

1                   BEFORE THE  
2    NEUTRAL PANEL CONVENED PURSUANT TO LETTER #50  
3    Richard Bloch, Robert Harris, Fredric Horowitz,  
4                   Neutrals

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7 In re:                   :  
8 Delta Air Lines, Inc.    :  
9    and                   :  
10 Air Line Pilots Association :  
11 International           :

12 ----- x

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14  
15                   Washington, DC  
16                   Tuesday, March 14, 2006

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18  
19 REPORTED BY:

20 CARMEN SMITH

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1 Arbitration on Tuesday, March 14, 2006, in  
2 Washington, DC, at J.W. Marriott, 1331 Pennsylvania  
3 Avenue Northwest, Washington, DC 20004, at 9:44  
4 a.m., before CARMEN SMITH, a Notary Public within  
5 and for the District of Columbia, when were present  
6 on behalf of the respective parties:

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1           P R O C E E D I N G S

2           MR. BLOCH: I think we're ready to  
3 proceed. Mr. Gallagher, I see you're ready to  
4 proceed as well.

5           MR. GALLAGHER: Yes, we are. Thank you,  
6 Mr. Chairman.

7           Before we begin, just a preliminary  
8 matter. I am advised that yesterday Mr. Simon  
9 introduced his entire team, and I neglected to  
10 introduce the associate on our team, who is very  
11 hard working and knows more about this case than I  
12 do, Brendan Branon is from Paul Hastings with us at  
13 counsel table.

14          With that the company would call Edward  
15 Bastian as a witness, chief financial officer of  
16 Delta Air Lines.

17 Whereupon,

18                   E D W A R D   B A S T I A N

19 was called as a witness and, having first been duly

20 sworn, was examined and testified as follows:

21           DIRECT EXAMINATION

22           BY MR. GALLAGHER:

1 Q Good morning, Mr. Bastian. Welcome.

2 A Good morning.

3 Q Would you describe for the board your  
4 professional background prior to Delta Air Lines?

5 A Sure. I joined Delta in 1998. Prior to  
6 joining Delta, I worked for Pepsico for six years in  
7 various financial capacities, primarily with  
8 Frito Lay. And prior to that, I was with Price  
9 Waterhouse, and I was an audit partner with Price  
10 Waterhouse prior to joining Pepsico.

11 Q And were you a partner with Price  
12 Waterhouse?

13 A I was for three of those 13 years.

14 Q And are you a CPA?

15 A I am.

16 Q And what positions have you held at Delta  
17 since joining them in 1998?

18 A I joined the company in 1998 as the  
19 corporate comptroller. I spent a little over six

20 years in that role. I left Delta at the start of  
21 2005, in January of 2005, to become chief financial  
22 officer of a company in Atlanta, Acuity Brands, and

1 was recruited back by Delta in July of 2005, six  
2 months later, to return as chief financial officer  
3 for Delta, and I have been CFO since.

4 Q So you were at Delta at the time of the  
5 2004 pilot negotiations?

6 A Yes, I was.

7 Q And you've been at Delta since July  
8 of '05, throughout the bankruptcy planning and  
9 bankruptcy process?

10 A That's correct.

11 Q All right. You've previously tendered to  
12 this panel a declaration and related exhibits, have  
13 you not?

14 A I have.

15 Q And do you adopt and incorporate those --  
16 that testimony and exhibits as if you'd given it  
17 here today?

18 A I do.

19 Q Have you prepared a new compilation of

20 exhibits for the board today?

21 A I have.

22 MR. GALLAGHER: And we are going to call

1 this Exhibit 91, Mr. Chairman.

2 (Company Exhibit 90 identified.)

3 MR. BLOCH: That's fine.

4 MR. GALLAGHER: Excuse me, Exhibit 90. I  
5 misspoke.

6 BY MR. GALLAGHER:

7 Q I previewed some of your exhibits in my  
8 opening statement yesterday, Mr. Bastian, but my  
9 words are not evidence, simply an overview of  
10 where -- what would be coming. But your testimony  
11 is what's important to the board, so let me ask you,  
12 if you would, to tell the board what your message is  
13 about Delta's financial condition.

