right, Your Honor. The idea was just --
20 I think we thought about the other exhibit, and probably less
21 for you because I know you understand EBITDAR, and more for
22 maybe the whole courtroom, we put in this piece of it, and it
23 was --

24 THE COURT: Okay. I mean, here's what I'm saying.
25 That was not where my problems were.

1 THE WITNESS: Right, I understand that.

2 BY MR. GALLAGHER:

3 Q All right. Well, before we leave that last bullet on the
4 covenants, for the EBITDAR covenants and DIP financing, Mr.
5 Coleman, if Delta satisfies those covenants, does that mean
6 that Delta's future financial health is assured?

7 THE COURT: Of course not. I mean, if you got EBITDAR
8 covenants at the very outer limits of your financial ability,
9 you'd be having a lender charging you twenty-four percent.

10 THE WITNESS: That's right, Your Honor. They really
11 are set for a moment when the lender has decided things are
12 going badly. They're not meant to demonstrate viability or
13 anything like that.

14 THE COURT: No, that is meant to, you know, say, okay,
15 things have gone down too much for my taste.

16 THE WITNESS: Right. It allows them to come back to
17 the table and, frankly, have access to the Court and express
18 whatever dissatisfaction they would have. Often, people will
19 waive those in exchange for a fee or something, but they really
20 --

21 THE COURT: Just those fees, I love those fees.
22 Another \$3 million, another \$4 million.

23 THE WITNESS: Yeah.

24 THE COURT: Oh, we make it up in the fees.

25 THE WITNESS: It's a --

1 THE COURT: Not that, you know -- you know, London
2 plus one-quarter, that's really good, but, you know --

3 THE WITNESS: It's an opportunity. I think we felt
4 pretty good about keeping the covenants set at a level that we
5 hopefully will never see the lenders on.

6 THE COURT: Okay. But I'm saying: Is there any
7 reason for me to know what the number now is?

8 THE WITNESS: No, it really is not an issue in this
9 case.

10 THE COURT: Okay.

11 BY MR. GALLAGHER:

12 Q Would you continue on through Exhibit 91, Mr. Coleman, and
13 tell us what it is you --

14 A Sure.

15 Q -- communicate to the Court through this exhibit?

16 A Sure. On Page 2 -- again, Your Honor, I think less for you
17 and more for the entire courtroom -- it was purely to show
18 people how we arrive at EBITDAR. EBITDAR is a concept of the
19 cash flow a company is producing out of its operations, so it
20 doesn't include cap-ex, it doesn't include taxes; in this case,
21 with the "R" in EBITDAR, it doesn't include rent.

22 THE COURT: Okay. I want to ask you a question.

23 THE WITNESS: Sure.

24 THE COURT: You're including aircraft rent in net
25 income.

1 THE WITNESS: Aircraft rent would be a deduction from
2 revenues to get to net income. And the reason we add it back,
3 which is what we're doing here to get to EBITDAR, the reason to
4 add it back is that different airlines finance their planes
5 differently: Some own them, some have secured debt against
6 them, some have operating leases, some have capital leases.
7 The rent is in the operating lease category; and so we add it
8 back, so that when we're comparing our airline to other
9 airlines, it's an apples-to-apples. It's the same thing we do
10 in retail when one party has all leased stores and another
11 party has all owned stores.

12 THE COURT: Okay. But now, for example, we did have
13 some aircraft rent income, although it was less than the
14 aircraft rent obligation --

15 THE WITNESS: Uh-huh.

16 THE COURT: -- for certain airplanes that we returned.

17 THE WITNESS: Uh-huh. But this would exclude all of
18 that, so that when you were --

19 THE COURT: Okay.

20 THE WITNESS: -- comparing Delta to anybody else, you
21 would have an apples-to-apples comparison. So anybody else who
22 had had -- if somebody had zero rent --

23 THE COURT: Yeah.

24 THE WITNESS: -- obviously zero would be added back
25 from net income. But it's really the goal --

1 THE COURT: You were talking about adding zero
2 yesterday --

3 THE WITNESS: Yeah.

4 THE COURT: -- and how zero gets to zero.

5 THE WITNESS: Well, maybe that was a bad choice of a
6 number.

7 But the idea is to keep them all on the same playing
8 field, so that if we're saying Delta has a margin of five
9 percent and Jet Blue has a margin of twenty percent, nobody can
10 say, well, but wait a minute, you know, Jet Blue doesn't have
11 any operating leases, and Delta has all operating leases, so
12 the numbers are skewed.

13 THE COURT: Okay.

14 THE WITNESS: The idea is to put them on a comparable
15 basis.

16 That's what all of EBITDAR is, really. That's why you
17 don't include taxes, because some party might have a large NOL
18 and not pay any taxes. Same thing with depreciation; again,
19 that gets into how they have accounted for their aircraft and
20 other assets. And nonoperating income and expense, if one
21 party has sold an asset and had a large gain on that asset, it
22 would show them having an artificially high net income for that
23 year. It wouldn't have anything to do with the actual
24 operation of the business.

25 So we move all of those out of net income, in order to

1 get to a number which should be apples-to-apples; the real cash
2 production of the enterprise, what that company is able to
3 produce from their operations.

4 THE COURT: Okay.

5 BY MR. GALLAGHER:

6 Q And just for the record and the benefit of the audience,
7 Mr. Coleman, the acronym "EBITDAR" means earnings?

8 A Earnings before interest, taxes, depreciation,
9 amortization, and rent.

10 Q Okay. And what is reflected on Page 3?

11 A On Page 3, this is I think, Your Honor, when we started to
12 talk about EBITDAR margin, and I think there was some
13 discussion on it a day ago.

14 EBITDAR margin now is the thing that allows us to compare
15 our company to another company. Because if you just have
16 EBITDAR dollars, one company might have a billion, one might
17 have five hundred; the five-hundred-million-dollar company
18 might be doing much better, but because the number is lower it
19 may seem like it's not doing better.

20 The idea of margin, now, is that it allows a very good
21 comparison between companies. So we take EBITDAR, we divide it
22 by revenues. That creates the margin, and that is --

23 Q Is that a percentage?

24 A That is a percentage. Sorry, "margin" and "percentage"
25 being the same thing.

1 And that operates the amount of operating cash flow that is
2 generated from each sales dollar. So if you have a hundred-
3 dollar ticket and a twenty-one percent EBITDAR margin, it would
4 mean you're essentially generating \$21 million of cash from
5 that operation. Do you follow that?

6 THE COURT: Twenty-one million dollars --

7 THE WITNESS: I was just -- I was just doing --

8 THE COURT: Twenty-one dollars on that ticket.

9 THE WITNESS: I was just doing a hundred as an index -

10 -

11 THE COURT: Okay.

12 THE WITNESS: -- so the math is easier. I actually
13 brought my calculator up with me, but I thought it might be
14 easier.

15 THE COURT: I find it easier when we don't have too
16 many zeros. Then I keep getting confused.

17 THE WITNESS: I'm the same way, Your Honor.

18 BY MR. GALLAGHER:

19 Q Okay. And for the unsophisticated financial labor lawyer
20 in the room, Mr. Coleman, that's very -- that \$21 million, you
21 don't mean that's profit.

22 A It is not profit. It is just the operational cash flow.
23 Once one has the number of EBITDAR, then you obviously need to
24 take out the rest of the costs of the operation. So that would
25 include, as we were describing earlier: Capital expenditures,

1 interest payments, anything -- taxes, anything that would
2 relate to the rest of the business; changes in working capital,
3 excess of --

4 Q There's still other business uses for that money.

5 A Yes.

6 Q Is the cash flow thrown off by the pure operation?

7 A Yes. It is really just the operational --

8 THE COURT: It's just a way of -- I mean, sometimes
9 it's -- you know, you don't even go as far as EBITDAR; you go
10 shorter than that.

11 THE WITNESS: You're spot-on, Your Honor. This time,
12 what we decided to do was to take -- put the rent in.

13 Normally, we stop at EBITDA; sometimes we stop at EBIT.

14 BY MR. GALLAGHER:

15 Q And why do you or the financial community look at EBITDAR
16 at all?

17 A It is --

18 THE COURT: Because if they didn't look at EBITDAR,
19 they wouldn't have any little acronyms to talk about.

20 (Laughter.)

21 A Well, that's probably the number one reason, but there are
22 a couple of others.

23 The biggest reason is, as you know from all of your cases,
24 the likelihood that a restructuring company or industry has net
25 income is pretty low. And so when we're trying to compare

1 these companies, if we were looking at Delta with a negative
2 net income and somebody else with a positive net income, again,
3 it doesn't help anybody understand what's happening to the
4 operations.

5 What we're talking about in this 1113 hearing is really to
6 do with: Is the company competitive? Does it have a cost
7 structure that allows it to compete with everybody else? And
8 that, if you look at net income, I don't think that tells you
9 much.

10 You know, Delta has announced very large losses. Some of
11 those are real losses; some of them are write-offs of assets
12 and restructuring charges and things like that. So the goal in
13 looking at EBITDAR is to really get at what that company is
14 producing. And if we were looking at net income, it would be
15 very likely unhelpful.

16 Q So EBITDAR is a measure of cash flow, operational --

17 THE COURT: Besides which, if it were negative, it
18 wouldn't make your lenders happy.

19 THE WITNESS: If you have a negative EBITDAR, you're
20 in a heap of trouble, Your Honor.

21 THE COURT: No, I mean, if we were also moving on to
22 revenue.

23 THE WITNESS: Correct, correct.

24 BY MR. GALLAGHER:

25 Q So what is referenced on Page 4 of Exhibit 91?

1 A Okay. What I've done here, Your Honor, is I've put both --
2 or all of revenues, EBITDAR, and EBITDAR margin on the page.
3 And so we start with --

4 Q And this is for Delta?

5 A I'm sorry. For Delta, thank you.

6 Q This is actual --

7 A Delta only and --

8 Q Actual historical data.

9 A Yes. That's what I was just going to go through.

10 Just start with the column "1999." This is actually what
11 Delta produced in terms of revenues, the fourteen billion,
12 eight eighty-three.

13 THE COURT: Okay. And the revenues actually were, you
14 know, within a reasonable range of each other.

15 THE WITNESS: For Delta, you mean?

16 THE COURT: Yeah.

17 THE WITNESS: Yes. In fact, it's sort of interesting
18 to look at 1999's revenues and 2000's revenues. They're almost
19 identical; and, yet, the EBITDAR is three billion, four sixty-
20 six for 1999, and obviously four eighty-six for 2004.

21 THE COURT: Which means it was a lot better in 1999.

22 THE WITNESS: It really shows you, from Delta's
23 perspective, that a number of things have happened, one of them
24 was 9/11, clearly; another one piece of that was fuel, clearly.
25 But I would say the biggest part of it probably has been

1 competition and the dropping of prices. So while load factors
2 have gone up through that period of time from 2001 to 2003 to
3 2004, the ticket price has not, the yield has not; and, as a
4 consequence, the EBITDAR, because it's the production of cash
5 out of that business, has actually declined.

6 So when you look at EBITDAR divided by revenues for
7 1999, what you see is an EBITDAR margin of 23.3 percent, which
8 is a relatively healthy margin. And in 1999, Delta was an
9 investment-grade company and they were well regarded for the
10 production of that result.

11 When you look at 2000, Your Honor, I actually found
12 this sort of interesting, looking at it from this perspective.
13 You can see revenues have gone up by almost \$2 billion, from
14 fourteen eight eighty-three to sixteen billion, seven eighty-
15 one. EBITDAR has also gone up from three four six six to three
16 six seven three. And anybody reporting that would say, good
17 news, revenues are up, EBITDAR is up.

18 But, as you see when you divide EBITDAR by revenues,
19 the actual margin or percent that they were able to achieve on
20 their revenues was lower. And this is an indication of
21 something going on in the company, whether it was competition,
22 you know, lower ticket prices. There was a little bit of a
23 fuel issue back here.

24 But what you can see is that even a CEO of a company -
25 - and I don't mean Delta for the moment, but just generically -

1 - would come out and say, we are having record revenues and
2 record EBITDAR, the actual truth is --

3 THE COURT: Oh, I love people who figure out how to
4 put the -- put things that sound good together, with ignoring
5 the things that are bad.

6 THE WITNESS: That is why people in my industry work
7 very hard at finding the component that --

8 THE COURT: The hidden. The hidden.

9 THE WITNESS: The hidden. Instead of just looking at
10 a number and saying, oh, look, isn't this good. That's why we
11 sort have laboriously have gone through this; that's why we
12 look at EBITDAR and we look at it as a margin. Because it
13 really tells you, you know, how am I doing, twenty-one percent.
14 Go all the way over to 2004, 3.2 percent. Yet, the company
15 could be reporting robust revenues, robust load factor; how
16 many people are actually on the planes. Obviously, not a very
17 robust EBITDAR. But you can come out and report some good
18 things there. They haven't done it because we're not trying to
19 fool everybody.

20 But the truth is, with a 3.2 percent margin, you're
21 producing nothing, very little. You're down at a level that is
22 not sustainable because, again, out of that dollar, out of
23 every \$100, you're now talking about three-point-two dollars,
24 and out of that has to come all of the debt payments and
25 interest payments and capital expenditures and things like

1 that.

2 So you'll see, we'll later get into comparing that
3 percentage to other airlines. But you can just intuitively
4 know that, if somebody has a 3.2 percent EBITDAR margin, it
5 means they're not producing much out of the core part of their
6 business.

7 THE COURT: Okay. But again, now this is -- you know,
8 the difference between 2000 and 2001 is just dramatic.

9 THE WITNESS: Yes.

10 THE COURT: Now is that all attributable to 9/11?

11 THE WITNESS: I didn't go back and study every month,
12 but I would guess it is not all associated with nine --

13 THE COURT: I don't see how it could be. It was kind
14 of late in the year.

15 THE WITNESS: It was very late in the year, obviously
16 --

17 THE COURT: It was the third --

18 THE WITNESS: -- September 11th.

19 THE COURT: It was the third quarter.

20 THE WITNESS: Right. So ...

21 THE COURT: I mean the fourth quarter.

22 THE WITNESS: Right. And it would be my guess, if I
23 did that analysis -- and I apologize I have not -- that there
24 was probably other things going on at that time, and you would
25 have seen a lower margin, which would be indicative of whatever

1 was going on in the market at that time. I could be wrong, I
2 don't definitely know.

3 THE COURT: Okay. But you -- but that's the year
4 where there's a big break.

5 THE WITNESS: That is the year where there's a big
6 break. And you can see, there was a radical drop in revenues
7 and a radical drop in EBITDAR. The biggest issue you see,
8 again on a comparative basis, is the margin has collapsed.

9 And if you work with EBITDAR a lot across industries
10 or in just this industry, you can -- and we'll show you this
11 comparison. But you know when you're at these low percentages
12 that you are not a viable entity with those numbers, just you
13 can't be, because you know they have other things they have to
14 pay for.

15 Now some industries might have a fifty percent
16 EBITDAR; and, if you have a twenty-three percent EBITDAR, you
17 may feel good about yourself, but realize that if everybody
18 else has fifty, you're still not viable, you're not competitive
19 because they can lower prices on you and leave you in a very
20 untenable position.

21 THE COURT: Blowing in the wind.

22 THE WITNESS: Yeah, exactly right.

23 BY MR. GALLAGHER:

24 Q And it does look like there was some recovery of EBITDAR
25 margin in '02 and '03. Is that right, Mr. Coleman?

1 A Yes.

2 THE COURT: It's such a small amount, it's .9 percent,
3 that it barely begins to compare with the drop between '03 and
4 '04.

5 THE WITNESS: Right. And I think this is some of the
6 scariest stuff, Your Honor, because, really, if you look at
7 '04, you can see what I said earlier, which is: Revenues are
8 back, and that's very heavily load factor that is back, but the
9 prices aren't back. And the reason you can tell that is, if
10 the prices were back, you would have a much higher EBITDAR.
11 And here you have \$15 billion of revenues, and only \$486
12 million of EBITDAR. And, again, \$486 million to me personally
13 would be a lot of money; to a company, it's not. And so when
14 you look at it from a margin perspective, it only comes out to
15 3.2 percent.

16 BY MR. GALLAGHER:

17 Q And if you would, Mr. Coleman, turn to Page 5 and tell us
18 what is there.

19 A Okay. I'm going to break this down into two parts, Your
20 Honor, and start with the top section first. What this now is,
21 is a comparison. The top section is 2004 actual, and I'll get
22 to the bottom section in a minute.

23 And what we've put here is each of the airlines, including
24 Delta, which -- I again apologize -- was not outlined on that
25 prior chart that I showed up with --

1 THE COURT: Oh, I didn't mind that Delta wasn't there.
2 I just couldn't see what the top chart had to do with the
3 bottom chart.

4 THE WITNESS: Right.

5 THE COURT: Maybe you were saving paper.

6 THE WITNESS: I think it will be more obvious now.

7 A So what we can see is each of the airlines is listed: Jet
8 Blue, AirTran, Southwest, Continent, American, USAir, United,
9 and Delta. We have left Northwest off because the numbers are
10 a little hard to get to right now because of their own issues.

11 Then you have revenues, a column of revenues. You can see
12 that same \$15 billion for Delta that I was just showing you on
13 the page before, which took us, as you know, actuals through
14 2004. The same EBITDAR for --

15 THE COURT: Wait. I don't know who "AMR Corp." is.

16 THE WITNESS: That's American. I apologize. That's
17 American Airlines.

18 THE COURT: Oh, okay, okay. That makes sense.

19 THE WITNESS: Right. Even --

20 THE COURT: So we actually had in Delta the second-
21 highest revenues --

22 THE WITNESS: Right.

23 THE COURT: -- in 2004, of all of those airlines.

24 THE WITNESS: Well, the third. United had sixteen.

25 But as you said, this sort of gets to be you can make it up in

1 volume, right? Because as you look at our EBITDAR margin, so
2 now we can compare to other people, while we had gigantic
3 numbers, in terms of revenue, we produced very little cash flow
4 off of those revenues.

5 And you can see Jet Blue, which has a two-hundred-and-
6 fifty-seven-million-dollar EBITDAR, so you might be able to
7 say, gosh, Delta had four eighty-six; Jet Blue had two-fifty
8 seven, Delta is better. But that doesn't work that way because
9 it's really the dollars against -- the cash flow earnings
10 against the revenues. So you can see that Jet Blue has a 20.3
11 percent margin, where Delta has 3.2 percent.