14 A Sure. The slides that I prepared are  
15 intended to help you understand from my position as  
16 the company's chief financial officer how I view  
17 Delta's financial condition, and also to let you  
18 know what I believe -- what we believe as a  
19 management team -- will be necessary in order to

20 restructure this company, turn it back into a viable

21 company with a stable long-term outlook.

22 Delta is in financial distress, it's in

1 severe financial distress. We have no margin for  
2 error. The \$3 billion plan that we've outlined for  
3 you yesterday, and I'll take you through more  
4 details of today, is absolutely vital. We operate,  
5 as you know, in a difficult industry, a troubled  
6 industry. However, we are clearly in the worst  
7 shape, in the most fragile condition of anyone in  
8 that industry.

9       What we need to do to succeed is  
10 redetermine and develop a long-term competitive cost  
11 and revenue strategy, both costs and revenues. And  
12 I'll be talking about costs and revenues today.

13       From that context, all pieces of the \$3  
14 billion, every single component, is absolutely  
15 necessary in order to succeed, and our pilot savings  
16 is 1/10 of the \$3 billion. \$300 million is a  
17 substantial savings, especially on the heels of a  
18 billion dollar plan. We don't underestimate the  
19 size of the sacrifice we're requesting of the

20 pilots, but it is 10 percent of the total, and  
21 there's \$2.7 billion of other sacrifices and changes  
22 being implemented that we also think is important

1 that you understand and appreciate.

2       Finally, as I mentioned, the size of the  
3 pilot contribution we believe to be fair and  
4 equitable. I'll show you how all other stakeholders  
5 are fully participating. We believe it's in line  
6 with the nonpilot sacrifices that are being made and  
7 also is competitive with where the market is today.

8     Q   Does Delta today have any unpledged  
9 assets?

10    A   We have no unpledged assets.

11    Q   And, indeed, of the \$2 billion financing  
12 that you obtained, is that fully secured by hard  
13 assets?

14    A   Well, one tranche of it is, roughly \$700  
15 million of it is. The rest of the DIP funding is  
16 supported by the general assets of the corporation.  
17 So literally just a little more than 1/3 of our DIP  
18 was actually asset-backed.

19    Q   But that -- but because it's DIP

20 financing, it's subject to the super priority

21 provisions of the bankruptcy code?

22 A That's the only way we would have gotten

1 the financing.

2 MR. BLOCH: By it's, you mean the hard  
3 assets?

4 MR. GALLAGHER: I'm sorry?

5 MR. BLOCH: When you said -- you said  
6 because it's DIP financing, it's subject to the  
7 super priorities.

8 MR. GALLAGHER: The \$2 billion loan, the  
9 entire \$2 billion of DIP financing is super  
10 priority.

11 MR. BLOCH: Thank you.

12 BY MR. GALLAGHER:

13 Q Is that right, Mr. Bastian?

14 A Yeah, the lenders have a super priority  
15 claim, the DIP lenders, that supersedes what they  
16 normally would have outside of bankruptcy.

17 Q All right. What's reflected on page 2 of  
18 your exhibit?

19 A This chart shows the losses that we've

20 experienced since 2001, and they have totalled  
21 \$7-1/2 billion. The most disconcerting element of  
22 this chart to me is the fact that these losses have

1 been accelerating over this time frame. Despite all  
2 we did in 2004, including the billion dollar pilot  
3 concession at the end of '04, we still lost \$2.2  
4 billion in '05. So I think this is a good picture  
5 of the severe distress that we find ourselves in.

6 Q And your prebankruptcy \$5 billion  
7 transformation plan, parts of that were already  
8 kicking in in '02, '03 and '04; correct?

9 A Yeah, we started the \$5 billion program in  
10 2002, so yes, had we not implemented the \$5 billion  
11 over the course of this period of time, those losses  
12 would have been dramatically worse.