12 And where this becomes the most important -- and I'm
13 going to give you an extremely, you know, easy example, back to
14 my index -- if each party had one ticket, and it was a hundred-
15 dollar ticket, Jet Blue would be earning 20.3 dollars off of
16 that ticket, or 20.3 percent --

17 BY MR. GALLAGHER:

18 Q By "earning," you mean that would be EBITDAR cash flow?

19 A Cash flow earnings, yes. And -- thank you.

20 THE COURT: See, now they don't give peanuts or
21 crackers or anything.

22 THE WITNESS: They actually do. They have a little
23 basket.

24 THE COURT: I'm really making a little bit of a joke.

25 THE WITNESS: Okay.

1 (Laughter.)

2 THE COURT: And I mean, you get, you know, a .3 margin
3 there, if they don't feed anybody anything.

4 (Laughter.)

5 THE WITNESS: And then Delta has 3.2 percent. And
6 what -- so Delta would have 3.2 dollars to -- of EBITDAR to Jet
7 Blue's 20.3 dollars. And what that would say is, if Jet Blue
8 felt like dropping its price by ten dollars, just by ten
9 dollars, so revenues would come to ninety, its margin would
10 drop, obviously, by ten dollars -- I'm just using my dollar
11 amounts now -- so they would earn 10.3 EBITDAR. And Delta
12 would go from 3.2 to 6.8-negative.

13 So what you would have is a situation where Jet Blue
14 is happy as a clam earning ten dollars and Delta is on its
15 back, losing 6.8 dollars. And that's an extremely simple
16 example. But when you multiply it through their entire region,
17 you can see why the so-called "low-cost carriers" have had such
18 an impact on this marketplace in such a short amount of time.

19 THE COURT: So -- but now Jet Blue and AirTran don't
20 have particularly large revenues.

21 THE WITNESS: That's correct. In fact, let me turn
22 you to a page quickly in the middle of this, based on that
23 question, and it's back on Page -- I'm sorry -- Page 10.

24 THE COURT: Okay.

25 THE WITNESS: If you just take Jet Blue for a minute,

1 this is just projected -- actual revenue in '04, and then
2 projected, based on street analysts, for '05, '6, and '7. And
3 what you see with Jet Blue -- who did not exist about five
4 years ago, maybe a little bit longer, who was not even in the
5 industry -- '04 had a billion-two of revenues. By '07, they
6 expect to have \$2.8 billion, which is from that -- from '04 to
7 '07, 122 percent growth rate.

8 THE COURT: See, now I would have some skepticism as
9 to whether they can maintain that growth rate without screwing
10 up, you know, some aspect of the process of upsizing.

11 THE WITNESS: That is actually a complicated answer,
12 but I think I can hit it for you.

13 Southwest has enough revenues now that they're
14 starting to move into a more complicated structure, a more of -
15 - having to start to head towards more of a hub kind of system,
16 like the mainline carriers have. Jet Blue has a long way to
17 go, to continue to pick off markets with point-to-point flying
18 in a way that it will be sort of hard to screw up. They're
19 leasing planes, they're very focused on costs.

20 And they really -- if you listen to any of their
21 people; Jet Blue, AirTran, or Southwest, they consider this to
22 be a complete war. They are out here to knock out these
23 mainline carriers. They feel that -- every time you listen to
24 them -- and I know this will ring true for you -- you always
25 hear them talk about that there's too much capacity in the

1 marketplace, which is fascinating for somebody who's putting
2 out a plane a week and growing 122 percent over a few years.

3 What they mean is there's too much Delta capacity,
4 United capacity, American capacity, and they wish we would all
5 get out of their way, so that they can continue to take over
6 the industry. They are in a takeover battle, that's what
7 they're doing.

8 THE COURT: I don't disagree with that. But I'm
9 saying that, certainly, there have been plenty of companies
10 through here who have been unable -- who have tried to expand,
11 and expansion at that rate, which is more than double what your
12 original -- can lead you into some troubles.

13 THE WITNESS: It can. And this is an industry where
14 it is -- it does not have the barriers to entry that you would
15 think it would have. You know, you think of planes and
16 airports and all these things as being hard to duplicate.

17 THE COURT: No. If you got somebody to fly the plane,
18 you got the main thing you need.

19 THE WITNESS: And there are planes everywhere. Boeing
20 produces, Airbus produces, people reject aircraft in
21 bankruptcy; they're sitting out there waiting for somebody to
22 fly them. You obviously have to have the certifications. But
23 getting a hold of planes and slots and pilots and flight
24 attendants and all those things, since you can outsource a lot
25 of the other pieces, is unfortunately easier than anybody would

1 like to see.

2 THE COURT: Oh, I think that -- I think that getting
3 stewardesses is probably just not a hard thing to do at all.

4 Oh, my, what a job I'd like to have. You know?

5 THE WITNESS: Well, the job has gotten tougher.

6 THE COURT: You know, just got out of college or high
7 school, you know, and I've got long, blonde hair, that's me.

8 (Laughter.)

9 BY MR. GALLAGHER:

10 Q Well, Mr. Coleman, what about Southwest's growth rate?

11 A Southwest is --

12 THE COURT: I mean, see, Jet Blue doesn't have any
13 older stewardesses, unless they've hired them.

14 THE WITNESS: It's actually one of the advantages that
15 Jet Blue has. Their pilots are younger, their flight
16 attendants are younger; their planes require almost no capital
17 expenditure, maintenance capital expenditure, because they're
18 all new; "all new" being described by very short-lived compared
19 to mainline carriers, which means all of their costs, which are
20 lower anyway, are even lower than you would expect because they
21 are at the lower end of the scale for these various parties
22 that you were just describing.

23 If you look at Southwest, Your Honor, they've been in
24 business since, I think it's 1971, for a very long time. And
25 they probably are the scarier one on this sheet, from the

1 standpoint that they are growing six -- you know, still, forty-
2 seven percent over that time frame. And what you see is the
3 low-cost carriers are growing, the mainline carriers are
4 growing; a little bit, not a lot. Obviously, some of them are
5 like Delta, in repositioning phases.

6 But make no mistake about it, these airlines, these
7 low-cost carriers are on a drive to drive everybody else out.
8 And even if you were to argue that one of them might someday
9 flame out because they, you know, make an error in their
10 strategy, they will take a lot of people down along the way.

11 And the best example of that is Flyi, this regional
12 carrier out of Washington, D.C., which is -- they're down to
13 \$10 million cash, is I think what I heard. They're still
14 there, they're still flying, they still have these very cheap
15 rates. It's a regional jet carrier, but they're still, they're
16 mucking it up for everybody along the way.

17 So I don't think you're going to see AirTran and Jet
18 Blue have a problem. They have been in business long enough
19 and have people leading them who, as you heard Mr. Kasper talk
20 about, who have longer lives in the airline business than just
21 somebody starting from scratch.

22 THE COURT: No, I understand that. I'm just saying
23 that sometimes this is not -- it's not feasible to throw out
24 that kind of rate --

25 MR. GALLAGHER: We hope you're right, Your Honor.

1 THE WITNESS: I wish you were right, but there's a --

2 THE COURT: I know, you think it -- you think that it
3 won't be problematic. But if you take the fact that we have
4 three pilots, one stewardess, two stewardesses, and, you know,
5 a hundred people per plane, you know, what -- who are they
6 getting rid of that we have, or are you just paying them less?

7 THE WITNESS: I would answer, if I could, just a
8 little differently. The crux of it is, you might be -- let's
9 say you might be right, that they might falter as they try to
10 grow more. If Delta is not in a position to meet them all the
11 way through that cycle, Delta won't be here to find out if they
12 made it. Delta will die before that.

13 And so the question is: What kind of margin does
14 Delta need in order to be competitive against these people in
15 the long term, because somebody will follow them, and certainly
16 in the short term? That is the crux of this entire argument.

17 THE COURT: No. I'm only saying that I would think
18 that, if I were going to do that, I would look at Jet Blue and
19 AirTran and say, I could probably cut a few percentage points
20 off there and not feel that I was going to be that far off.
21 Now there's at least three states that do not have low-cost
22 carriers, which you might think of entering, which are North
23 Dakota, South Dakota, and I think the other one is Wyoming.

24 THE WITNESS: Not a lot of people up there.

25 (Laughter.)

1 THE COURT: Yeah, I know. But you fly once a week, I
2 mean, somebody from up there must fly somewhere.

3 THE WITNESS: Well, a lot of those people actually are
4 carried by the DCI for Delta, that's through -- you asked the
5 question of where do people go from Salt Lake. A lot of them
6 are ending up in, you know, Wyoming, by example.

7 I think if you go back to Page 5, it will touch right
8 on what you were talking about, Your Honor, which is: If Jet
9 Blue falters with that 20.3 percent margin -- let's say they
10 goof by five percentaged points -- in the mean time, we are
11 still down there at 3.2 percent. So there is a lot of room for
12 them to make errors, but, more importantly, lower prices, to
13 drive us out of business.

14 And let me describe to you a very critical path that
15 they're following. They aren't just putting planes all over
16 the country. They have a strategy where they take a high
17 number of planes and enter a market, so it's sort of a
18 saturation of a market. And they come in and they lower the
19 price drastically in that market, and the mainline carriers, as
20 you yourself read in the newspaper, have to match it; even if
21 they don't fly it, they have to match it.

22 THE COURT: How can you match the price of a place
23 that you don't fly to?

24 THE WITNESS: No, if you're flying there. I'm saying
25 if the mainline carrier is flying there.

1 THE COURT: I mean, you were just saying to me "if you
2 don't fly it." I just --

3 THE WITNESS: No. If you -- if you are flying Delta
4 down to Fort Lauderdale, and Jet Blue shows up with a fifty-
5 eight-dollar fare, and Delta has to now lower its fare to \$58
6 or it will be empty, then you can stay on Delta because you're
7 paying \$58 because Delta has been forced to match that other
8 carrier to stay in business. Follow what I'm saying?

9 THE COURT: Well, I follow what you're saying, but
10 see, I don't understand why Delta wants to -- doesn't want to
11 find some different places to fly.

12 THE WITNESS: I think there is some truth to that,
13 it's one of the reasons all of the mainline carriers are
14 emphasizing overseas because that's an area that does not have
15 the same competition level yet, but --

16 THE COURT: Well, I can tell you this. Wouldn't you
17 think that you could fly to Lordes in France? You know, a
18 place where if you go and put your hands in the water, you get
19 cured.

20 (Laughter.)

21 THE COURT: No. I mean, seriously, wouldn't you think
22 you'd fly there?

23 THE WITNESS: Well, I think if you --

24 THE COURT: Do you realize that, in order to get
25 there, you have to fly at least -- you have to make at least

1 one change? Because flight -- the inter-country flights are
2 still battered by the railroads.

3 THE WITNESS: I'm certain I can't testify to any of
4 that, Your Honor. It's a very complex --

5 THE COURT: Well, I can tell you, having gone to
6 Lordes, to take a friend who wanted to go, that, you know, she
7 said, well, I want to fly. And I said, well, do you want to
8 spend \$1,800 to fly, rather than to take the train. And she
9 allowed as how she didn't really think she wanted to spend
10 \$1,800, rather than to spend 125 to take the train.

11 THE WITNESS: These are very, very complicated routes
12 and structures, and there are people who spend their entire
13 lives doing this, and I'm sure I'm not one of the experts on
14 that topic.

15 THE COURT: No, but I'm saying we don't have in this
16 country the rail system that exists in, say, France, or even in
17 Spain --

18 THE WITNESS: True.

19 THE COURT: -- which, for example, because Spain had
20 the -- one of the Olympics, and it was held in Seville --

21 THE WITNESS: Barcelona.

22 THE COURT: -- and they put in -- no, it was held in
23 Seville, part of it. They put in a very high-speed train
24 between Seville and Madrid. And we don't have -- we have sold
25 off the land rights for the train tracks in many areas.

1 THE WITNESS: Right. Having said that, the low-cost
2 carriers; not these, but others, are operating very
3 aggressively in Europe, not so much intra-country, but, you
4 know, inter-country.

5 THE COURT: Yes, I agree. They are operating fairly
6 aggressively. You can fly quite cheaply from Barcelona to
7 Rome.

8 THE WITNESS: Right. It's the same kind of dynamic.
9 The rules are a little different, but they are aggressively
10 attacking in that market also. Not Jet Blue, AirTran or
11 Southwest --

12 THE COURT: Oh, I understand that's what you mean.
13 But I'm just saying I think that -- I think even if you could
14 enter, which I don't think you can, the intra-Europe market, I
15 think it's a difficult market to enter because it is not
16 anywhere near as well used as our markets are.

17 THE WITNESS: One thing you're making me realize that
18 probably answers a question you asked a little while ago is
19 what if one of these airlines stumbles, one of the LCCs. I
20 don't think anybody is questioning whether the LCCs are here to
21 say. Whether Jet Blue survives or Jet Pink or Green show up
22 and survive, they're here, they're here in Europe, they're
23 here, they're not going away.

24 And these three seem to have real traction and real
25 prospects.

1 THE COURT: You mean Jet Blue, AirTran, and Southwest?

2 THE WITNESS: Yes. But if they stumble, you can rest
3 assured there will be somebody sitting right behind them. And
4 you saw Mr. Kasper's chart of all those different carriers,
5 some of which no longer exist. What matters to Delta is that
6 they're there, even if they're there for three years and
7 they're pricing themselves in such a way that Delta has to
8 match it, it still means from Delta's perspective they have to
9 compete with that price range, which means their cost structure
10 has to get there.

11 THE COURT: Well, it seems to me, and I don't mean to
12 say this about pilots because I'm not making a comment of that
13 sort, that these airlines must have fewer people, not just
14 lesser wages. But they must be using fewer people because
15 that's such a significant aspect of Delta's costs.

16 THE WITNESS: Right. If you look at the -- if you
17 really broke thoroughly this \$3 billion down, there are
18 definitely outsourcings, speeding the planes faster through the
19 terminal which means you're going to have fewer people --

20 THE COURT: Well, but I'm saying -- I mean, we don't
21 know how many people Jet Blue, you know, hires per plane.

22 THE WITNESS: I don't know it. Others do. It's a lot
23 lower than Delta. And Delta is bringing its per-plane number
24 down. That is one of its goals per person per plane number
25 down.

1 THE COURT: Okay. Do you need to stretch your legs?
2 You wanted to say something.

3 MR. SPAN: Yeah, Your Honor. Just to correct Mr.
4 Coleman if I may, our CFO advises us, and I think we actually
5 did go through this, Jet Blue has more people per plane than
6 Delta does, not fewer. It's really an issue of the salaries
7 and the other costs, as Mr. Coleman stated. So I apologize
8 even for criticizing our own witness, but our CFO advises me
9 that --

10 THE COURT: No. I mean, we like to know these things.

11 THE WITNESS: I told you I was out in a land that was
12 not my expertise, but --

13 MR. SPAN: We've allowed him to speak about EBITDAR.

14 THE WITNESS: Do you want me to continue on this page?

15 MR. GALLAGHER: Well, if I may interject, Mr. Coleman.

16 Your Honor, there is one example in my experience that
17 I can cite that, you know, flying somewhere else, I live in
18 Annapolis near Baltimore and I fly out of Baltimore very often
19 which, for many years, is a big hub for U.S. Airways. And
20 about ten years ago, Southwest Airlines came in and established
21 a hub in Baltimore and they gradually built it up and built it
22 up and U.S. Airways fought for a while on price and then they
23 gradually -- they were the largest carrier by far in and out of
24 Baltimore as well as Washington National, and U.S. Airways
25 disassembled its hub and it took hundreds of airplanes and

1 flights and all of its pilot base and flight attendant base and
2 moved its hub from Baltimore to Philadelphia basically to run
3 away from the competition with Southwest.

4 And that lasted for about five years. And they were
5 doing better --

6 THE COURT: And then they chose to spend their money
7 to create a hub in Raleigh/Durham which, after they did, they
8 decided was really a bad idea. And so now they're kind of
9 stuck with paying for something they don't want.

10 MR. GALLAGHER: Right. But what happened, Your Honor,
11 next is Southwest came to Philadelphia. And, then, USAir's
12 goose was cooked. And --

13 THE COURT: Southwest -- I mean, I'm still not
14 entirely clear who flies out of Philadelphia. It certainly --
15 I mean, I'm sure that there are some kids from New York who fly
16 out of Philadelphia because the difference in price is worth
17 the travel time.

18 THE WITNESS: It's a pretty big city, Philadelphia.
19 There are people down there. Some major --

20 THE COURT: I'm not saying there aren't people down
21 there, but there's not enough people down there in Philadelphia
22 to fill those foreign flights that they fly out of there. They
23 flight a lot of foreign flights out of there.

24 THE WITNESS: They do.

25 THE COURT: What I concluded was that there really is

1 no other airport west of Philadelphia that flies international.

2 THE WITNESS: So they have to feed into there.

3 THE COURT: So that they're feeding in, say, people
4 from further in -- out in Pennsylvania, et cetera.

5 THE WITNESS: That, and again, I don't want to go too
6 far afield from EBITDAR, but that is the theory of the regional
7 jet bringing people into a spot like that, which then added low
8 cost which can then feed those people into Europe. If you
9 remember the --

10 THE COURT: Well, I mean, obviously, a feed into
11 Philadelphia makes a lot of sense for a lot of people. Going
12 to Philadelphia from New York to save \$100 doesn't make a lot
13 of sense to me as an adult who does not wish to go through all
14 of that travel to --

15 THE WITNESS: Yeah. I think one of the mistakes that
16 we all make is that we look at it from a different perspective.
17 I happen to agree with you. I don't like to do anything but a
18 non-stop service.

19 My sister, who lives in Los Angeles, makes the kind of
20 wage that is the average American wage, and her daughter was
21 living in Dallas and she flew through Minneapolis to save \$40
22 roundtrip. It took her something like eight or nine hours and
23 that was to save \$40. So --

24 THE COURT: You know something? She's probably spent
25 that \$40 on something else and didn't think twice about it.

1 THE WITNESS: I wouldn't doubt that. But that is the
2 mentality of our marketplace today and who we're selling
3 tickets to, which is why when you see an airline try to put a
4 five-dollar price increase through and it fails and they take
5 it away and an ordinary person like you that would say, well,
6 how can that be, that five bucks, who cares. The traveling
7 public cares. That's the unfortunate situation today. And, as
8 you know from your own daughter, they're right there on
9 Travelocity or Expedia or something and they know it within
10 three dollars. And if somebody's five bucks more they won't
11 take it.

12 THE COURT: Oh, but a subsidiary of Aerolineas
13 Argentina?

14 THE WITNESS: And I assume that she's intelligent --

15 THE COURT: Oh, dear.

16 THE WITNESS: -- she speaks a second language. She's
17 not somebody who just wandered onto that plane. She did it
18 with her eyes wide open.

19 THE COURT: She doesn't know anything about mechanics.
20 But I'm just saying, I mean, you know, there seem to be a lot
21 of flights coming this way at least that are being picked up by
22 the kids.

23 THE WITNESS: Right.

24 THE COURT: And maybe one of the problems is that you
25 need to find a way to appeal to the youth market that's

1 different than the way you appeal to the -- or priced
2 differently.

3 THE WITNESS: I don't think that's how Jet Blue is
4 today. I think it might have started out with the youth, but
5 it is an airline that seems to attract every age group.

6 THE COURT: I'm not trying to suggest it didn't. I'm
7 trying to suggest possibilities for Delta to be able to, you
8 know, manage, considering I think they think they're going to
9 get down to Jet Blue prices, but I don't know. I haven't seen
10 enough that would lead me to conclude that they're going to be
11 able to get rid of enough debt to be able to do that.

12 THE WITNESS: Well, why don't we keep going through
13 here because I think I'll show you some of that as we walk
14 through.

15 Just to the bottom of Page 5 now, 2005 is actual
16 through the third quarter, and then it's an estimate for the
17 fourth quarter for all these airlines. Again --

18 BY MR. GALLAGHER:

19 Q Whose estimate is it?

20 A I was going to say, again, using Merrill Lynch and
21 Citibank, some of the people that analyze these industries from
22 some of the research analysts.

23 And one thing you'll see interesting here, Your Honor, is
24 Southwest actually is now on top at nineteen percent, where
25 AirTran and Jet Blue have dropped down a little bit. And I'm

1 assuming that that is what you've been hearing a lot about in
2 here which is that Southwest is heavily hedged. At one point I
3 think they were 100 percent hedged. And so, as fuel went up,
4 they were able to maintain margin where other parties which
5 were somewhat hedged or partially hedged or whatever, you know,
6 obviously were hurt by the fuel situation.

7 So you can see, though, that they still have very high
8 margins, significantly higher than Delta at 3.9 percent.

9 THE COURT: Well, United is not much better.

10 THE WITNESS: No. The -- there's a reason why USAir,
11 United and Delta have been in bankruptcy. This is the story.
12 Obviously, you'll see as we go forward that United and USAir
13 will start to show better numbers.

14 But let's -- if we go to Page 6, what I'm going to do
15 here is I'm back to just Delta and --

16 THE COURT: Okay.

17 THE WITNESS: -- we're going to come back to a
18 comparison of all the airlines, '06 and '07. But I'm first
19 going to go through Delta.

20 And this time, we're going to look at our business
21 plan on an '06 estimate with the only variable being the pilot
22 costs. So when you see zero pilot costs, labor costs achieved,
23 it means we didn't achieve any of the three twenty-five. And
24 then I show \$100. I think it's roughly near what they're
25 offering, but --

1 THE COURT: Well, I mean, I'm -- I take it that's a
2 hundred million --

3 THE WITNESS: It's a hundred million. I was just
4 going to correct myself.

5 THE COURT: And that's 325 million.

6 THE WITNESS: And that's the \$325 million.

7 THE COURT: And that's zero million?

8 THE WITNESS: And that's zero million or billion.

9 THE COURT: Yeah.

10 THE WITNESS: And when you look here, it's the same
11 chart you've been looking at before, let's just go down the
12 three twenty-five. It's \$16 billion of revenue. It's the same
13 across all three of them. The EBITDAR now is a billion eight
14 and the only difference on that line is the amount of the pilot
15 costs. So fifteen oh two is three twenty-five less than a
16 billion eight twenty-seven.

17 And you can see an EBITDAR margin for '06, which is
18 out of the business plan, which is 11.4 percent with a \$325
19 million of cost saves. You can also see that there is cash
20 flow, now this is net cash flow, not the EBITDAR cash flow I
21 was talking about before, of \$27 million, which I think Mr.
22 Bastian described as break-even because, obviously, 27 million
23 against 16 billion sort of rounded --

24 THE COURT: It's a little close.

25 THE WITNESS: He rounded it. And you can see at the

1 hundred-million-dollar --

2 BY MR. GALLAGHER:

3 Q Mr. Coleman --

4 A Yes.

5 Q -- let's isolate on that third column for a second.

6 A Okay.

7 Q The third column with the three twenty-five is Delta's
8 business plan, what Delta hopes to achieve if it gets the 325
9 million of pilot labor cost reductions and, in addition,
10 achieves all of the other goals in its business plan. Is that
11 right?

12 A In 2006. That is correct.

13 Q All right. Then you may proceed with the other columns.

14 A Okay. So now if you go to the middle column, the 100
15 million that I was describing before, you can see an EBITDAR
16 margin of ten percent there, Your Honor, and negative cash flow
17 for that year, which would be \$198 million.

18 THE COURT: I don't understand why negative cash flow
19 isn't -- I mean, how do you -- shouldn't it be the three
20 hundred and twenty-five --

21 THE WITNESS: It is --

22 THE COURT: -- ultimately when you get to the end?

23 THE WITNESS: It is -- since it's 100 million, that's
24 \$225 million difference from the three twenty-five.

25 THE COURT: Okay.

1 THE WITNESS: So you would be -- that would be that
2 difference from the 27 million.

3 THE COURT: Okay.

4 THE WITNESS: And, likewise, the 198 million over to
5 the --

6 THE COURT: Okay. I guess I can't add that quickly.

7 THE WITNESS: That's why I keep a calculator, Your
8 Honor. I'm not very good at it myself.

9 BY MR. GALLAGHER:

10 Q So the middle column is, in effect, what the results would
11 be if Delta achieved the other parts of its business plan, but
12 only got \$100 million per year of pilot labor costs reductions?

13 A That is correct. And you can see, Your Honor, that the
14 EBITDAR margin, you were saying the other day it doesn't move
15 that much. Well, it's being divided by \$16 billion. And so it
16 has to move a lot in order to have any kind of an impact.

17 But that is what this shows for 2006.

18 Q And what does the first column represent?

19 A The first column, again, is the business plan assumes --

20 THE COURT: That's the one with zero times zero equals
21 six?

22 THE WITNESS: No, because in this case, we are
23 allowing 100 percent of the cost saves related to non-pilots.
24 The zero zero --

25 THE COURT: No, I know. I'm just teasing you.

1 THE WITNESS: No, I know. But, actually, it's a good
2 question because if it was zero zero, that would be no pilot
3 savings, no non-pilot, that would get you to a margin of 6.6
4 percent. That's what that was saying.

5 THE COURT: Okay. That would -- it actually was a
6 real number, but it wasn't --

7 THE WITNESS: It wasn't a multiplication.

8 THE COURT: Yes. That's good.

9 THE WITNESS: Right.

10 BY MR. GALLAGHER:

11 Q It also wasn't very clearly set forth --

12 A It definitely wasn't very --

13 THE COURT: No, no, no. You never say that about your
14 expert. Your expert set forth it brilliantly. It was too
15 brilliant for those of us who were, you know, mere peons to
16 understand.

17 THE WITNESS: It was clear to me, but only after the
18 guys explained it to me. No.

19 Okay. So on Page --

20 THE COURT: Okay. Because now I can pick out those
21 numbers --

22 THE WITNESS: Right.

23 THE COURT: -- off that chart.

24 THE WITNESS: Yes. Are you back -- way back on --

25 THE COURT: I'm back on the one that we decided we

1 were going to do something different and you did something
2 different.

3 THE WITNESS: Right.

4 THE COURT: But now I can pick out the --

5 THE WITNESS: You see the 11.4 down in the lower
6 right-hand corner?

7 THE COURT: Yeah. And I can see the ten --

8 THE WITNESS: Right.

9 THE COURT: -- and then I can see the nine three.

10 THE WITNESS: Right. That was the lead-up to this.
11 And I'll keep going through it, if you want me to do. I think
12 it's pretty helpful to do. I can do it a little faster.

13 THE COURT: Oh, you can keep doing it, yes.

14 THE WITNESS: Okay. So, on Page 7, that is now the
15 year 2007 estimate.

16 BY MR. GALLAGHER:

17 Q So this is the same analysis, but now for 2007 instead of
18 2006?

19 A That's correct. So the same business plan. All of the
20 non-pilot savings are accounted for and we have the zero, the
21 hundred million, and the three hundred and twenty-five-million-
22 dollar examples. And just --

23 THE COURT: Wait, wait, wait.

24 THE WITNESS: You want me to go down a column?

25 THE COURT: No. I want to find out something.

1 THE WITNESS: Okay.

2 THE COURT: This 325 million you want is 325 million
3 per year forever?

4 MR. GALLAGHER: Yes, Your Honor.

5 THE WITNESS: Per the contract.

6 MR. GALLAGHER: For the term of the contract.

7 THE WITNESS: For the contract.

8 THE COURT: How long is the contract?

9 MR. GALLAGHER: Five -- well, our proposal is five
10 years, Your Honor. ALPA's offer is four years.

11 THE COURT: Well, it must have a term.

12 MR. GALLAGHER: The current contract has a four-year
13 term, Your Honor, four years from now. It originally had a
14 five-year term.

15 THE COURT: Okay.

16 THE WITNESS: The -- but you're right. The 325
17 million or the hundred million is an annual number, which is
18 one of the reasons why when you look at the difference between
19 them it seems like only \$225 million, but you have to multiply
20 that by five. So it's really a lot of money over a long period
21 of time which has an enormous impact on the competitiveness of
22 this airline.

23 So, walking down the \$325 million --

24 THE COURT: Okay. So you're really asking them for a
25 million six hundred and twenty-five thousand dollars?

1 MR. GALLAGHER: For the cost reductions per year, yes,
2 Your Honor, multiplied by four or five years.

3 THE COURT: Well, yeah, but multiplied by five.

4 THE WITNESS: That's correct, five times. Good math.
5 It's a billion six twenty-five.

6 So you can see on the three hundred and twenty-five-
7 million-dollar column a 15.2 percent margin. And you can see
8 on the hundred-million-dollar column a 13.8 percent margin.

9 You can also see as '07 goes forward with the \$3
10 billion of savings almost entirely in the -- almost entirely
11 enacted, that the cash flow has improved for the business.
12 Now, it's a billion dollars and I can talk about it later, but
13 it's still not a lot of money in the context of a company with
14 over \$11 billion of secured debt and other kinds of
15 obligations. And I'll come back to that in a little bit.

16 BY MR. GALLAGHER:

17 Q Well, let me stop you for a minute, Mr. Coleman. That 15.2
18 with a billion dollars, that's the billion dollars cash flow
19 Mr. Bastian mentioned?

20 A That is.

21 Q That's the company's business plan?

22 A That is.

23 Q So that looks great, right? The company is in fat city
24 going forward.

25 A No.

1 THE COURT: No, it's not in fat city. You have forty
2 or fifty bond issues that leave you out of fat city because,
3 while some of them aren't due until 2048, and you could leave
4 them sitting there until 2048, you still have to make payments
5 on them.

6 THE WITNESS: And the unique privilege of an airline
7 is that \$11 billion of secured debt which will unlikely get
8 resolved in the bankruptcy because it's on the aircraft that
9 you're using --

10 THE COURT: Well, but it's all -- I mean, those bonds
11 are -- a lot of those bonds are airport bonds and have long-
12 term --

13 THE WITNESS: Right.

14 THE COURT: -- long terms on them and one might decide
15 that one would prefer to pay it in 2048.

16 THE WITNESS: Right. You are --

17 MR. SIMON: And you have the pension P under the
18 shell.

19 THE COURT: Oh, you're not putting it under a shell.
20 It doesn't fit.

21 MR. SIMON: What it does is convert the billion six
22 twenty-five over five years into multiples of it because this
23 company has no intention of paying its pension plan
24 contributions and this is all a scam looking for a two-shot
25 effort not only to cut wages in half, but to destroy the

1 pension plan.

2 And to sit here and listen to proposals and
3 descriptions that omits that is to deceive the Court.

4 MR. GALLAGHER: May we proceed, Your Honor?

5 THE COURT: You may.

6 BY MR. GALLAGHER:

7 Q Mr. Coleman, you showed --

8 THE COURT: Look. I mean, you know, see, he needs to
9 get up and say something every once in a while.

10 MR. GALLAGHER: I understand, Your Honor.

11 THE COURT: I mean, we can otherwise just take a break
12 and --

13 MR. SIMON: If Mr. Huebner can correct his own
14 witness, it seems to me I ought to be able to bring something
15 to the Court's attention.

16 THE WITNESS: I'd be happy to cede my chair if he'd
17 like it. That would be --

18 THE COURT: I'm just saying -- I mean, you know --

19 MR. SIMON: I'll be happy to accept.

20 THE WITNESS: Not as our witness.

21 MR. HUEBNER: Hold on. Your Honor, if I can cross-
22 examine Mr. Simon under oath, we could probably make a lot of
23 speed going here.

24 MR. SIMON: Offer accepted.

25 MR. HUEBNER: Okay. Let's proceed. This is another

1 ridiculous --

2 THE COURT: Okay. Now what page are we on? Page 7?

3 MR. GALLAGHER: Page 7, Your Honor.

4 THE WITNESS: Right.

5 BY MR. GALLAGHER:

6 Q Now, Mr. Coleman, the middle column is assuming that ALPA's
7 offer is worth --

8 THE COURT: Okay. And we're saying here that it looks
9 pretty much to me like '06, except that now we have positive
10 cash flow?

11 THE WITNESS: Yes, because if you think about the \$5
12 billion that was taken out in the first restructuring and now
13 the \$3 billion that's part of this restructuring, you're
14 starting to see the benefits of that.

15 So, for instance, in '07 you have all of the non-pilot
16 savings in this number, and some of the -- most of the revenue
17 enhancements in this number, I would think most of the
18 bankruptcy enhancements in this number. So you're starting to
19 see the turn-around. In fact, you're seeing almost all of the
20 turn-around here.

21 THE COURT: Okay. Well, let's move to Page 8.

22 THE WITNESS: Okay.

23 MR. GALLAGHER: Well, Your Honor, I have one more
24 question on Page 7.

25 THE COURT: Well, that's fine. What is it?

1 BY MR. GALLAGHER:

2 Q The question is 13.8 percent under the one hundred million-
3 dollar in savings --

4 THE COURT: I understand what it means.

5 MR. GALLAGHER: Well, to my unsophisticated eye, Your
6 Honor --

7 THE COURT: Well, it's the same margin. It's the
8 margin for -- he's got three different plans. And that's the
9 margin for that middle plan.

10 MR. GALLAGHER: Right.

11 BY MR. GALLAGHER:

12 Q But why isn't that enough, Mr. Coleman? To me, it looks
13 close. I mean, what's the difference?

14 THE COURT: Well, because 15.2 percent margin gives
15 you cash flow of another 200,000 plus dollars.

16 THE WITNESS: Well, I think the other thing, Your
17 Honor, and we'll see this in a page, is that if you remember
18 the twenty percent I was using for Jet Blue, or the 19 percent
19 for Southwest --

20 THE COURT: Right.

21 THE WITNESS: -- you're still at the bare minimum of
22 competition in terms of being able to survive in the industry.

23 THE COURT: But you get between Continental and United
24 to get to those numbers.

25 THE WITNESS: If you look on Page 8 you'll see what

1 we've done here for you, Your Honor. This is now back to 2006.
2 This is the estimate. We have all of the airlines, again using
3 the street analyst I talked about before, and we've put Delta
4 in twice. On Row 7 it's the \$325 million of savings and you
5 see that 11.4 percent that you mentioned earlier. And on Row 9
6 is the hundred million dollars of savings. So it's as if there
7 were two different Deltas at ten percent.

8 And what you can see here is the low-cost carriers are
9 not backing up. They are continuing to operate at very strong
10 margins. And Delta, picking the best, meaning the 325 million,
11 is 11.4 percent, still eight percentage points below Southwest,
12 which means if Southwest wants to come into their market and
13 lower prices let's just say in one market, it may lower their
14 percentage a little bit, but it will knock Delta into a very
15 negative cash flow situation.

16 THE COURT: Okay. But -- and would we agree that the
17 U.S. Airways number may not be accurate?

18 THE WITNESS: Yes. The U.S. Airways number we've left
19 in because it's recent. But it is our view that the street
20 analysts are probably themselves still trying to analyze it.
21 We did leave --

22 THE COURT: What name are they going to call that
23 airline?

24 THE WITNESS: U.S. Airways. The America West name is
25 gone.

1 And the -- I didn't want to leave U.S. Airways out,
2 but I tend to think this is very low. I think that --

3 THE COURT: No. But what I'm saying is I suspect that
4 it is not the additive of both airlines.

5 THE WITNESS: No. I think you're going to see the CEO
6 that runs that airline is a very smart guy and I think you're
7 going to see some --

8 THE COURT: Which one?

9 THE WITNESS: The new airline that came from America
10 West.

11 THE COURT: Okay.

12 THE WITNESS: I don't recall his name.

13 MR. GALLAGHER: Doug Parker?

14 THE WITNESS: I think that sounds right.

15 So if you could turn, then, to 2007, Your Honor, to
16 me, this is the crux of the entire matter, which is even with
17 our \$3 billion coming into play which the company's view is
18 they have, as I said, gone under every rock looking for revenue
19 enhancements and for cost saves, Delta is the highest of the
20 mainline carriers now in this projection at 15.2 percent
21 margin, but is still below all of the low-cost carriers. And
22 so you have --

23 THE COURT: Wait, wait, wait. I want some -- I'm
24 looking at Page 8.

25 THE WITNESS: I'm on 9. I'm sorry. I moved off of

1 2006.

2 THE COURT: Oh, I'm so glad to know that we've gone up
3 to 2007.

4 THE WITNESS: And if you look on that first box, Row
5 4, this is now Delta's three twenty-five. And, again, more of
6 the \$3 billion is coming through of the savings and the five
7 billion.

8 So Delta is largely up to the percentage they're going
9 to be at. There will be a little bit more as they complete the
10 three billion, but all-in-all they're up there. They're above
11 the mainline carriers at 15.2 percent, Your Honor, but they are
12 still not all the way into the low-cost carriers.

13 It is our view --

14 THE COURT: Yeah. But see, now, again, Jet Blue only
15 has just under \$3 billion in revenues and AirTran's is \$2.2
16 billion in revenues. And that's significantly less than
17 Southwest at nine six.

18 THE WITNESS: There was -- that line was used very
19 much when Pan Am and TWA were significantly larger than United,
20 Delta and American. And everybody said they were too large to
21 fall and these three other airlines were too small and could
22 never take over.

23 They are still smaller. But the -- think of the
24 impact that Jet Blue has had. When I started working for Delta
25 a little over a year and a half ago, they had seventy planes.

1 Seventy planes and they were wreaking havoc all over this
2 country with those seventy planes and their pricing structure.