13 Q And I assume we wouldn't be here?

14 A We would not be here.

15 Q What's reflected on page 3?

16 A Page 3 shows how we essentially have been  
17 able to survive to this point in time with losses of  
18 this magnitude. We've needed to fund those losses  
19 with debt, and our borrowing capacity rose from --

20 or borrowings, rather, rose in 2000 from \$5.8  
21 billion to over \$13 billion in 2005. And that's  
22 \$13.5 billion prior to filing.

1           Our borrowing capacity, as we mentioned,  
2 has been completely exhausted. There are no more  
3 assets to pledge. The only way we got the DIP was  
4 because of the preferential treatment the lenders  
5 had, as part of the DIP lenders had, as part of the  
6 bankruptcy process. So we are fundamentally out,  
7 tapped out, with respect to raising any other forms  
8 of financing at this point in time, on any kind of  
9 reasonable or commercial basis.

10       Q   And during this period of time, from '01  
11 through May 1 of '04, did your pilots receive pay  
12 increases?

13       A   The new pilot contract went into effect in  
14 May of '01. The cumulative effect of that by the  
15 time we got to 2004 was effectively a 34 percent pay  
16 increase as compared to the prior contract.

17       Q   That did have annual increases?

18       A   Annual increases in each year, that's  
19 correct.

20 Q May 1 of '02, '03 and '04?

21 A That's correct.

22 Q What's reflected on page 4?

1     A   Page 4 shows the trajectory that we were  
2   on just prior to filing.  And while we were able to  
3   secure the DIP financing in September of '05, it is  
4   borrowed money that needs to be repaid.

5           And as you can see, in July of '05, we are  
6   sitting with a cash balance of \$1.5 billion.  One of  
7   the most startling things about this chart to me is  
8   that we were literally out of cash by the end of the  
9   year, despite the fact that we had \$1.5 billion in  
10  the bank account, unrestricted, at the end of July  
11  of '05.  It shows you how quickly that cash can run  
12  out of this company, when you're in troubled times.

13    Q   Now, you rejoined Delta when?

14    A   At the end of July.  One might question my  
15  sanity.

16    Q   After you joined --

17           MR. HARRIS:  Does that mean we should  
18  disregard your testimony?

19           (Laughter.)

20 THE WITNESS: Yes, please.

21 BY MR. GALLAGHER:

22 Q After you joined Delta, rejoined Delta, in

1 July, did you participate in any meetings with ALPA?

2 A I did.

3 Q And on or about July 22, did you give them  
4 a financial briefing?

5 A I don't recall the date, but it was around  
6 that time, yes, I met with the financial folks from  
7 ALPA, I think John Malone was present, and took them  
8 through my assessment of where the company stood.

9 Q And were you candid?

10 A I am always candid.

11 Q And did you share with them this kind of  
12 information?

13 A Well, I didn't have the full knowledge,  
14 since I was only back, I think, literally two days  
15 into returning. I had been gone for six months.  
16 But what I did tell them is yes, I thought the -- we  
17 did not have a forecast of -- fully baked that had  
18 all of the danger embedded within it, but I did tell  
19 them that I thought this company was in serious

20 trouble, and that cash balance we were sitting with  
21 in July at that point was likely to dissipate very  
22 rapidly.

1 Q You saw the storm clouds on the horizon?

2 A We did.

3 Q And you told -- did tell ALPA about that?

4 A I told them two days when I was back, yes.

5 Q What's reflected on page 5?

6 A Page 5 depicts how Delta ranks within the  
7 industry, and in 2005, we lost \$2.2 billion. That's  
8 excluding special items and write-offs.

9 The total number is close to \$4 billion  
10 for 2005, but we've excluded the write-offs and the  
11 bankruptcy-related costs and the like from this  
12 number, to give it as much of an apples-to-apples  
13 comparison as we can.