3 So it doesn't take a gigantic airline to cause a very
4 large airline to fail for good because --

5 THE COURT: I'm not suggesting it doesn't, but I'm
6 just suggesting that the total revenues there are not that
7 great and that Delta, Continental, United, USAir and American
8 account for, you know --

9 THE WITNESS: A huge amount of it.

10 THE COURT: -- a huge amount of flying.

11 THE WITNESS: If you think about that, that's also at
12 the crux of our argument because it used to be that those big
13 carriers could snuff anybody out. If that party came into
14 their market, they would lower price, drive service and drive
15 them right back out of the market. That strategy is not
16 working today.

17 And that is really at the heart of this, which is they
18 are coming into these markets, "they" meaning the LCCs, they
19 are competing in these markets successfully, they are cash flow
20 positive in these markets, while the mainline carriers are
21 struggling.

22 So it used to be the big guy could elbow out the
23 little guy. As Wal-Mart raced across this country and now the
24 globe, they have eliminated the competition by having the
25 lowest cost structure; therefore, the lowest prices, and you

1 don't see a lot of hardware stores around this country -- not
2 hardware stores, you know, general kinds of stores like Wal-
3 Mart.

4 Same thing with Lowes and Home Depot. They have
5 eliminated the hardware competition in this country. At one
6 point they were very small revenues. But they had the cost
7 structure which allowed them to eliminate the people that were
8 larger than them.

9 THE COURT: I know. But do you really think we're
10 going to get down to having only two airlines in this country?

11 THE WITNESS: No, I don't. I think the competition --
12 that's exactly right. The competition is going to continue and
13 you're going to see --

14 THE COURT: I mean, maybe you're going to have, you
15 know, instead of nine maybe you're going to have seven, but, I
16 mean, there still are places that some of these don't go.

17 THE WITNESS: I think that when we look at this list
18 of nine airlines, if we came back here in five years there
19 won't be those nine airlines all flying, or some of them will
20 be near death. And the question is, is Delta on the near-death
21 list or is it going to be on the survival list and the
22 competitive list. It's very black and white, very simplistic.

23 And I think the other thing that you're right is that
24 you don't know what Jet Pink, Jet Green, or who else is going
25 to show up to start the same thing. You have people like

1 Spirit Air out there, which I've always thought was sort of an
2 odd name for an airline, but also --

3 THE COURT: Why? I mean, it's like get it on -- get
4 on and have your drink.

5 THE WITNESS: Always sounded a little -- always
6 sounded a little eerie to me, but, anyway. The real question
7 is who is going to survive.

8 People that are down in that 12.4, 12.8, 13.8, 14.3,
9 if they stay down there, I don't believe they survive. And
10 Delta is in the same category, Your Honor. If we end up with
11 \$100 million of savings and a 13.8 percent margin, it's only a
12 matter of time.

13 We have to take this airline up into the competitive
14 arena. Not the number one, which would be nice. Frankly, we
15 could take some additional costs out to get --

16 THE COURT: Well, see, I think that, for example,
17 there's one item that's on the list that the debtor has asked
18 for that makes no sense to me. And that is they want to charge
19 \$50 for a special kind of flying card that would allow the
20 pilots and their family to fly.

21 Well, if you multiply five times -- if you multiply
22 them by each other you find out that \$50 from 6,000 people is
23 \$300,000. So you've got nothing. You've gotten \$300,000 and
24 you've gotten nothing because there's not even any money put in
25 there for the costs of administering the program which has got

1 to be --

2 THE WITNESS: Expensive.

3 THE COURT: -- it's got to be expensive. So I mean,
4 there's an item where you've said, oh, well, this is a, you
5 know, a cost savings, and I don't think it's a cost savings. I
6 just think it's a -- it's a money eater.

7 THE WITNESS: I don't know.

8 THE COURT: I mean, any time, you know, you have to
9 issue cards, you get involved in all kinds of -- and these
10 people already have cards. They have their flying cards.

11 MR. GALLAGHER: We'll be happy to try to address that,
12 Your Honor, and explain the proposal with our next witness.

13 THE COURT: Wait. I know what your proposal is. I
14 fail to understand how it saves you any money.

15 MR. GALLAGHER: And we will try to explain that to
16 Your Honor and --

17 THE COURT: Well, what's fifty times 6,000?

18 MR. GALLAGHER: Well, it's really times 50,000, Your
19 Honor, because it's all the employees who are going to pay \$50.
20 And the company thinks the costs of administration are very
21 modest because it already administers a pass program and it's
22 already in place.

23 THE COURT: So why does it need this one?

24 MR. GALLAGHER: Because this current one is free, Your
25 Honor, and this is a fee. It's a lesser fee than all the other

1 airlines are charging their employees. So it's a piece, Your
2 Honor. It's an effort to simply, as Mr. Coleman said, look on-
3 -

4 THE COURT: Okay. When we get to it, we get to it
5 because, you know, I looked at that and I said to myself, this
6 is not an economic proposition and it didn't seem to me that
7 it, you know particular was. I mean, it seemed to me if you
8 want to do something, you know, why don't you charge them \$25
9 every time they fly? Or \$50 every time they fly? Something
10 that would be, you know, related in some way to their usage
11 rather than just -- they all have identification.

12 MR. GALLAGHER: Absolutely, Your Honor.

13 THE COURT: Anyway, you may proceed.

14 THE WITNESS: Okay.

15 BY MR. GALLAGHER:

16 Q Mr. Coleman, on Page 9 you have the two boxes with Delta.
17 Under the pilot proposal with the 13.8 percent EBITDAR margin
18 and with the Delta proposal a 15.2 percent margin, in your
19 professional opinion, that looks -- as a layman, to me, that
20 looks like a small difference. What is your professional
21 opinion of that difference?

22 THE COURT: Which page are we looking at?

23 MR. GALLAGHER: Page 9

24 THE WITNESS: Page 9, and we're looking at the Row 4
25 and the Row 7, the two --

1 THE COURT: Okay. Yeah, well, he says in his
2 professional opinion it's higher and, therefore, it's better
3 because it puts you at Number 4 instead of putting you at
4 Number 6.

5 BY MR. GALLAGHER:

6 Q Is that the only difference, Mr. Coleman?

7 A No. I actually think it's gigantic, Your Honor. I think
8 it's really the difference between life and death. And it
9 doesn't look like a big percentage, but if you're down at 13.8
10 percent, you are going to be the victim of pricing attacks
11 until you cannot breathe anymore.

12 I think 15.2 percent is at the barest minimum level where
13 this airline ought to be able to compete with the rest of these
14 parties and stay in the game and be a viable airline. And I
15 really -- it doesn't look like a big difference, but I see it
16 as a very, very big difference, especially since it's an annual
17 number.

18 Q So, going back to the total \$3 billion Delta is seeking to
19 achieve as cost productions and revenue enhancements in its
20 business plan, is that an amount, in your view, that will bring
21 Delta to good financial health, or is that just the minimum or
22 the threshold?

23 A I see it as the minimum and I think Delta has got to
24 continue to drive costs out of this business. If they don't
25 get to that level, I don't think they've got very much of a

1 shot at surviving. I think it's the barest minimum and it's a
2 number they really need to hit.

3 Q Now, looking at Page 9 further, United Airlines is at 14.3
4 percent in these projections and they are reportedly about to
5 come out of bankruptcy. Is that right?

6 A That is correct.

7 Q So if United can do it, why can't Delta?

8 A I don't -- I can't speak to United's plan. I'm not the
9 person --

10 THE COURT: Probably that number is not accurate for
11 United.

12 THE WITNESS: I am assume --

13 THE COURT: Because it's based on some combination of
14 their pre-confirmation financials with some -- without properly
15 merging in the changes that will affect their financials post-
16 confirmation.

17 THE WITNESS: I don't know. It is what the street
18 analysts are saying, Your Honor.

19 THE COURT: Well, I know that, but they aren't always
20 right.

21 THE WITNESS: Well, if they're right, I think United
22 is in trouble and if they're, as you say, they're just not
23 picking up all their changes, then that just means there's more
24 competition and it makes it more difficult. So if any of these
25 other parties -- I've mainly, in this chart, been focusing on

1 AirTran, Southwest and Jet Blue, obviously, Continental is
2 right there with us. If United picks up more percentages, if
3 any of these other -- if American Airlines ends up in Chapter
4 11 or ends up with this contract they're trying to negotiate
5 right now, each of these parties is going to do what they can
6 to not lose out in this game.

7 THE COURT: Okay. To what degree are Delta's flights
8 competitive, in terms of where they go, with Continental?

9 MR. GALLAGHER: Your Honor, I know that Continental's
10 hubs are Houston, Newark and Cleveland and from Newark to
11 Florida is certainly competitive with Delta's markets from New
12 York to Florida, but Continental does have a focus in Central
13 America, some of which is competitive with Delta. That's a
14 very general response and I apologize I don't know more of the
15 direct competition.

16 THE COURT: Okay. But you don't consider their flight
17 patterns, if I might call it that, to be, you know, as
18 concerning to you as, say, Jet Blue's?

19 THE WITNESS: I would not. I wouldn't say that, Your
20 Honor. I think any airline can fly almost anywhere in the
21 United States. It depends on, obviously, slot availability and
22 things that, but I think this is about the ability to compete
23 on price.

24 THE COURT: I know. But if we just looked at what the
25 situation was today, Jet Blue doubles your flight -- many, many

1 of your flight patterns. Yes?

2 MR. GALLAGHER: Yes, Your Honor.

3 THE COURT: Whereas Continental does not double as
4 many?

5 MR. GALLAGHER: Well, I'm not sure if numerically
6 that's true, Your Honor, but what the problem is is competing
7 hubs and we might want to bring Mr. Kasper back to talk about
8 it, but when a passenger wants to go from Miami to Salt Lake
9 City, he can fly Miami to Houston on Continental to Salt Lake
10 City, or Miami to Atlanta to Salt Lake City on Delta. So, even
11 though the route is different, the competition is real. Both
12 airlines will post an origin in Miami and a destination in Salt
13 Lake City, but they will go over their own hubs instead of the
14 other guy's.

15 THE COURT: No, okay. No, that's what I wanted to
16 know. Thank you.

17 BY MR. GALLAGHER:

18 Q Back to Page 9, Mr. Coleman. I asked you a question about
19 United. Did you say that United's 14.3 percent margin, you
20 have --

21 THE COURT: What we have said is we're not positive
22 that the numbers for United are absolutely accurate because
23 sometimes, when they take them out of the disclosure statement
24 and those numbers aren't necessarily absolutely accurate and
25 they have to be mixed with the -- it may be correct, it may not

1 be correct.

2 MR. GALLAGHER: Okay.

3 BY MR. GALLAGHER:

4 Q In your professional opinion, Mr. Coleman, can Delta
5 Airlines successfully reorganize if it achieves -- if it does
6 not achieve the \$325 million in pilot cost reductions it has
7 proposed to ALPA?

8 A As I described before, I think it's the bare minimum. I
9 think this is what --

10 THE COURT: Okay. I think it's unfair to say that it
11 has to be 325 million of pilot labor cost savings. It could be
12 325 million of any other savings that would continue year after
13 year after year.

14 MR. GALLAGHER: We would agree with that as a
15 mathematical proposition, Your Honor.

16 BY MR. GALLAGHER:

17 Q Mr. Coleman, are you aware -- have you and Blackstone done
18 due diligence on whether Delta has exhausted all other
19 possibilities?

20 A I think Delta has taken, as you know, Your Honor, \$8
21 billion of revenue enhancements and costs out. There is a
22 group of people that will always be trying to take more costs
23 out, but in terms of thinking there's another pot that somebody
24 hasn't thought about or not covered or still has a chance to go
25 after, I don't think you have a large pot here. I think that

1 this is the barest of minimums to get this company out of
2 Chapter 11.

3 THE COURT: No, no. But you're -- all I'm trying to
4 say is there's nothing special about the fact that you take it
5 from the pilots. It's just that you think that's what we need
6 and you don't -- you can't think of any other source to get it
7 from?

8 THE WITNESS: Right. I think, if you wanted to
9 divorce whether it's even there or not, what I'm saying is,
10 this is the competitive cost structure they need. If there was
11 \$325 million somewhere else and they could take it from there,
12 God bless them.

13 Now, I would say one thing, Your Honor. We have to
14 think about the capital markets and the capital markets are
15 going to be the parties who hopefully provide exit debt and
16 equity financing to the extent equity is needed and they will
17 eventually trade this stock, which will have an impact on the
18 company's ability to raise money going forward and they do look
19 very carefully at the overall cost structure of an airline and
20 in particular, they look at the different components of cost
21 and they will look at these contracts and it will have an
22 impact on them.

23 I can't describe to you exactly what that would be,
24 but the capital markets will look at an airline and say, this
25 airline appears to be out of sync with the rest of the

1 industry, and note that. It doesn't mean that somebody
2 couldn't have higher costs on one component and lower costs
3 overall and that the capital markets would say, well, we're not
4 going to give them any money, but it is definitely a component
5 and they will look at that.

6 THE COURT: Okay. Can I ask you a question, because I
7 was talking about those bonds? Do you know which airports
8 there are bonds for?

9 MR. GALLAGHER: I would have to turn to Mr. Huebner,
10 Your Honor.

11 MR. HUEBNER: Your Honor, I think it's probably fair
12 to say that virtually all the airports that are major airports
13 for us, whether it's the Kenton County bonds in Cincinnati --

14 THE COURT: Well, can we just -- try giving me whether
15 that's five, ten or twenty-five? I mean, the number is like --

16 MR. HUEBNER: Yeah. Again, to back up one more
17 step --

18 THE COURT: It's large.

19 MR. HUEBNER: We have a huge number of bond issuances
20 arising out of three different phenomenon. There's 4.1
21 billion, as we discussed on Wednesday, of just general,
22 unsecured bonds --

23 THE COURT: Okay.

24 MR. HUEBNER: -- that are not tied to any specific
25 collateral pool and obviously not to a specific airport.

1 In addition, there are a large number of series of
2 bonds that are aircraft related, that secure and were provided
3 to finance either individual aircraft or groups of aircraft and
4 there are, how many? Five, ten, fifteen, twenty, twenty-five
5 aircraft with bond issuances?

6 UNIDENTIFIED: Aircraft-related? Oh, yes, easily
7 twenty or more --

8 MR. HUEBNER: Easily twenty or more. Then, Your
9 Honor, the third bucket, right, there's unsecured, there's
10 aircraft and then there's airport and my guess is that there
11 are probably --

12 UNIDENTIFIED: Nine or ten.

13 MR. HUEBNER: -- nine or ten airports at which there
14 was bond debt that was used in connection with those
15 facilities.

16 THE COURT: Okay. Now, I take it that the four point
17 one, general unsecured bonds, have been put in the category of
18 to be dealt with under the plan?

19 MR. HUEBNER: Your Honor, as Mr. Coleman testified on
20 Wednesday, the three-billion-dollar in-court business plan
21 includes savings, cash flow savings from a variety of sources.
22 One of the major sources is, I believe he testified, is that we
23 immediately, of course, as 502 requires, stopped paying
24 interest on those bonds the day we filed. That's a huge
25 element of pain and savings to us and clearly, there is a very

1 high probability that like all unsecured creditors, they will
2 receive whatever bankruptcy distributions are available.

3 THE COURT: Okay. And we have not yet dealt with the
4 airport-related issue because we have not yet gotten the second
5 United decision?

6 MR. HUEBNER: Your Honor, that issue is complicated.
7 There are some airports --

8 THE COURT: Oh, no.

9 MR. HUEBNER: No, it really is.

10 THE COURT: Oh, yeah?

11 MR. HUEBNER: Yeah.

12 THE COURT: You mean just because, for the last one
13 you gave me for LaGuardia, there's a 1980 bond that was
14 refinanced with a 1992 bond, using part of the 1980 papers and
15 it involves a lease, it involves pictures. I mean, it's got
16 eleven different documents.

17 MR. HUEBNER: And, Your Honor, that then -- obviously,
18 it is getting tremendously complex. Even more to the point,
19 there are certain facilities that we know are going to need, we
20 know are going to want and the structures, frankly, under the
21 current law, it's just not worth the legal candle to try to go
22 against them in any way and there's -- as you know, there has
23 been years of litigation in United over which airport revenue
24 bond structures are recharacterizable. In fact, under Second
25 Circuit law, which is what United and the Seventh Circuit had

1 been applying -- and that is still very --

2 THE COURT: What are they working on? PCH?

3 MR. HUEBNER: Yes. As of, of course, remember, PCH
4 recharacterized what looked like a lease as a mortgage.

5 THE COURT: Right. But that was a -- that was real
6 property. In real property, you've always got different
7 potential scenarios. In my recollection, it was a real
8 property lease.

9 MR. HUEBNER: Yeah. And a lot of ours are, as well.

10 THE COURT: Well, but not necessarily of the same type
11 of real property situation.

12 MR. HUEBNER: Yeah. Ours is cooler because we have
13 planes and hubs and things like that and obviously --

14 THE COURT: And linoleum?

15 MR. HUEBNER: I believe -- let me check with the CFO.

16 THE COURT: Or maybe, probably you put carpet down?

17 MR. HUEBNER: When we can afford it, Your Honor, we
18 do.

19 THE COURT: And then you've got the leases with the
20 deli people?

21 MR. HUEBNER: Which are often a source of revenue for
22 us under concessionary --

23 THE COURT: Well, that's good.

24 MR. HUEBNER: So, the short answer is, Your Honor,
25 yes. Our ARV approach with this Court and strategy is still

1 something that's developing and just to remind the Court what
2 you asked on Wednesday, which was a very important question and
3 I think you got the answer you were looking for: Does your
4 survival, does your business plan assume that I have ruled in
5 your favor on these recharacterization things that United
6 admittedly got ruled on in their favor? And our answer was no.

7 THE COURT: But they got ruled on their favor
8 principally on one of them, where the lease was not for the
9 same property that the bonds were on, I think.

10 MR. HUEBNER: Again, I don't want to --

11 THE COURT: I don't want to argue with you. What I'm
12 just saying is that --

13 MR. HUEBNER: The short answer is we didn't because it
14 would have been highly imprudent to -- that was not intended,
15 Your Honor, to assume --

16 THE COURT: You know something? When I went to law
17 school, the first thing somebody said to me was, oh, is your
18 last name juris. And I thought to myself, if I had thought
19 somebody was going to say that, I would never have gone to law
20 school.

21 MR. HUEBNER: Your Honor, I think you picked the wrong
22 gig, then.

23 In any event, just to finish and then I'll sit down,
24 our business plan, the three billion, does not assume that
25 because, as we already learned from Your Honor, there can be no

1 certainty and to stake our survival on winning some litigations
2 that are, at best, extraordinarily complicated, would have been
3 pure breach of fiduciary duty.

4 THE COURT: I mean, they are extraordinarily
5 complicated. I can't say, because I haven't reviewed the
6 document in that many of them, that you might not be able to
7 prevail, but --

8 MR. HUEBNER: Uh-oh. But isn't that --

9 THE COURT: That -- wait --

10 MR. HUEBNER: -- precisely what you're doing here, Mr.
11 Huebner?

12 THE COURT: No. I want to say that there was --
13 there's been some dispute about a new lease in my co-op and one
14 of the people on the board got very upset at the way people
15 were responding to this, by not saying he was wonderful and he
16 sent a letter around to everybody in the building. He said,
17 the attorney said we could do this and I sent him a letter back
18 and I said, attorneys do tell you what you can -- what it is
19 that's the limit of what you can do, they don't tell you what
20 you ought to do, that's your judgment.

21 MR. HUEBNER: We agree, Your Honor.

22 THE COURT: And I think there are going to be a lot of
23 things in this case that are going to fit right into that case,
24 which is that you could tell them that yes, they legally could
25 do something, but that it might not be the right choice.

1 MR. HUEBNER: I'll stay seated if Mr. Simon will, Your
2 Honor.

3 THE COURT: What?

4 MR. SIMON: Your Honor, Mr. Huebner stood up to say
5 that it would be imprudent, in effect, to bet the fate of this
6 company on the outcome of litigation, but that's precisely --

7 THE COURT: No, that's not what he said. What he said
8 was we were talking about the litigation over the airport
9 terminals --

10 MR. SIMON: I understand.

11 THE COURT: Okay. And --

12 MR. SIMON: I am simply taking that same principle and
13 applying it to this matter. This company is betting -- this
14 company, on the outcome of litigation and they have failed to
15 take into account that if they win, they lose.

16 THE COURT: Look, I understand your view. I think
17 that the code contemplates that the parties should continue to
18 negotiate and frankly, I have never been a person, as a judge,
19 who felt that I should get involved in what your negotiations
20 were and I don't really -- have never had much luck with
21 mediators, despite the fact that all my colleagues think that's
22 -- it's the best thing since sliced bread. The only times that
23 I've had good luck with mediators is where it's been a
24 construction dispute over changeorders and I've had good luck
25 there because it's really a -- you know, it's a paper job and

1 it, you know, it sort of goes.

2 But okay. Now, do you really think, sort of -- so
3 this is why I have not suggested that you, you know, get on our
4 mediator list or whatever, because I don't really think it
5 would help. I feel confident that you know how to negotiate
6 because you've done it a lot before. I assume that they know
7 or can learn how people negotiate with you, so there we are.

8 Okay. So now we're moving to Page 10, can we please?

9 MR. GALLAGHER: Yes, Your Honor.

10 THE COURT: Thank you.

11 BY MR. GALLAGHER:

12 Q Mr. Coleman, I think we've already reviewed Page 10 in
13 terms of the growth of the other airlines. Is that right?

14 A That's correct.

15 Q And do you want to move to Page 11?

16 A Yeah. I think that's a good idea.

17 Q So we're leaving EBITDAR for the moment?

18 A We are. Page 11, Your Honor, is just to touch back on some
19 of the cash flow numbers that you saw on the '06 and '07
20 charts, on the projections and it shows that while we're
21 talking about EBITDAR and our EBITDAR margin --

22 THE COURT: By the way, is it fair to say that ALPA's
23 proposal would drain Delta's liquidity by 450 million or is it
24 fair to say that it would not enhance it?

25 THE WITNESS: The business plan would be drained, Your

1 Honor.

2 THE COURT: Okay. So that --

3 THE WITNESS: And that is -- these are projections, so
4 I would say --

5 THE COURT: It doesn't actually drain it. It just
6 doesn't fill the pond.

7 THE WITNESS: If you assume that they plan was the
8 plan, it's a drain from that.

9 THE COURT: Okay.

10 THE WITNESS: If you assume you never had it --

11 THE COURT: No, I'm just saying that there's two
12 different ways you could read that thing.

13 THE WITNESS: That's fair. We could probably change
14 that word without much effort.

15 THE COURT: I don't mean that you change it.

16 THE WITNESS: Okay.

17 THE COURT: I'm just trying to make sure I understand
18 which way it's to be read?

19 THE WITNESS: Right. All it means is if we don't
20 receive the --

21 THE COURT: Okay. I understand it.

22 THE WITNESS: Right. And it's \$450 million and the
23 thing I was describing earlier, which is while a billion
24 dollars looks like a lot of money in '07 as cash, as you were
25 describing, we talked about \$11 billion of secured debt. We

1 haven't spoken, really, much about Evian Flu (sic) -- I keep
2 saying that wrong.

3 THE COURT: Avian.

4 THE WITNESS: I keep wanting to say "Evian," which
5 would be good.

6 THE COURT: It's an A.

7 THE WITNESS: Bird flu.

8 THE COURT: You know something? I think that if it
9 became known as Evian Flu, that Evian would become very
10 unhappy.

11 THE WITNESS: They probably wouldn't like the generic
12 use of their name.

13 THE COURT: They probably should change it.

14 THE WITNESS: If there was a bird flu or future shocks
15 in fuel, which many people predict, obviously, we haven't
16 spoken that much about terrorism and one thing we have not
17 really discussed at all and is not in the forecast for '06 or
18 '07 is a recession and when you look at our country and our
19 deficit and our national debt and our savings rate or lack
20 thereof and you know, you can keep going on and on, I am hard
21 pressed to believe that at some point, we won't see a recession
22 in our future. So all of this money --

23 THE COURT: Well, okay. Let me ask you a question and
24 I know I asked you this the other day and I would just like to
25 make sure I have recorded the answer correctly. When I asked

1 you about Avian Flu, I asked you, would it have a domestic
2 impact and you, I believe, said to me you thought the impact
3 would be primarily international.

4 THE WITNESS: It was Mr. Kasper that you asked that
5 question to.

6 THE COURT: Oh.

7 THE WITNESS: But I actually don't think I entirely
8 agreed with him. The -- it was an international bug, and so
9 people on international flights were very concerned and people
10 were wearing masks around Hong Kong and on flights and such,
11 but it does have an impact on people's willingness -- they
12 start to think about, should I be on -- I thought about it.
13 Let me just say it from my perspective. Do I want to be on a
14 plane? Because when you get on a plane at JFK, a high number
15 of the people on that plane are coming from one of those
16 countries. So, it isn't that it just sort of stops at New York
17 and everybody gets off and, you know, they exhale the breath
18 from wherever they were and everything is hunky dory.

19 So I think -- I think Mr. Kasper was saying he did
20 think it had a domestic impact. Clearly, it had a very large
21 international impact, but it would feed into our system.

22 THE COURT: Well, you don't think they put in a
23 Hawaiian -- spray you on the plane system?

24 THE WITNESS: You mean like the kind that you get when
25 you come from the Far East to London or something like that?

1 THE COURT: Well, I haven't been to Hawaii for a long
2 time, but it used to be when you got on the plane in Hawaii --

3 THE WITNESS: Right. They sprayed you.

4 THE COURT: They sprayed the whole plane while you
5 were sitting in it.

6 THE WITNESS: I've sat on British Air getting sprayed
7 coming back from Thailand. I don't think that had anything to
8 do with SARS, to tell you the truth, Your Honor.

9 THE COURT: Well, I don't think this -- I mean, I know
10 that from Hawaii, it had to do with fruit --

11 THE WITNESS: Right.

12 THE COURT: -- exchange of various fruit pests.

13 THE WITNESS: Right. There's a lot that passes
14 through on this international commerce, but it does not stop at
15 your border and if you think about variety -- a variety of
16 things that have come through our country, you remember the
17 Swine Flu which, I think, came from Hong Kong, as I recall.
18 That was definitely a flu that people were very concerned about
19 domestically.

20 MR. GALLAGHER: There were certainly press reports,
21 Your Honor, that the domestic poultry entry -- industry is on
22 high alert, with massive precautions to avoid the introduction
23 of any -- the birds, apparently, have migratory patterns that I
24 can't describe, but that risk of contaminating the poultry
25 flocks, without human contact, and so there --

1 THE COURT: No, without chicken content.

2 THE WITNESS: Somehow, cows have nattily cow flied
3 over from the UK. I don't quite know how they've done it,
4 but --

5 THE COURT: Well, actually, I think there's some
6 reason to believe that they haven't come from the UK and that
7 it has been an independent --

8 THE WITNESS: Outbreak?

9 THE WITNESS: It may have been an independent outbreak
10 because what they found was that English farmers were importing
11 feed from the Far East, it may have been India, where the feed
12 was ground up --

13 THE WITNESS: Contaminated.

14 THE WITNESS: -- meat products that included ground-up
15 brain, which has generally been regarded as the primary source
16 of it.

17 THE WITNESS: Right. I was actually just kidding
18 around a little bit, but I think that's right.

19 THE COURT: But, no. But I'm just saying, yes. I
20 mean, you know, I mean, after five years, this is the first
21 time you read it in the newspaper, that's what they think the
22 source is?

23 THE WITNESS: Right. I know when SARS broke out, I,
24 myself, would -- and I usually fly every week, I know I was --
25 I didn't do anything about it, but I certainly thought about it

1 when I was on planes.

2 THE COURT: Well, the Chinese certainly have a large
3 number of those white masks.

4 THE WITNESS: They're not very comfortable.

5 MR. GALLAGHER: May I proceed, Your Honor?

6 THE COURT: You may.

7 BY MR. GALLAGHER:

8 Q Mr. Coleman, taking you back to Page 11, to the bottom
9 line --

10 A Right.

11 Q -- literally, on the page, perhaps also the bottom line of
12 capital improvements and growth. Does that include new
13 airplanes?

14 A Yes. The '06 and '07 plan is really a turnaround plan, a
15 cost-cutting, revenue-enhancement plan. It has not taken into
16 account growth, new aircraft and as you know, Your Honor, the
17 LCCs are delivering new aircraft constantly. Delta needs to be
18 able to turn its attention, once it has improved its margin, to
19 really then grow in the airline and retaking position of its
20 fleet.

21 THE COURT: Yeah, but why do we need more airplanes,
22 when you consider --

23 THE WITNESS: Not --

24 THE COURT: -- when you consider that we already have
25 more airplanes than Jet Blue has and it is as if, you know, we

1 should try to figure out how to make them look prettier?

2 THE WITNESS: Well, the question is not so much
3 beauty, although I think that does impact travelers. It's the
4 tradeoff between lease cost and maintenance cap-ex costs and
5 what impact it has on your operations from a cost standpoint,
6 in terms of just maintaining the aircraft, but also from a
7 delay standpoint a mechanical standpoint and I do think that
8 passengers, I do, again, I'll speak only for myself, when I see
9 an old, rickety plane, I think to myself, I wish I wasn't on
10 it. Now, there's no history, no evidence to show that, but --

11 THE COURT: No, I understand what you're saying. I'm
12 just saying, at some point, you know, one has to take account
13 of the fact that when we reject these airplane leases, we're
14 going to be left with a claim in the case.

15 THE WITNESS: Correct. I'm not talking about
16 rejections. I'm really talking about the natural, as leases
17 expire in the future, a new fleet plan is implemented.

18 THE COURT: Okay.

19 THE WITNESS: There definitely needs to be a new fleet
20 plan.

21 BY MR. GALLAGHER:

22 Q And if Delta wanted to add pilot jobs, it would need to add
23 airplanes, would it not?

24 A Airplanes and growth.

25 THE COURT: Oh, it doesn't need to add any more

1 pilots. Its got plenty of pilots as it is.

2 MR. GALLAGHER: For now, that's true, Your Honor.

3 THE COURT: You've got them on furlough.

4 MR. GALLAGHER: But hopefully not for long.

5 BY MR. GALLAGHER:

6 Q What is on Page 12, Mr. Coleman?

7 A Page 12 is a very simplistic example of costs of terrorism,
8 if you will. And all we have done here, Your Honor, this is
9 supposed to be a one-quarter impact of September 11th, 2001.
10 The first box on the left, which says \$146 million, was the
11 cash -- this is now a different -- this is not EBITDAR. It's
12 actual cash from operations, of fourth-quarter --

13 THE COURT: Okay. I understand that. You go from one
14 forty-six up to --

15 THE WITNESS: Down to.

16 THE COURT: -- two ninety-eight. Down. And when you
17 add them up, you get four forty-four.

18 THE WITNESS: Right. Now, there could be other things
19 that cause some of that change, but --

20 THE COURT: Okay. That's fine.

21 THE WITNESS: It's an example of one quarter. This
22 doesn't count the quarters behind it, which a lot of money was
23 lost, also, but it's a four-hundred-and-approximately-fifty-
24 million-dollar swing, which, as you know, is a lot of money.

25 THE COURT: Okay. Now there's cumulative fuel costs

1 above plan. I'm not sure I quite understand this.

2 THE WITNESS: This is purely taking each month's cost
3 of fuel, where fuel was higher than what the business plan for
4 '05 --

5 THE COURT: Okay. And was is four -- the four
6 seventy-five is what it would be if I actually could bring it
7 down properly?

8 THE WITNESS: I don't know where you're --

9 THE COURT: And the six four --

10 THE WITNESS: Oh.

11 THE COURT: They're right in the debt in the middle.

12 THE WITNESS: No. Those are the end of July and the
13 end of August and that is what the cumulative effect was at
14 that point in time. We talk about the billion four --

15 THE COURT: No, okay. But what I'm saying is, that's
16 strictly speaking if I would draw a line across to the --

17 THE WITNESS: Yes.

18 THE COURT: -- numbers running up the side. I should
19 get something close to that?

20 THE WITNESS: To the bold line. Frankly, I asked for
21 these to be put in because I can never get my finger to go over
22 there and be able to tell you what the actual number is.

23 THE COURT: No, but I mean, that's what they --

24 THE WITNESS: That's all it is.

25 THE COURT: Okay.

1 THE WITNESS: That's just telling you if you had
2 stopped at the end of July.

3 THE COURT: Right.

4 THE WITNESS: That's what the extra fuel cost had cost
5 us.

6 THE COURT: Okay. And the 1.4 billion is?

7 THE WITNESS: For all of '05. So that has --

8 THE COURT: Okay.

9 THE WITNESS: -- two months of projected fuel costs in
10 it.

11 BY MR. GALLAGHER:

12 Q So, when Delta was in the process of deciding, initiating
13 preparations for bankruptcy beginning at the end of July and
14 continuing through the end of August --

15 THE COURT: It ran into a big storm.

16 BY MR. GALLAGHER:

17 Q But only half of the impact of fuel had already hit, but --

18 A Right.

19 Q But nonetheless, a crisis was at hand?

20 A Right. By the end of August, when the company was working
21 hard on the debtor and possession agreement, we had only -- it
22 only cost us \$642 million at that point in time, although there
23 was no real sign of abatement.

24 Q Mr. Coleman, were you in court on Wednesday, when Mr. Simon
25 spoke with Mr. Kasper about the daily price of jet fuel?

1 A I was.

2 Q And Mr. Simon told Mr. Kasper that the closing price of jet
3 fuel, I think the close of business the day before, which would
4 have been Tuesday, was \$1.56 per gallon. Do you know what the
5 closing price of jet fuel was on Thursday?

6 A You mean yesterday?

7 Q Yes.

8 A My understanding was \$1.65, although I must say that for
9 Delta, Your Honor, we typically look at the price, and this is
10 in --

11 THE COURT: And no, we don't look at the right price
12 and so there's always a little bit of a variance because we're
13 looking at car fuel instead of jet fuel.

14 THE WITNESS: No. I was actually going to make a
15 little bit of a different point. Those prices are jet fuel
16 prices, but they are not at Delta's planes. There is a
17 transportation charge that Delta experiences, which is another
18 five cents. So when you look at the \$1.65 from yesterday,
19 that's actually \$1.70. So comparing to the plan of \$1.73 from
20 '06, if you leave the five cents off, it's actually a false
21 reduction. So the \$1.56 would have been \$1.61 from a couple of
22 days ago and the \$1.65 is actually \$1.70.

23 Q So --

24 THE COURT: Okay. Now, does that five cents depend on
25 which pipe you're taking it off of?

1 THE WITNESS: It's the overall cost that Delta
2 experiences throughout the country of where its fuel is
3 delivered, so I'm sure it matters. I'm, believe me, not the
4 expert on this, but I'm sure it matters, pipe, distance, and
5 all of that. But there --

6 THE COURT: But the averages?

7 THE WITNESS: That's the -- that is the cost over --
8 the average cost, correct, for their system.

9 BY MR. GALLAGHER:

10 Q Mr. Coleman, you filed a declaration in this matter that
11 was executed on November 1st. Is that right?

12 A I believe that is correct.

13 Q All right. And do you adopt and incorporate that
14 declaration into your testimony, as if you had so testified
15 here today?

16 A Yes, I do.

17 Q And all of the facts and opinions recited therein remain
18 true and correct --

19 A Yes.

20 Q -- to the best of your knowledge?

21 A Sorry. Yes. They do -- they are.

22 MR. GALLAGHER: With that, Your Honor, I have no
23 further questions for Mr. Coleman. I would offer into evidence
24 Mr. Coleman's declaration and Exhibits 90 and 91, that the
25 witness has discussed.

1 THE COURT: Okay. Can we take, like, ten minutes and
2 give you time to stretch your legs and think about what you're
3 going to say?

4 MR. GALLAGHER: Thank you, Your Honor.

5 (Recess taken at 3:37 p.m.)

6 (Proceedings resume at 3:59 p.m.)

7 THE COURT: You may be seated.

8 Okay. Monday, 12:30 we're taking Delta matters that
9 are not the labor contract. That's what I understand. The so-
10 called undisputed orders, the ones that somebody thinks I
11 should close my eyes and sign, but which I don't, and the
12 disputed ones.

13 I think the assumption is that will take forty-five
14 minutes or an hour.

15 (Court and court personnel confer.)

16 THE COURT: Okay. That I hear is supposed to take
17 forty-five minutes. That would put us at 1:15. So why don't
18 we start this at 1:30 to allow for that little --

19 (Court and court personnel confer.)

20 THE COURT: Okay? So that -- so it's 1:30 for the
21 union matter and it's 12:30 for the non-union matters, which we
22 keep having this debate because they say they're not objected
23 to. And I say, well, until I've signed them they're objected
24 to because you can't make me sign an order that I don't want to
25 sign, and I'm not supposed to sign an order that I haven't

1 reviewed, so ... okay.