14 As you can see, Delta is clearly in the  
15 need of the greatest amount of repair. We lost in  
16 2005 as much as the entire industry combined. So it  
17 gives you a perspective in terms of how much work  
18 we've got to do in order to fix this great company.  
19 And clearly, we've got, as I said, both a revenue

20 problem and a cost problem, and we're tackling both.

21 Q All right. That's Delta's overall

22 financial condition. What's reflected on page 6?

1     A   Well, here I start to lay out where some  
2 of the pressures have been and the problems we've  
3 experienced. And this is the revenue picture. And  
4 in the domestic market, in the U.S. marketplace, our  
5 yields, which is essentially a proxy for ticket  
6 pricing, has fallen 23 percent since 2000.

7           The impact of that 23 percent decline is a  
8 cost of roughly \$3 billion. So \$3 billion of  
9 revenues that we had in the year 2000, we no longer  
10 have. Yet we're flying basically the same capacity  
11 and making 23 percent less in terms of top line. A  
12 lot of this is driven by LCC competition. It's been  
13 intense, and I believe the panel is generally  
14 familiar with it. But there's also been a  
15 significant amount of domestic overcapacity in the  
16 industry.

17           That's not something we anticipate tailing  
18 off. Mr. Kasper yesterday showed the order books  
19 for JetBlue and Air Tran and Southwest and others,

20 and I believe one of the panel members asked whether  
21 some of the carriers, particularly JetBlue, might be  
22 deferring some of the deliveries. And yes, I think

1 they are looking at deferring some of their  
2 deliveries.

3 But the message about that chart and some  
4 of the stuff we understand in terms of what's coming  
5 at us is there is enough firm orders for the  
6 low-cost carriers over the next several years to  
7 create basically another Delta or another  
8 Continental in the marketplace, in the U.S. there's  
9 that much capacity coming on line.

10 So any view that this yield pressure, this  
11 yield issue is going to change dramatically and  
12 start to change back, I think, is wildly optimistic.

13 Q Now, one thing that's noticeable about  
14 this yield decline curve is a plateau from '02, it  
15 would look like, to some point in '04. Do you see  
16 that, the flat line in the middle?

17 A I do.

18 Q What happened at some point in '04?

19 A Well, the first -- the first big decline

- 20 started with the downturn in the economy in the
- 21 early part of 2001, late 2000, early part of 2001.
- 22 And obviously it was precipitated by 9/11. Things

1 started to stabilize. We pulled a lot of capacity

2 out. A lot of the carriers pulled capacity out.

3 Things started to stabilize a bit.

4 But coming -- come about around 2004 --

5 this is Delta's shape, not the industry's shape.

6 Delta's shape has been actually somewhat worse than

7 the industry.

8 There was an incredible fare amount of

9 pressure in 2004, starting about midyear that year,

10 as the low-cost carriers started to intensify their

11 pressure on the East Coast, as USAir started to get

12 into real danger, as Independence Air joined the

13 mix, and, you know, Air Tran was growing and the

14 like.

15 Delta's sweet spot is the East Coast of

16 the U.S. domestic marketplace, and we were caught

17 right in the cross fire of a tremendous amount of

18 price competition. We saw our yields in the back

19 half of '04 drop almost 10 percent on a

20 year-over-year basis in just 12 months alone.

21 Q That back half of 2004 was the same period

22 of time when final negotiations were in progress

1 with ALPA for the 2004 agreement?

2 A That's correct. It was the same point in  
3 time, and it did continue on into 2005.

4 Q All right. And now -- strike that.

5 What's reflected on page 7?

6 A Well, the pressures on the industry in the  
7 domestic marketplace are not unique to Delta, but  
8 Delta's unit revenue, though, is far below that of  
9 the network carriers.

10 What this chart shows is that this is  
11 RASM, unit revenue, this is how much we earn in  
12 cents per every available seat mile that we fly.

13 Q And this one is passenger RASM; correct?

14 A This is passenger revenue for the mainline  
15 carrier, that's correct.

16 As you can see, third quarter year to  
17 date, which was the last available information, and  
18 the form 41 has been available to get all the  
19 details together, our unit revenues of 8.53 cents

20 line up much more closely, unfortunately, to the  
21 low-cost carriers, to the new restructured USAir,  
22 JetBlue, America West and Air Tran, than they do

1 with the legacy hub-and-spoke carriers,  
2 Continentals, Uniteds, and the Northwests.

3       We have roughly a 20 percent shortfall on  
4 a unit revenue basis, compared to the majors. And  
5 while our restructuring plan, as I said, is going to  
6 be addressing revenue and looking to what we can do  
7 to close that gap, the reality is the only way in  
8 business you can fix your business is to get -- make  
9 certain your costs are commensurate with your  
10 ability to generate revenue.

11       We don't have the revenue -- we wish we  
12 had the revenue of those guys on the left-hand side.  
13 Reality is we don't, and we need to figure out a  
14 cost structure that can work within our ability to  
15 generate revenue. That's our definition of what  
16 competitive costs are.

17       I know there's a lot of definitions, and I  
18 think this is a critical point we're going to be  
19 making during the testimony during the hearing. But

20 my definition of what's competitive is to have a

21 cost structure that's within your capacity to

22 generate revenues.

1 Q Now, when Delta agreed to the 2001 pilot  
2 agreement, did it have this revenue disadvantage?

3 A We did have a revenue disadvantage at that  
4 point in time, but it was not nearly as pronounced.

5 Q The footnote 1 on this says "length of  
6 haul adjusted." Is that a standard adjustment?

7 A That's a standard measure used in the  
8 industry to benchmark performance, both on revenues  
9 as well as costs. It takes out the fact that the  
10 various carriers fly different distances and  
11 obviously the longer you fly, you either get cost  
12 efficiency from that or a revenue deficiency from  
13 that. And this tends to stabilize.

14 This is -- if all of the carriers were  
15 flying basically on Delta's network, what their unit  
16 revenues would be. It's a benchmarking tool.

17 Q What's reflected on page 8?

18 MR. BLOCH: Could I just inquire, just  
19 because I'm not sure I heard this correctly. You

20 said you either get cost efficiency or a revenue,

21 did you say deficiency or efficiency?

22 THE WITNESS: Or efficiency, depending on

1 the length -- length of the haul. I mean, a shorter  
2 stage length tends to produce a higher unit revenue  
3 and a longer stage length tends to produce a smaller  
4 unit revenue, and this is a benchmarking tool that  
5 takes that difference out of play. So it puts the  
6 unit revenue production of each carrier, based on  
7 how the network operates.

8 MR. BLOCH: I understand.

9 BY MR. GALLAGHER:

10 Q What's reflected on page 8?

11 A You know, Delta's revenue issues are  
12 substantial, and they have been impacted by the  
13 low-cost carriers, and I believe and we believe they  
14 have been somewhat uniquely impacted amongst the  
15 various legacy carriers.

16 The past structure that we had, a large  
17 hub-and-spoke carrier with a lot of regional jets  
18 feeding some big domestic wide bodies, worked very,  
19 very well for Delta for a lot of years. In fact, in

20 the '90s -- in the later '90s, and it's hard to  
21 recall just six, seven short years ago, Delta was in  
22 absolutely the best position in the industry. We

1 were on the top of the pile.

2       That's one of the reasons why we were able  
3 to pay and sign the contract that we did with our  
4 pilots at that point in time. We had a double-digit  
5 operating margin. We had an investment grade  
6 balance sheet. We had access to unsecured  
7 financing. We had operating cash flow.

8       So that marketplace for our structure  
9 worked very, very well in the late '90s. However,  
10 it also turned to be some of our greatest vulnerable  
11 points as the LCCs gained steam, as regional jet  
12 proliferation throughout the industry became  
13 popular.

14       Delta had more regional jets and a big  
15 advantage in regional jets over all the other legacy  
16 carriers, which, again, was one of the reasons why  
17 we were able to get the profits we had in the past.

18       So this chart here lays out the three or  
19 four reasons why we believe Delta is unique.

20 Q What does the phrase "point-to-point

21 overflight mean"?