2 So you may go forward.

3 MR. GALLAGHER: One housekeeping matter, Your Honor?

4 THE COURT: Yes.

5 MR. GALLAGHER: I don't think on the record we got a
6 ruling on the admissibility of Mr. Coleman's declaration and
7 exhibits. I don't believe there was an objection, but --

8 MR. SIMON: I was about to stand up. I have no
9 objection to anything. I would like a voir dire on Exhibit 91,
10 but no objection --

11 THE COURT: Okay, that's fine.

12 MR. SIMON: -- to the others.

13 THE COURT: Sometimes I just forget to say "yes."
14 You'll never hear me forget to say "no."

15 MR. GALLAGHER: Thank you, Your Honor.

16 THE COURT: Okay. We're on 91?

17 MR. SIMON: Yes.

18 THE COURT: Okay.

19 **VOIR DIRE EXAMINATION**

20 **BY MR. SIMON:**

21 Q Mr. Coleman, when did you prepare Exhibit 91?

22 A 91 was prepared by my team, and I starting after the
23 hearing on Wednesday, yesterday, and a couple of changes this
24 morning.

25 Q Did either you or your team or Delta management, if you

1 know, share the material and the analysis in Exhibit 91,
2 particularly with regard to the EBITDAR analysis, with ALPA,
3 either before or during the Section 1113 negotiations?

4 A Could you -- I apologize. Just if you would repeat that,
5 or read it back, either way?

6 Q Could the reporter please read it back?

7 THE COURT: Do you know how to read it back?

8 MR. SIMON: I'll go again.

9 THE COURT: Okay.

10 BY MR. SIMON:

11 Q Did either you or your team or Delta management, if you
12 know, share the material and the analysis in Exhibit 91,
13 especially with regard to the EBITDAR analysis, with ALPA
14 before or during the Section 1113 negotiations?

15 A I think I just testified that this exhibit was just created
16 as of Wednesday.

17 Q I asked you with regard to the material set forth and the
18 analysis --

19 THE COURT: Okay. It doesn't have to be whether it
20 was on this page?

21 MR. SIMON: That is correct.

22 THE WITNESS: So it could be just any of the materials
23 that might have been used --

24 THE COURT: I think he's asking whether the material
25 which is contained in Exhibit 91, whether it was contained in

1 exactly that form or not --

2 MR. SIMON: That's correct.

3 BY MR. SIMON:

4 Q The material and the analysis.

5 A Okay. The answer is yes and no. Some of this material
6 definitely would have been shared because, for instance, Delta
7 history on EBITDAR, that's something I would be surprised to
8 hear that ALPA hasn't received.

9 I can't think individually about each of these, whether
10 they have or haven't. And, as you know, I'm not the person
11 often in front of ALPA. But I have to believe that EBITDAR,
12 EBITDAR margin, revenues historically and forecasts, I believe
13 all of those have been shared.

14 The information on the other airlines is all a matter of
15 public record, so I would assume that the financial advisors
16 for that -- for ALPA have been looking at that information.

17 So I would say a fair amount of this has been shared, not
18 all of it.

19 Q Including your life-and-death analysis on what EBITDAR
20 margin has to be attained in order for Delta to survive?

21 A I don't recall on that topic.

22 Q Is it fair to say, Mr. Coleman, that you know fully well
23 that it was not?

24 MR. GALLAGHER: Objection, Your Honor. Calling for an
25 impossible conclusion from the witness. How can he possibly

1 know the negative of what was never shared?

2 THE COURT: Well, he -- we're asking him whether he
3 did something and he certainly knows whether he did it.

4 MR. GALLAGHER: I agree totally, Your Honor. That
5 certainly wasn't the way Mr. Simon phrased the question.

6 THE COURT: I thought it was the way Mr. Simon put it.

7 MR. SIMON: I asked him if he or his team or to his
8 knowledge whether the Delta management team --

9 THE COURT: Yes. I don't think he asked anything that
10 was beyond his --

11 THE WITNESS: When you say the "death march," you're
12 talking about Page 9, I assume?

13 BY MR. SIMON:

14 Q Well, just as an example.

15 A Right. I don't know that I have done that with ALPA in
16 this kind of setting. As I said, we've looked at these kinds
17 of margins -- well, certainly revenue and EBITDAR they should
18 have. Whether this margin analysis in this way has been shown
19 to them or not, I don't recall.

20 Q Well, most specifically, your conclusion, your conclusion
21 that the difference between 13.8 and 15.2 is a matter of life
22 and death for an airline.

23 A I don't believe I've used those words with ALPA, no.

24 Q By the way, while we're on that, does -- well, no, that
25 goes beyond voir dire.

1 MR. SIMON: Your Honor, one of the necessary
2 ingredients in Section 1113 is that the debtor share with the
3 union material, financial information necessary to -- reliable
4 information available at the time of the proposal which
5 provides the necessary modifications. I would suggest that
6 since this analysis, and I believe a fair reading of Mr.
7 Coleman's testimony reveals that this material was not -- and
8 the analysis was not shared with ALPA, that the exhibit should
9 be rejected.

10 MR. GALLAGHER: Your Honor, there's certainly no
11 evidentiary basis to reject the exhibit. And our next witness,
12 Your Honor, will demonstrate I think convincingly to the Court
13 that ALPA received every business model, every piece of
14 supporting data, and every piece of information they asked for.
15 And they have their own very sophisticated professional
16 analysts --

17 THE COURT: I don't think that this is the kind of
18 thing that you're arguing about. I think that I should allow
19 that objection to that exhibit to be reserved for further
20 testimony because you haven't yet put on --

21 MR. SIMON: I understand the ruling, Your Honor, and
22 accept it.

23 **CROSS-EXAMINATION**

24 **BY MR. SIMON:**

25 Q Well, let's, while we're on Page 9 let's stay there. Is it

1 then your conclusion and your professional opinion that U.S.
2 Airways and American, falling below your life-and-death
3 analysis, are doomed to failure?

4 A What I testified to, and I will stand by, is that any party
5 that is not able to compete with the leaders in an industry
6 will eventually not survive.

7 What I also said in that testimony is that it was my view
8 that U.S. Airways numbers probably would change as that company
9 continues to work on its merger. United Airlines, Her Honor
10 talked about whether that was something that might change as
11 the result of it being mostly from its disclosure statement.

12 But I do stand by that if somebody is trying to compete in
13 this industry down in those ranges and they persist in being in
14 those ranges, that ultimately I don't think that they will make
15 it.

16 Q So, to be specific, if United remains at the forecast
17 margin you have on Page 9 of Exhibit 91, if U.S. Airways
18 remains at the margin you have forecast on that same page, and
19 if American remains at the margin you've described, not only is
20 Delta doomed to failure and death, but so are United, USAir and
21 American?

22 A I didn't say it that way, but let me get to your answer
23 that you're looking for. There are two Deltas on this line --
24 on this page. And I assume you're talking about the Delta with
25 the \$100 million.

1 Q You're quite correct.

2 A Okay. It is my view that the parties that are down below
3 those levels, 14.3, 13.8, 12.8 and 12.4, to the extent -- and
4 that would be United, Delta, with the \$100 million of savings,
5 U.S. Airways and American Airlines, if they are not able to
6 change their operating profile, they will not survive in this
7 industry.

8 I didn't say whether it would be next week, next year or
9 five years, but it is I think practically impossible for them
10 to survive with airlines that have these dynamics.

11 And I did also -- the judge talked about whether some of
12 these airlines could keep those margins. But it is my view of
13 the -- if the dynamic on this page persists, both from the top
14 of it and the bottom of it, and there's no evidence it won't,
15 that those airlines are in trouble of surviving.

16 Q Mr. Huebner is always anxious to educate not only the back
17 of the room but the national media, and just so that we're
18 tying it down, so that based upon this document, unless this
19 changes, United, Delta at only a hundred million in savings,
20 and by the way, Your Honor, the savings for the ALPA proposal
21 is 125 million in the first year and I believe 115 -- what's in
22 the second year? One fifteen in the second year, not a hundred
23 million.

24 But let's take United Airlines, Delta at a hundred million
25 in savings, USAir and American are all doomed to extinction.

1 A I think I've testified to that now several times. What I
2 said was --

3 Q Thank you. You have and I'll accept your answer.

4 A Thank you.

5 Q It is a fact, is it not, that notwithstanding your
6 analysis, both USAir and American have both raised significant
7 equity in the current market, have they not?

8 A U.S. Airways has raised equity as part of the merger. I'm
9 not recalling at this moment AMR's recent equity raise, if
10 they've done that.

11 Q Staying --

12 THE COURT: I thought you were talking about United.

13 MR. SIMON: I was talking about the fact that USAir
14 and American both listed --

15 THE COURT: Okay, I'm sorry. I'm sorry. I misheard
16 you.

17 MR. SIMON: -- both listed for extinction.

18 BY MR. SIMON:

19 Q And, in fact, United has just raised two, three -- two --

20 A Three.

21 Q Three. Has just raised \$3 billion in exit financing
22 notwithstanding their being doomed to extinction on this page.
23 I just made a note and I didn't ask you a question.

24 MR. GALLAGHER: Well, Your Honor, I would ask that the
25 witness be allowed to respond.

1 MR. SIMON: He can respond on direct. I have the
2 privilege of asking questions and getting answers.

3 MR. GALLAGHER: Well, Your Honor, I thought the
4 witness had an answer to United --

5 MR. SIMON: I didn't ask --

6 THE COURT: He didn't ask a question.

7 BY MR. SIMON:

8 Q Mr. Coleman, looking again at Page 9 of Exhibit 91, and
9 looking at the difference between the 13.8 percent margin which
10 you say dooms this airline to extinction, and the 15.2 percent
11 margin which were three hundred twenty-five in savings would
12 save it, although only marginally as you believe, can you tell
13 us what the EBITDAR margins would be when Delta terminates its
14 pension plan and the expense no longer attributable to that is
15 included?

16 A I would say two things. First of all, I have not said any
17 of the words that you're using. I'm not talking about dooming
18 or failure or any of those things and I, frankly, don't think
19 it's fair to ask questions in a way that leaves me as if I said
20 something because I didn't.

21 Q Frankly, I'm not interested in your version of fairness.

22 THE COURT: Okay. I'm sorry. I would have said that
23 maybe you didn't use those words, but they are what I heard.

24 THE WITNESS: I've never used the words "doomed to
25 failure," Your Honor. I have said that I don't believe they'll

1 survive and perhaps --

2 THE COURT: Okay. Sometimes when you say something,
3 sometimes when you say something other people hear -- somehow
4 hear it -- hear through it to a substance. And I would have
5 said that I heard the same thing he heard. But if that's not
6 the way you want to put it, well, fine.

7 THE WITNESS: Thank you.

8 BY MR. SIMON:

9 Q Is it not a fact -- is it not a fact that if Delta were to
10 terminate its pension plan, its savings which would flow
11 through to EBITDAR would place it at the 15.2 percent you claim
12 to be the survivable EBITDAR margin?

13 A What you're talking about is pension accounting, which I'm
14 not an expert. But there is \$185 million of non-cash expenses
15 that has been estimated by those who seem to know something
16 about it that should be saved as a consequence of a full
17 termination of that pension plan.

18 I don't believe --

19 THE COURT: Which pension plan are we talking about?

20 THE WITNESS: The pilot pension plan, Your Honor. But
21 that --

22 THE COURT: Wait, wait, wait.

23 MR. SIMON: The defined benefit pension plan.

24 THE WITNESS: The defined --

25 THE COURT: Well, okay, but there are two defined

1 benefit plans.

2 MR. SIMON: For the pilots.

3 THE COURT: Okay. Okay.

4 THE WITNESS: I don't believe that that has any impact
5 on this analysis for that as accounting.

6 THE COURT: Wait, wait, wait. I'm sorry. How could
7 it not have any impact on the accounting?

8 THE WITNESS: What I'm testifying to, Your Honor, and
9 I want to be very --

10 THE COURT: It's money you don't have to spend.

11 THE WITNESS: No. The money that we don't have to
12 spend is already not being spent because the programs have been
13 frozen, the hard-freeze that others before me have talked
14 about.

15 What he is talking about --

16 THE COURT: We only have a soft freeze on the airline
17 pilots. We have a hard-freeze on the other employees.

18 THE WITNESS: What he is describing is an expense that
19 the company would no longer have to expense. It has nothing to
20 do with cash into the plan.

21 BY MR. SIMON:

22 Q Does it have to do with EBITDAR, Mr. Coleman?

23 A I'm not a pension expert and I don't recall where it goes.

24 THE COURT: No, no. What I'm saying is let's just
25 assume that there is \$185,000 (sic) of something the company

1 doesn't have to spend.

2 THE WITNESS: You see, there's -- you're using the
3 perfect word because it's not about spending.

4 If the pension plan were terminated, the --

5 THE COURT: Yeah. But what I'm saying to you is,
6 isn't EBITDAR affected by your expenses?

7 THE WITNESS: EBITDAR is affected by the expenses.

8 THE COURT: Okay. So if we were to remove something
9 from the non-operating expenses that was \$185 million, it would
10 affect the rest of the numbers, yes?

11 THE WITNESS: It would affect the numbers, Your Honor.
12 But what we've been -- what I've been trying to describe is it
13 would not change the spend. It would be --

14 MR. SIMON: But we're talking about --

15 THE WITNESS: Excuse me. I'm not finished -- I am not
16 finished with my answer.

17 THE COURT: Wait, wait. Why would it not change the
18 spend?

19 THE WITNESS: Because when the program is frozen, soft
20 or hard, when it is frozen the expenditure of money stops going
21 in. All they're talking about is --

22 THE COURT: No, no. I'm trying to talk to you about
23 something that's different than what you're trying to think
24 about.

25 THE WITNESS: Okay.

1 THE COURT: I'm saying to you, let's assume that for
2 the year 2006 that \$185 million of money that would otherwise
3 have to be paid is not paid because the union agrees it does
4 not have to be paid.

5 MR. GALLAGHER: If I may, Your Honor? There is no
6 money scheduled to be paid.

7 THE COURT: Oh, please. Let's just try to get an
8 answer to this and then we can move on, because I understand
9 that there is only a soft freeze with respect to the pilots.
10 That means that they could stick in that position or then go to
11 a hard-freeze where everything changes.

12 THE WITNESS: Let me try --

13 MR. GALLAGHER: Yes, Your Honor. And even if they do,
14 there still will not be the hundred-and-eighty-five-million-
15 dollar payment.

16 THE COURT: Why not?

17 MR. SIMON: But there will be the \$185 million
18 expense. Your Honor --

19 THE COURT: Wait, wait, wait. Can I ask the question
20 why do you think it won't be paid?

21 MR. GALLAGHER: Because, Your Honor, it is not being
22 paid today.

23 THE COURT: It doesn't mean I won't direct you to pay
24 it.

25 MR. GALLAGHER: Well, that -- no one has asked you to

1 pay it yet to the best of my knowledge, Your Honor, because it
2 is only an accounting charge. And it only arises if the plan
3 is terminated. And no one has suggested -- Mr. Simon has
4 suggested, but the company has not proposed, has not proposed
5 to any time ever terminate, terminate rather than freeze --

6 MR. SIMON: Guarantee us right here today that you
7 won't and we have a great deal to make, Jack.

8 MR. GALLAGHER: The pilot pension plan --

9 MR. SIMON: Don't say you don't have an intention you
10 haven't stated. Tell me now. Tell the Court now you will not
11 terminate the pension plan, we'll go out in the hall and we'll
12 get a deal.

13 MR. GALLAGHER: Your Honor, the company's --

14 THE COURT: You have told me that -- I don't mean you,
15 but I have been told in this room by people on behalf of Delta
16 that both pension plans would be terminated and put to the
17 PBGC.

18 MR. GALLAGHER: No, Your Honor, that is definitely not
19 correct.

20 THE COURT: I am afraid that is what I have been told.
21 It may not be correct, but it is what I have been told.

22 MR. GALLAGHER: Well, Your Honor, we'll search the
23 record to find out if that representation was made. And if it
24 was, we'll get the person who made it to come in and correct it
25 because that is not the case. That is an anxiety, a worry, a

1 concern --

2 MR. SIMON: Then relieve us of the anxiety and the
3 concern, Jack. Just say, don't worry, guys, we're not going to
4 terminate your plan.

5 MR. GALLAGHER: Your Honor --

6 MR. SIMON: Utter those words, we'll go in the hall
7 and we'll get a deal.

8 MR. GALLAGHER: Your Honor, the company's proposal for
9 a freeze keeps the plan trust funds in existence, keeps the
10 benefits flowing to those who already retired, preserves the
11 benefits for these pilots who are working that are already
12 accrued, so that they'll get them in the future.

13 If the plans are terminated, that's something entirely
14 different. Then it defaults to the PBGC. People --

15 THE COURT: Okay. All I'm saying to you is now maybe
16 this was my mistake. That at the time we had the hearing on
17 the hundred and sixty, hundred and sixteen, whatever it was,
18 million lump, I believed that that was a lump that went into a
19 single plan that benefitted both the pilots and the non-pilot
20 retirees. I've subsequently learned that that was a payment
21 that would have gone only to the retirement -- to the pilots'
22 retirement fund. Okay?

23 I denied that motion on the grounds that it had been
24 made under 1113 and I did not believe that the party that made
25 it was eligible to make the motion. Okay?

1 Now I believe that in connection with that hearing,
2 basically, I mean, the hundred and six whatever it was was, you
3 know, part and parcel of what it was -- what was owed in order
4 to keep the plan going. Now, I mean, and I believe that I was
5 told at that time, I could be mistaken, that it was the
6 intention of the debtor to terminate the plans, but they didn't
7 want to do it just quite yet because it wouldn't be convenient.

8 MR. GALLAGHER: Well, I certainly hope that
9 representation is not made, Your Honor, because I am absolutely
10 confident, and I have the Chief Financial Officer here, that
11 Delta has not made that decision and no one was authorized to
12 make that representation.

13 THE COURT: Well, I don't know -- I mean, I could be
14 completely wrong. But I was under the impression that the
15 reason -- that they did not believe they had to make the one
16 sixteen or one sixty, whatever it was, because it was, quote,
17 "pre-petition," but that they were not yet prepared, but they
18 expected to, terminate the plans. But they didn't want to do
19 it right then. Now -- and that -- because, somehow, that would
20 allow the PBGC to come after them for money in a way that they
21 didn't want to be come after.

22 MR. GALLAGHER: Well, Your Honor, let me be perfectly
23 clear. The company's proposal that's before Your Honor under
24 Section 1113 is for a hard-freeze, not a termination --

25 THE COURT: I have told you repeatedly, repeatedly,

1 that I don't have a clue what you mean when you say "hard-
2 freeze," and I do not know enough, I know something, about the
3 benefits. This is why I've been asking how much do you have to
4 pay every month.

5 MR. GALLAGHER: We're going to present that
6 information to Your Honor. That will come.

7 THE COURT: Okay? And I'm saying that issue of the
8 pension plan for the pilots is, obviously, a very big issue.

9 MR. GALLAGHER: Oh, we agree, Your Honor.

10 THE COURT: And I'm saying I certainly believe that
11 the way the hearing went, I was left with the impression that
12 both plans would be terminated because both were for currently
13 funded only at approximately fifty percent, a little in excess
14 of fifty percent.