22 A One of the things that we have experienced

1 the greatest amount of exposure on and the amount of  
2 point-to-point penetration and bypassing the hub.  
3 Obviously, most customers would prefer not to have  
4 to go through Atlanta, if you could avoid it. And  
5 so to the extent there's service available on a  
6 point-to-point basis, that service is a preferred  
7 route of travel. And customers are willing to pay a  
8 little bit of a premium for that.

9       So when you have a big hub-and-spoke  
10 network that's focused on bringing people and  
11 collecting traffic through a big hub, when you have  
12 alternatives in the marketplace and the  
13 proliferation of the LCCs, and a lot of their  
14 service, and Southwest started this, with a lot of  
15 point-to-point service, JetBlue has continued it, is  
16 to overfly the hubs.

17       The other issue we've had on oversight is  
18 other big mainline carriers have regional jets and  
19 have grown their regional jet scope. They can also

20 serve their marketplace, bypassing the Atlantas, the

21 Cincinnati, the Salt Lakes, and that again is a

22 vulnerability if you're sitting there with a big

1 infrastructure investment in the hub.

2 Q So, for example, Southwest has service now  
3 from -- has a big hub in Baltimore and service from  
4 Baltimore to Fort Lauderdale nonstop; correct?

5 A That's correct.

6 Q And Delta has service from Baltimore to  
7 Fort Lauderdale over Atlanta; correct?

8 A Through Atlanta, that's correct. I'm sure  
9 they have taken many of our passengers over the last  
10 number of years in that capacity.

11 The next part on the chart is that we are  
12 the largest domestic carrier over this last -- we're  
13 kind of neck and neck with Southwest, as you measure  
14 it today, with respect to domestic and claimants.  
15 But during this period of time when the domestic  
16 marketplace was experiencing the greatest amount of  
17 profit pressure, and it was clearly the toughest  
18 market in which to operate, Delta was  
19 disproportionately invested in the U.S. marketplace.

20           One of our strategies with the  
21 restructuring is to get better balance between  
22 international and domestic. But again, it's going

1 to take time in order to heal that issue. But we  
2 were -- we had a disproportionate amount of our  
3 revenue, disproportionate amount of our investment  
4 centered in the U.S. marketplace.

5 Q I believe Mr. Kasper had a slide on that,  
6 did he not?

7 A He did. He did. Not even within the  
8 domestic marketplace, but the highest concentration  
9 in the U.S. has been on the East Coast and Florida.  
10 As I mentioned, that's clearly where the greatest  
11 competitive battlefield has been fought in this  
12 industry over the last couple of years has been on  
13 the East Coast.

14 And finally we are the only legacy carrier  
15 that shares a primary hub with an LCC, that being  
16 Air Tran in Atlanta. None of the other majors have  
17 in their primary hub an LCC sitting right on top of  
18 them.

19 So there's no move we make that doesn't

20 elicit an Air Tran reaction or vice versa.

21 Q And have you spent much time analyzing

22 Delta's revenue problem?

1 A We have.

2 Q And I presume that part of the business  
3 plan is to address that?

4 A Yes. The 20 percent RASM deficiency that  
5 we talk about is going to take a long bit of time,  
6 quite honestly, to close. 20 percent is a huge  
7 amount of revenue to catch up on. The \$3 billion  
8 plan that we've got is targeted to close roughly 50  
9 percent of that gap over the next two years.

10 So these are not intended to be excuses.  
11 These are not intended to say that we are lesser  
12 than. We believe we need to do better, and we're  
13 focusing on improving for the future. But it's  
14 going to take several years, and I think we have to  
15 address the reality of the situation, that it's  
16 going to take a while to close. These are not  
17 overnight fixes.