15 There was also a statement made by Mr. Hubbell (sic)
16 that -- and I can't understand how this could happen -- that
17 somehow, miraculously, by sometime in April there would be no
18 funding deficit.

19 MR. GALLAGHER: Well, Your Honor, let me --

20 THE COURT: Now, I mean, and I'm saying I don't really
21 know -- I mean, other than the market going way up, that would
22 be the only way that that could happen.

23 MR. GALLAGHER: Well, Your Honor, let me explain the
24 company's position just rather than have Mr. Simon tell you
25 what the company's position is as he keeps trying to do.

1 Your Honor --

2 THE COURT: Wait. Mr. Simon is telling you what he
3 understands the company's position to be.

4 MR. GALLAGHER: Your Honor, he is being an effective
5 advocate for his client, but he is not --

6 THE COURT: Well, but I'm starting to say something to
7 you. If that's what he understands then, obviously, there is
8 discordance in information because his understanding is the
9 same as mine.

10 MR. GALLAGHER: Well, Your Honor, I believe -- I hope
11 that Your Honor will recall having been told that there is
12 legislation pending in Congress --

13 THE COURT: I have been told that there's legislation
14 pending in Congress. And if I thought legislation would be --
15 would somehow solve this problem in some reasonable period of
16 time, I will be thrilled.

17 However, it took four or five years for that new
18 bankruptcy bill to get through, and they put through the
19 ugliest bill I ever saw.

20 MR. GALLAGHER: Well, I won't disagree with you, Your
21 Honor.

22 THE COURT: Okay. And I'm saying to you you can't
23 take the fact that it's there and say, well, it's a done deal.

24 MR. GALLAGHER: Oh, no, Your Honor, we're not saying
25 it is a done deal by no means. But -- but --

1 THE COURT: And there are a lot of people that are
2 going to come in and argue about this because when somebody
3 finally catches on to what it's about, then I bet there's going
4 to be a lot more people in there lobbying than are lobbying
5 now.

6 MR. GALLAGHER: Your Honor, the point is that just as
7 you can't say the new legislation will pass as we want it as a
8 done deal, neither can you say that it's a done deal that this
9 plan is dead. Our fervent hope is that we will be able --

10 THE COURT: We are not talking about the plan. I
11 mean, I don't know why -- you seem to get very, you know, upset
12 and worried about everything. And I don't really think that
13 it's -- I mean, you know, we're having conversations about
14 something, you know? Who knows what's going to happen.

15 And I'm saying that his understanding is the same as
16 mine. Now, mine, obviously, was in error perhaps. But maybe
17 that's the impression I was intentionally given. I can't say.
18 Maybe, you know, you changed and nobody realizes that somebody
19 said that to me.

20 MR. GALLAGHER: Your Honor, let me alert you to the
21 fact that the very proposal that Mr. Simon handed to you the
22 other day from ALPA when he gave you a copy of their newest
23 proposal, if you look up the pension section of that proposal,
24 you will find that the company has proposed a freeze, not a
25 termination. And you will also find that ALPA has agreed --

1 agreed, Your Honor -- in their own document to a freeze, not a
2 termination.

3 THE COURT: Sir, sir --

4 MR. GALLAGHER: So I'm simply saying that --

5 THE COURT: Sir, I don't really care what happened in
6 the last week. What I'm saying to you is that when the 1113
7 motion was originally argued on the other 1113 motion, I
8 believe that I was left with the impression that Delta was
9 going to put the fund to the PBGC. And my understanding is
10 that once you put the fund to the PBGC that's the end of the
11 pension rights, except for such as can be paid out of that
12 fund. And since it was only fifty-two percent funded, that
13 would mean less than 100 percent.

14 MR. GALLAGHER: That is certainly the consequence of
15 the plan termination, Your Honor, and that remains a
16 consequence that Delta hopes to avoid. And --

17 THE COURT: Well, you still have that problem with the
18 one that you're terminating on December 31st because they're
19 not fully funded, either.

20 MR. GALLAGHER: Your Honor, we're -- again, we are
21 freezing, not terminating. And we will --

22 THE COURT: Okay. Well, what's the difference between
23 freezing and not terminating?

24 MR. GALLAGHER: The difference --

25 THE COURT: It seems to me that the difference is that

1 we don't have to tell the PBGC we've terminated our plan and,
2 therefore, we don't have to get involved in their process.

3 MR. GALLAGHER: Well, it's that they don't assume the
4 liability, Your Honor. We continue to have the liability and
5 we will pay it off we hope over the twenty years that Congress
6 is we hope going to allow. And if that turns out not to be
7 possible, Your Honor, then we may in the future be forced to
8 terminate and not have any alternative. But --

9 THE COURT: Okay. But could you please go over with
10 me one more time? I mean, I think of "hard-freeze" in terms of
11 the water falling on the trees and there being ice. Okay?

12 So I'm a little troubled about what is a "hard-freeze"
13 from your point of view because, you know, it's like you say
14 nobody accrues any more benefits. But what does that really
15 mean?

16 MR. GALLAGHER: That means they keep the benefits
17 they've already accrued, Your Honor. And that's the important
18 difference. With our proposal they keep the accrued benefits,
19 the plan pays them, and we fund the plan to pay them. And
20 that's very important.

21 With termination, we -- they will lose a good part of
22 their benefits because the liabilities will all be dumped on
23 the PBGC, the PBGC will assert a big claim against the company,
24 and the individual beneficiaries will only be covered to the
25 extent of the PBGC guarantees --

1 THE COURT: Which are what?

2 MR. GALLAGHER: Well, they're very low, Your Honor.
3 For pilots, I believe they're -- you know, because they retire
4 at age sixty, are in the range of \$28,000. I'm not sure if I
5 have that right --

6 THE COURT: Well, I would appreciate it, and you don't
7 have to do it today, if you could provide me with a little one-
8 page sheet of what it is, you know, happens when you go and the
9 PBGC takes it over.

10 MR. GALLAGHER: We will do that, Your Honor.

11 THE COURT: Okay. But I think that -- I certainly
12 think that when we were arguing about the one sixteen, it
13 really had the impression that we were arguing as if these
14 things were not going to ever get paid. Now I don't want to
15 argue with you anymore. We're already taking away from the
16 time on the union thing.

17 MR. GALLAGHER: And, Your Honor, Mr. Huebner will be
18 back on Monday morning. He's left already because of the
19 Sabbath. But he will -- he was here for that hearing. He'll
20 be back on Monday and I'm sure he'll be --

21 THE COURT: Well, I know he's taking the 12:30 hearing
22 and he's trying to adjust to the idea that just because there's
23 no objection to a motion doesn't mean that I might not have a
24 question to it.

25 MR. GALLAGHER: We'll help him adjust, Your Honor.

1 THE COURT: Well, I mean, you know.

2 MR. GALLAGHER: But thank you, Your Honor, for the
3 opportunity to clarify the company's position.

4 THE COURT: Okay. So we're only hard-freezing the
5 pilots. I think it's your turn.

6 MR. SIMON: Oh, okay. I thought he was --

7 THE COURT: No. We're only hard -- we're hard-
8 freezing the pilots and nobody is going to de-ice the wings.

9 MR. SIMON: If no one is de-icing the wings, forget
10 about bird flu, I'm not getting on the plane.

11 Your Honor, rather than rely on your memory or my
12 representation or Mr. Gallagher's representations, and without
13 even going back to the retired pilots' motion, if you will
14 refer to the transcript for November 28th, and that was Mr.
15 Bastian's testimony, the CFO, at Page 147, he testified that:

16 "Assuming current law, we have stated publicly we
17 don't believe we could save the plans."

18 So that your memory is quite right, Your Honor.

19 MR. GALLAGHER: Your Honor, Mr. Bastian also
20 testified, in that same exchange, that the company hopes -- the
21 company and ALPA have both supported this legislation.

22 THE COURT: Well, I know, but if all you're relying on
23 is the legislation, then you're not really stating what the
24 company's position is. You're stating that the company,
25 assuming somebody bailed it out, well, it might do something

1 else and I have asked whether twenty years would result in --
2 in fact, paying people at appropriate times and I have not
3 gotten an answer to that. I don't think that if you extended
4 it out for twenty years, that -- I think that some of these
5 people are going to drop dead before they ever get paid.

6 MR. GALLAGHER: No, Your Honor. They would get --
7 everyone who had an accrued benefit under the legislation would
8 continue to get their benefit.

9 THE COURT: Let's assume that they retired at age 65
10 and they had been retired for five years and you add -- so
11 that's -- they're eighty and you add twenty years to that. It
12 gives them -- they're 100 years old and I think that a lot of
13 them are going to be dead by then.

14 MR. GALLAGHER: No, Your Honor. That's not the way it
15 works. The way it works is, every beneficiary gets their
16 benefits on time, every month, as they would have and the
17 company funds the plan over a long term. Unfunded liability,
18 the company pays into the plan over a long term, but the plan
19 pays the benefits.

20 THE COURT: What I'm trying to tell you is that if
21 there's not enough money in the plan to pay the benefits, then
22 your funding is twenty years ago and these people are going to
23 be a hundred years old.

24 MR. GALLAGHER: Well, my understanding, Your Honor,
25 but I'm not an expert on it, is that there would be enough

1 money in the plan to pay those benefits in full. That's
2 assuming the twenty-year time period. We will bring in the
3 experts to explain it to you.

4 THE COURT: Well, okay. I'm just saying to you I
5 would not try to count on people being alive at 100 in order to
6 receive their benefits.

7 MR. GALLAGHER: And we agree with that, Your Honor,
8 totally.

9 THE COURT: That's good.

10 MR. GALLAGHER: Totally.

11 MR. SIMON: And in addition to that, Your Honor, there
12 is the fact that it is Mr. Gallagher's and the company's hope
13 that the Congress of the United States will pass and the
14 president will sign a twenty-year amortization schedule. It is
15 Mr. Bastian, the guy who actually counts the beans in the bean
16 pile, who says that under current law this company cannot, will
17 not make the payments and the plan will terminate.

18 I go to sleep every night hoping a whole variety of
19 things, Your Honor, but I don't bet the company on my hopes and
20 I'm not going to bet the lives of 6,000 pilots and 5,000
21 retirees on Mr. Gallagher's hopes.

22 BY MR. SIMON:

23 Q Before the dialogue, we were addressing the issue of
24 pension expense and its relationship to EBITDAR and the impact
25 of that analysis on Page 9 of your Exhibit 91. Let's start

1 with some basics.

2 A Okay.

3 Q EBITDAR, Earnings before -- finish it.

4 A Interest, taxes, depreciation, amortization --

5 THE COURT: And rent.

6 A -- and rent.

7 Q Is there anything in there with a "P," that says "pension"?

8 A No.

9 Q Okay. So that pension expense is included, is it not?

10 A To my understanding. I want to repeat what I was trying to
11 say earlier. I'm not a pension expert, but it's my
12 understanding that it's included in that number.

13 Q No, but you're an EBITDAR expert?

14 MR. SIMON: I'm sorry, Your Honor.

15 THE COURT: I mean, the question is, wouldn't it have
16 to be under non-operating expenses?

17 THE WITNESS: Yes. I believe it is, Your Honor, and I
18 believe the way it would work, and I'll probably get myself in
19 trouble for actually calculating something, but I think you
20 would take the 2.517 of EBITDAR, you would add the \$185 million
21 of expense that would be relieved, if you will, from the
22 company's accounting, not money, but accounting, and divide
23 that by its revenues, and they would end up with a 16.3 percent
24 margin. Still below all of the LCCs.

25 THE COURT: Okay. But I don't understand, the way

1 EBITDAR is set up, that there's any place left that's not on
2 EBITDAR that for either revenue or expenses.

3 THE WITNESS: No. I think the pension expense is in
4 EBITDAR, if you will, Your Honor.

5 THE COURT: Okay.

6 THE WITNESS: I believe it is. I'm just couching my
7 words only because I'm not an expert on pension, but that's my
8 understanding. It is \$185 million and it isn't money being
9 spent. It is an accounting difference and I would --

10 THE COURT: No. I understand what it -- whether you
11 want to say it's an expense that you didn't make and,
12 therefore, it's an operating income or whatever, it's --

13 THE WITNESS: Right. It is the -- the money not being
14 spent is one thing. This is not -- it's not about whether they
15 would or not pay money into the plan. It is whether they would
16 have to continue to account for the expense.

17 THE COURT: Okay.

18 THE WITNESS: Not whether they would actually spend
19 the money.

20 BY MR. SIMON:

21 Q I just want to draw a line on the exhibit with what you've
22 just said, so that if the pension expense was relieved because
23 of the termination of the pension plan, the hundred -- was it
24 \$85 million?

25 A I believe that's the number.

1 Q That we could draw another line above -- between Lines 3
2 and 4, that would produce -- I'm sorry, Your Honor. Are you
3 with me? We're on Page 9, Exhibit 91.

4 THE COURT: Close.

5 MR. SIMON: Okay. If we would draw a line --

6 THE COURT: Now I'm there.

7 BY MR. SIMON:

8 Q -- between Lines 3 and 4, we would have Delta at a 16.3
9 percent margin, correct?

10 A With the full \$325 million of pilot savings, as well as the
11 rest of the money in the five and three billion -- excuse me,
12 five and \$3 billion of savings, so it's the full business plan,
13 plus the three twenty-five.

14 Q Okay. Tell me, where would it be with the hundred million
15 dollars of pilot savings and the 185 million in pension
16 savings?

17 A Well, I'd take the line two billion, two ninety-two. I
18 would add one eighty-five to it, which is the EBITDAR, Your
19 Honor, adding the one eighty-five of relieved expense. I would
20 divide it by the same revenue and I would end up with 14.9
21 percent.

22 Q 14.9 percent, as compared with the Delta three twenty-five
23 in savings, is that life and death, Mr. Coleman?

24 A I've testified to what I've testified to and I will
25 continue to testify to it. What I have described is that 15.2

1 percent, not below it, puts the company in a range where it
2 could be competitive. I have not testified that it is in a
3 perfect spot. I don't know where the industry is going to go
4 from here, but according to these projections, they would be
5 fourth, behind three other competitors and it is my view that
6 if you are not in that tier, that you are very much in a life
7 and death situation.

8 Q But it would put it -- I just said that we have the
9 numbers. The pilots at one hundred plus a hundred eight-five
10 pension savings attributable to termination would put the Delta
11 margin at 14.9.

12 A I think that's the way the math works.

13 Q Do one more little piece of math for me, if you would.
14 Take the Delta pilot savings at their real number of a hundred
15 twenty-five and tell me what difference it makes.

16 A I'm happy to take \$125 million. I'm not aware of what the
17 proposal's actual value is.

18 Q I understand.

19 A So I will take a hundred --

20 Q Just do the math.

21 A That is fine. I just want to make sure it's mathematics.
22 So I'll take twenty-two ninety-two of EBITDAR. I will add \$25
23 million for additional savings in your question and I will add
24 \$185 million, so I will end up with two billion, five oh two
25 and then I will divide that by the sixteen billion, five

1 seventy-seven of revenue and come out with 15.1 percent.

2 Q So if I'm right, that the pilot offer is worth \$125
3 million, would that, in a margin of 15.1, as opposed to your
4 life and death margin of 15.2, are you going to sit there and
5 tell me that the difference between a margin of 15.1 and 15.2
6 is necessary for the reorganization of this debtor?

7 A To be clear what the testimony that I've provided today,
8 Your Honor, what I --

9 Q Can you try answering the question?

10 A I am answering the question. What I described as 15.2
11 percent was putting the very barest minimum, not in the thick
12 of it, not at the height of it, not in a comfortable range. I
13 said it was the very barest minimum. That's number one.

14 Number two, I continue to describe the \$185 million as an
15 accounting entry, not as any kind of cash flow safe.

16 THE COURT: Okay. We're not asking you to make a
17 decision about that.

18 THE WITNESS: All right. So --

19 THE COURT: We're trying to find out what happens to
20 the numbers if you do different things with them, since I can't
21 add.

22 THE WITNESS: Right. So the mathematics would put it
23 at fifteen one and then I'm being asked, is that a life and
24 death?

25 THE COURT: No, but you're saying -- we're asking you,

1 is there some miracle difference between 15.2 and 15.1?

2 THE WITNESS: I continue to feel the way I felt
3 before, Your Honor, which is this is a bare, bare minimum and I
4 don't think --

5 THE COURT: Okay.

6 THE WITNESS: -- that this allows this company to
7 compete in the way it needs to, in terms of where these other
8 airlines are.

9 THE COURT: Okay. But you don't see that that point
10 one percent is, you know, you've just crossed some line where
11 you immediately fall into the lake?

12 THE WITNESS: That's a great question and we've
13 debated it from going from 325 million to three hundred twenty-
14 four million nine ninety-nine. It's the same kind of a
15 question and it is my view that you have to draw a spot and you
16 have to say, this is what we need and I continue to believe
17 that this airline needs it. It is my view, and I've testified
18 to it, they really need more, not less, and I think that this
19 airline needs to continue to try to find ways to raise this
20 margin.

21 If I had found, instead of fifteen two, sixteen two, I
22 would be here giving you the same, exact testimony because when
23 you look at --

24 THE COURT: You really think it needs to be seventeen
25 five?

1 THE WITNESS: I think, when you're in an industry,
2 there are usually the first, the second and third competitor
3 and if you're not one of those, the question is, what are you?
4 And typically, you're somebody who is in very deep trouble.
5 And so, when I look at that fifteen two and I have had great
6 debates with my team and the company and everybody else, that's
7 what they're able to achieve and I believe they could get out
8 of bankruptcy with that number, but I think that is extremely,
9 extremely risky and low.

10 So, when somebody starts to put me on the, well, what
11 about three hundred twenty-four million, nine ninety-nine, the
12 answer, of course, is that's only one dollar difference, how
13 can it matter? But the question is where do you stop in that
14 game? And to me, if we were starting from a high number that
15 was a very competitive number in the heart of the competition,
16 I would say there's probably room.

17 That's not what we have here, Your Honor. We are at
18 the bottom. The barest minimum. And as you, yourself have
19 pointed out, the question is, what's going to happen with
20 United Airlines when they actually come out of bankruptcy?
21 What's going to happen with U.S. Airways when they get that
22 merger together?

23 THE COURT: I mean, I think they may actually have had
24 the confirmation order signed, but I don't know that the
25 numbers are --

1 THE WITNESS: Well, that's what I mean.

2 THE COURT: Yeah.

3 THE WITNESS: That's what I mean.

4 THE COURT: Oh, no. They're waiting for that appeal
5 to be decided.

6 THE WITNESS: But what I mean is, these numbers are
7 not going to stay static. All of these parties are going to
8 continue to try to fight this out and this is an industry in a
9 complete war, and so, if you're not there with the same
10 equipment as the other parties, you are at great risk and
11 that's what I see here.

12 So when I have somebody ask me 15.1, it's clearly
13 close to 15.2, mathematically.

14 THE COURT: No, but what I'm saying to you --

15 MR. SIMON: Let's see how -- if I may, Your Honor --

16 THE COURT: Can I ask you a question? If I said
17 twenty-one, then I'd be over Jet Blue, right?

18 THE WITNESS: Then you would be above Southwest and
19 Jet Blue, at twenty-one percent.

20 THE COURT: Right.

21 BY MR. SIMON:

22 Q Mr. Coleman, you're good with the calculator and again,
23 just doing the math, how much would it take, in addition to the
24 one eighty-five pension, the one twenty-five ALPA offer, as
25 I've described it, to go from 15.1 to 15.2, how much

1 additional?

2 A Not -- understanding I'm only doing mathematics --

3 Q Yup.

4 A I think it's \$16 million, but why don't I do the math?

5 Q Because I'm going to --

6 THE COURT: I don't even know what to do, so you can
7 go ahead and do it.

8 THE WITNESS: No, I just did it a shorthand way. I
9 wanted to make sure I was right. It's \$16.6 million.

10 BY MR. SIMON:

11 Q I'm going to make another hallway offer, Your Honor.

12 THE COURT: So if I leave, and you can go out in the
13 hall?

14 MR. SIMON: That's right.

15 BY MR. SIMON:

16 Q If the difference between the parties is \$16 million and we
17 couldn't solve that, shame on us.

18 A I would agree with that, Your Honor, but the elements that
19 went into that mathematics was not something that I personally
20 believe in, just to be clear.

21 Q I understand. Indicates, once again, Your Honor, simply to
22 drive home the point how central to this whole issue and to the
23 lives of every pilot is the maintenance of the pension plan.
24 Can you describe for us, generically, the covenants in the DIP
25 loan, financial covenants?

1 A There are primarily two financial covenants. One is a
2 minimum cash covenant, where the company has to maintain
3 anywhere from \$750 million of minimum cash up to -- or a
4 billion dollars, depending on where they are in the year, and
5 the other is a minimum EBITDAR covenant.

6 We were very successful in the EBITDAR covenant of being
7 able to use excess cash above the minimum cash covenant to add
8 into the EBITDAR number, in order to assess --

9 THE COURT: Try this on me again.

10 THE WITNESS: Okay. Sorry.

11 THE COURT: Okay. What's the EBITDAR number?

12 THE WITNESS: It varies per -- it's a monthly number,
13 Your Honor, and it varies.

14 THE COURT: Well, give me a rough, rough number. Five
15 hundred million, two hundred million?

16 THE WITNESS: Hold on one minute. I might be able
17 to --

18 THE COURT: One billion?

19 THE WITNESS: No, no, no. It's -- you have to look at
20 each month.

21 THE COURT: No. I understand you have to look at each
22 month.

23 THE WITNESS: Yeah.

24 THE COURT: But I'm saying roughly, you know, what
25 does it sort of average out at?

1 THE WITNESS: It is an amount below the actual EBITDAR
2 that the company is projecting for the month and I was just
3 trying to see if I had any monthly numbers in my declaration.
4 I don't think I do. But if you took the company's EBITDAR,
5 here's a way to maybe think about it.

6 THE COURT: I know exactly how to think about it. I
7 just don't know what the EBITDAR number would be close to.

8 THE WITNESS: Well, if --

9 THE COURT: Okay? I mean, I don't know whether it's
10 closer to a million dollars or it's closer to a billion
11 dollars.

12 THE WITNESS: If I took the company's \$325 million of
13 savings and looked at '07, which shows a \$2.5 billion dollar,
14 for the year, EBITDAR, and it's not quite the right way to look
15 at it, but if I divided it by twelve, that gives you an average
16 of about \$200 million of EBITDAR per month.

17 THE COURT: Okay. So we're talking --

18 THE WITNESS: Something --

19 THE COURT: Something considerably less than what
20 you've got to have on hand for the covenant?

21 THE WITNESS: And that it would be below. That would
22 be the actual average EBITDAR that I, you know --

23 THE COURT: Okay. That's fine. That's fine.

24 THE WITNESS: And then the covenant would be below
25 that. And what we were able to --

1 THE COURT: Well, the covenant is at 750 million to a
2 billion?

3 THE WITNESS: That was the excess cash.

4 THE COURT: Oh, okay.

5 THE WITNESS: Excess cash is \$750 million in some
6 months and a billion -- minimum cash, sorry. \$750 million in
7 some months and a billion in other months.

8 THE COURT: Okay. And then we have the EBITDAR, let's
9 say, from somewhere between a hundred and 200 million a month?

10 THE WITNESS: Right. So let's say one month was \$200
11 million. We have to -- typically, people set covenants at
12 about eighty percent of the actual number, so that would mean
13 we would probably need about \$165 million of EBITDAR to beat
14 the covenant.

15 THE COURT: Wait, wait, wait.

16 THE WITNESS: In other words, to make the covenant.

17 THE COURT: How can you -- I mean, if the covenant is
18 a million dollars, it's a million dollars. Why do you have to
19 have --

20 THE WITNESS: I was -- the two-hundred-million-dollar
21 average number I gave you was actually our EBITDAR projection.

22 THE COURT: Oh, okay.

23 THE WITNESS: And so then I'm taking off of that a
24 cushion, which is how these are typically set.

25 THE COURT: Okay.

1 THE WITNESS: So that would call that \$165 million and
2 then the other benefit you have here, Your Honor, is in any
3 month that it looks like we're going to miss the EBITDAR
4 covenant number --

5 THE COURT: You make a calendar that skips that month.

6 THE WITNESS: We come running in to you. No. The --
7 if you look at the excess cash covenant and let's say it's at a
8 billion dollars and in that month we have a billion two of
9 excess cash, we can take that difference above a billion, in
10 that case, 200 million --

11 THE COURT: And move it down.

12 THE WITNESS: Add it to our EBITDAR to see if we
13 passed the test.

14 THE COURT: Okay.

15 THE WITNESS: So it's not -- we call it the EBITDAR
16 covenant, but it's actually an EBITDAR plus excess cash above
17 that other excess cash covenant.

18 THE COURT: I really think you guys have a lot of fun
19 playing with all of these terms and moving numbers around.

20 THE WITNESS: They are the result of twenty-four hours
21 a day negotiations to get it to a point --

22 THE COURT: No. See, you know, see, you people think
23 that the law is boring and we think what you do is boring.

24 THE WITNESS: Most people think what we do is boring,
25 Your Honor.

1 THE COURT: No. Most people think what lawyers do is
2 boring. The first time I picked up a law book and I started to
3 read it, I thought, I can't believe that people actually go to
4 school to learn this.

5 THE WITNESS: I still think we stack below you in
6 boredom, but the --

7 THE COURT: No. Actuaries are the ones.

8 (Laughter.)

9 THE WITNESS: I agree with that. Okay. It would be
10 more fun to be a pilot. Let me just say that. I'm willing to
11 testify to that.

12 THE COURT: Okay. We'll let you go. I'm sorry. You
13 may take your time.

14 THE WITNESS: Okay.

15 BY MR. SIMON:

16 Q I think we can derive the answer. The witness will correct
17 me if I'm wrong. If you look at your declaration, if you have
18 that in front of you --

19 A I do.

20 Q And if you look at, I believe Page 8. Your Honor, do you
21 have that? Is that the declaration? Is that the dotted line
22 on the top chart?

23 A Are you ready for me to answer?

24 Q No, no.

25 A Oh, yeah.

1 Q Just -- I just --

2 A It is the top one.

3 Q I don't want to waste time.

4 MR. SIMON: Judge, do you have that in front of you,
5 Mr. Coleman's declaration?

6 THE COURT: Yes.

7 MR. SIMON: Page 8.

8 THE COURT: Yes.

9 MR. SIMON: Okay. It's the top chart and I'm going
10 to --

11 THE COURT: Yup, got it.

12 MR. SIMON: -- ask Mr. Coleman to confirm with me.

13 BY MR. SIMON:

14 Q It's the dotted line that represents from October '05
15 through December '07, the minimum EBITDAR covenant, the dotted
16 line. So for each month, your order of magnitude, if you draw
17 a line over to the chart, onto the bar on the left, the
18 vertical axis, you can see about what the minimum EBITDAR
19 covenant is for that month.

20 A The covenant level is the dotted line. This chart is
21 obviously showing if you don't end up getting the \$930 million
22 of labor savings.

23 Q Right. And I would ask Your Honor to disregard, for this
24 purpose, the solid line. You obviously read it for others,
25 because it assumes that the full nine hundred thirty in labor

1 costs --

2 THE COURT: Okay. But what I'm saying -- what we're
3 saying is --

4 MR. SIMON: But you asked about the EBITDAR covenant
5 and that's the dotted line.

6 THE COURT: Okay.

7 THE WITNESS: I think I need to stand corrected. As I
8 recall, looking at this, I think it's a rolling twelve-month
9 covenant and I -- I described to you an average --

10 THE COURT: Don't worry about it.

11 THE WITNESS: All right.

12 THE COURT: I'm sure that I have the loan agreement
13 somewhere.

14 THE WITNESS: It is rolling twelve. I just
15 remembered.

16 THE COURT: I'm definitely -- I'm sure I have the loan
17 agreement somewhere and could find the actual information.

18 THE WITNESS: Right.

19 MR. SIMON: Yeah, but the chart, Your Honor, I
20 believe, and Mr. Coleman can verify this or not, I believe the
21 chart reflects the rolling twelve-month EBITDAR coverage.

22 THE WITNESS: It does. It does, Your Honor.

23 MR. SIMON: So I believe we would agree and present to
24 Your Honor that it is the dotted line on that chart which
25 represents the minimum EBITDAR covenant?

1 THE WITNESS: It does. I, even though I helped
2 negotiate it, had forgotten that it was rolling twelve and not
3 just a monthly. It is measured every month, but on a rolling
4 twelve basis.

5 THE COURT: But if you don't -- never mind.

6 BY MR. SIMON:

7 Q Other than the financial covenants that you've described
8 generically in the DIP loan agreements, are there -- is there
9 anything else that describes a Delta financial obligation to
10 the DIP lenders?

11 A Are you asking if there are other covenants?

12 Q Yeah. Other covenants or other legal obligations expressed
13 in financial terms. It's basically the financial covenants, is
14 it not?

15 A There are primarily two covenants, these two covenants that
16 we've described.

17 Q And so --

18 THE COURT: All right. So, do you have to pay them
19 any money periodically?

20 THE WITNESS: The GE facility is a bullet maturity,
21 but the AmEx facility has an amortization starting, I think
22 it's seventeen months into it.

23 THE COURT: Okay.

24 MR. SIMON: And I'm going to ask you a specific --

25 THE WITNESS: In July of '06.

1 BY MR. SIMON:

2 Q I'm going to try and ask you a question that is amenable to
3 a yes or no answer and maybe given --

4 A I'll try.

5 Q -- the hour, if we could try, that would be useful.

6 Is the company's achievement of 325 million in pilot labor
7 cost reductions an explicit requirement of the financial
8 covenants in the DIP loan agreements?

9 A You mean, does it ask if we have to achieve \$325 million
10 from the pilot?

11 Q Yes.

12 A There is nothing in writing like that.

13 Q Is there anything orally like that?

14 A Not to my knowledge.

15 Q Is there a requirement that you achieve \$930 million in
16 total labor cost reductions in the DIP covenants?

17 A Lenders are pretty careful to keep their names out of any
18 kind of controversy like that. They are just numbers. There
19 are assumptions in those numbers, obviously, which would
20 include getting the cost saves that we have projected, but are
21 they written in as in save 3 billion or save 5 billion or get
22 this from the pilots or that from the non-pilots? No. They're
23 represented by very able lawyers and they're too smart for
24 that.

25 Q You testified yesterday, at Page 84. I'll read it again.

1 I don't think there's going to be any controversy about this.

2 MR. GALLAGHER: Your Honor, may we have a moment to
3 have the transcript put in front of the witness?

4 MR. SIMON: Yes, sir.

5 THE COURT: Well, do you think you just read the --
6 how long is what you're going to read?

7 MR. SIMON: Very brief, Your Honor.

8 THE WITNESS: What page are you on?

9 MR. SIMON: Page 84.

10 (Counsel confer.)

11 THE COURT: See, now I'm the only one without the
12 transcript.

13 THE WITNESS: Do you have another one?

14 THE COURT: No, that's all right. I just wanted to
15 point out that, you know, I -- you know. We don't get the
16 transcripts.

17 BY MR. SIMON:

18 Q Down at Lines 18 and 19, there was a very strong belief
19 that USAir, being in its second bankruptcy and it had filed in
20 September of '04, the second filing, there was a very strong
21 view that USAir would not exit Chapter 11. Did you share that
22 belief?

23 A It's in the transcript.

24 Q No, no, no. But there you were talking about a strong
25 belief. You didn't express it if your --

1 THE COURT: Okay. We're saying that that's a --
2 that's from his testimony?

3 MR. SIMON: That is correct.

4 THE COURT: Okay.

5 BY MR. SIMON:

6 A It is from my testimony. I think what you're asking me is,
7 is it also my view or was it an industry view and I would say
8 both. I think most parties, including me, question whether
9 they would make it out of Chapter 11.

10 Q You were just wrong?

11 A I don't think I was wrong about USAir, the airline.

12 THE COURT: No, no. I think he -- we're talking about
13 United, I thought.

14 MR. SIMON: No, no. It's USAir.

15 THE WITNESS: USAir.

16 THE COURT: Oh, okay.

17 BY MR. SIMON:

18 A And the question is, did USAir make it out of bankruptcy
19 and the answer is it did not. It was bought out of bankruptcy,
20 which is a very different circumstance. I think if it was a
21 stand alone, the question would still be in front of us.

22 THE COURT: So someone had a very good investment
23 banker?

24 THE WITNESS: I think it was -- well, let's see.

25 THE COURT: No, but I'm saying I don't know whether

1 USAir found them or they found USAir.

2 THE WITNESS: That's a good question, Your Honor.

3 What I don't know is whether it was a good transaction or not
4 and we're all going to find out over time.

5 THE COURT: USAir is a good name.

6 BY MR. SIMON:

7 Q In the negotiations between Delta and the Airline Pilots
8 Association, that led up to the '04 letter of agreement --

9 A Am I finished with this?

10 Q Yeah. The billion-dollar concessions, did you or to your
11 knowledge, anyone else with Delta share your view that USAir
12 would not make it out of bankruptcy?

13 A I don't recall every conversation I had. As you know from
14 your own experience, I was not in the heart of those
15 negotiations. It would not surprise me if people talked about
16 it. I don't recall, myself, whether I did or didn't talk to
17 anybody about it. It was very common -- it was a very common
18 feeling among the people in the airline industry.

19 Q Perhaps, for the purpose of refreshing your recollection,
20 it was the September '04 business plan that provided the
21 framework for those negotiations with ALPA, was it not?

22 A The plan that was completed in '04, that started in '05?
23 Yes.

24 Q Yeah. That's the -- right.

25 A That's my understanding.

1 Q The five-billion-dollar plan?

2 A That's my understanding, yes.

3 Q Again, under --

4 THE COURT: Can I ask a question?

5 MR. SIMON: Pardon?

6 THE COURT: Can somebody tell me what time it is?

7 THE WITNESS: Five o'clock.

8 THE COURT: Well, I mean, I can see that it's -- I
9 wasn't sure whether that was right or wrong. Okay.

10 THE WITNESS: It's -- my watch says it's a minute to 5
11 and that says it's a couple after.

12 THE COURT: Okay. We have agreed to stop at 5:15
13 tonight, I believe?

14 MR. SIMON: I think we said 5:30, Your Honor.

15 THE COURT: I don't know.

16 MR. SIMON: But I'm --

17 THE COURT: Somebody told me that everybody wanted to
18 know because they had flights, but since I've got all pilots
19 here and they, no doubt, have what is it, these jump-seat
20 flights or --

21 MR. SIMON: Your Honor, I'm happy to suspend and
22 resume Monday.

23 THE COURT: No? Okay. I mean, well --

24 MR. SIMON: This would probably be a logical time to
25 do it because I'm moving to another area, anyway, and I

1 certainly have more than ten minutes. I probably have,
2 conservatively estimated, an hour to an hour-and-a-half of
3 cross.

4 THE COURT: Okay. And I have Monday, Tuesday,
5 Wednesday and Friday for you people next week.

6 MR. SIMON: Your Honor, we will be able to make, I
7 believe, significant progress when Mr. Coleman is off the
8 stand. I believe you're going to have one more substantive,
9 probably lengthy witness from the company, who I believe should
10 finish -- should be able to be finished on Monday, both with
11 direct and cross, if we work a reasonable, you know, five-hour
12 day.

13 THE COURT: Okay. And okay. Now --

14 MR. SIMON: And then we will be prepared to proceed
15 Tuesday. Half of our witnesses are going to be brief. We have
16 some substantive ones. We will pare down our testimony to the
17 bare minimum, so that we can move ahead.

18 THE COURT: Okay. Now, who --

19 MR. GALLAGHER: Your Honor, if I may?

20 THE COURT: Yeah?

21 MR. GALLAGHER: Mr. Coleman has urged upon me that he
22 has a large number of professional commitments. He has sat in
23 this court patiently all week and he is willing as am I, to
24 stay as late as necessary for Mr. Simon to finish his
25 testimony. Any members of the audience who need to depart for

1 planes are free to do so, but I think it would be very unfair
2 to this witness to hold him over a weekend and drag him back
3 here.

4 THE COURT: Well, okay. I want to take ten -- five to
5 ten minutes and you people can have this conversation among
6 yourselves as to who it is that has to leave and who it is that
7 could stay and who it is that could decide to take --

8 MR. SIMON: Your Honor, if you would, please check
9 with your clerk, because we had a conversation with your clerk
10 in which we agreed that we would not go beyond 5.

11 THE COURT: That is -- I mean, we were called and told
12 that many people that had airplanes to catch and would it be
13 easier for you to come back on, say, Wednesday or Friday next
14 week?

15 THE WITNESS: My whole calendar is over.

16 THE COURT: Your whole calendar?

17 THE WITNESS: I have a lot of things to do.

18 (Counsel confer.)

19 (Proceedings concluded at 5:10 p.m.)

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CERTIFICATION

I certify that the foregoing is a correct transcript from the electronic sound recording of the proceedings in the above-entitled matter to the best of my knowledge and ability.

December 3, 2005

Coleen Rand
Certified Court Transcriptionist/Agency Director