18 Q Does Delta have total control over its  
19 revenue picture?

20 A Clearly, we do not. And again, I think  
21 one of the evidences of that is the amount of  
22 domestic capacity that's continuing to flood the

1 U.S. marketplace with the LCCs.

2       The other thing I want to mention about  
3 this chart is we get the question constantly why did  
4 we not move faster, quicker or more aggressively.  
5 Part of the problem is we were trying to operate  
6 this on an out-of-court restructuring basis. When  
7 you're out of court, you can't walk away from  
8 contracts. You're invested in your fleet. You had  
9 a certain amount of physical inability and  
10 limitation on your decisions and your action to  
11 move.

12       A great example of that is the MD 11s. We  
13 had a fleet of roughly 14 or 15 MD 11s that during  
14 this time frame we physically sat on the ground,  
15 despite the fact it was costing us \$60 million a  
16 year to have them sit and not do anything, it was  
17 less costly to do that than to fly the things.

18       So that's, again, the limitation of the  
19 out-of-court process, and we're using the in-court

- 20 process to leverage the ability to restructure,
- 21 eliminate, reject contracts and rebuild the company.
- 22 Q And during that time frame when Delta was

1 constrained to honor its contracts, USAir had gone  
2 into bankruptcy and United had gone into bankruptcy  
3 and were able to use the leverage of the bankruptcy  
4 process?

5 A USAir went in twice.

6 Q What's reflected on page 9?

7 A We talked about the revenue issue, and

8 that's about a \$3 billion hole, as I mentioned.

9 Turning to costs, we had several cost factors over  
10 this period of time that's also been dramatic.

11 Fuel price is nearly triple from where it  
12 was in 2000, which has increased our average cost by  
13 \$2.6 billion, as compared to the costs that we were  
14 paying in 2000.

15 In 2000, in the late '90s, fuel used to  
16 run somewhere between 7 to 10 percent of our  
17 revenues. Today it's running close to 30 percent of  
18 our revenues, is going out in fuel. There's a 20  
19 percent margin compression from fuel alone. Fuel

20 actually in 2005, and it's looking like in 2006 will

21 rival our biggest costs. We're paying as much in

22 fuel as we are our entire employment base of this

1 carrier.

2       Again, from where this company had been  
3 over the last number of years, that's a huge, huge  
4 change.

5     Q   There's a question I've heard many times,  
6 Mr. Bastian, I'm sure you've heard it. If your fuel  
7 costs have gone up that high, why don't you just  
8 raise your prices?

9     A   Well, unfortunately, as you saw the  
10 earlier chart with respect to the yield, while fuel  
11 was moving up, our domestic yields were coming down  
12 in absolutely the opposite way. And one of the  
13 issues with this fuel price, why it's been a double  
14 whammy for Delta, is that the LCCs had the balance  
15 sheet strength, particularly Southwest, to hedge  
16 this run-up. So there was an uneven playing field  
17 with respect to this cost issue. So this was not a  
18 cost that all carriers were subject to.

19       We had in the late '90s, early 2000, 2001,

20 the balance sheet shrank to hedge, and we did a very  
21 effective job of hedging. But as we got into more  
22 difficult financial constraints, our ability to

1 effectively go out, borrow in the marketplace on  
2 hedging was reduced. The LCCs actually had a  
3 stronger and continue to have a much stronger  
4 balance sheet than we do. We could hedge long-term.  
5 They turned around, and what they did, particularly  
6 Southwest did this very effectively, was to use the  
7 savings on the hedge and plowed it back against  
8 pricing.

9       So they used that lower cost that they had  
10 to keep prices not only flat but actually reduced,  
11 doing a great damage not just to Delta but to the  
12 domestic carriers as a whole.

13    Q   And that was during a time when United and  
14 USAir were especially weak; is that right?

15    A   Absolutely. I mean, they were smart.  
16 They were looking to knock someone out of the  
17 marketplace.

18    Q   And by they, you mean Southwest?

19    A   Southwest, I think all the LCCs did. I

20 mean, United and USAir had a bull's-eye. They were  
21 in bankruptcy, and they were a lot of speculation as  
22 to whether they would continue. I'm afraid today

1 Delta has got that bull's eye.

2 Q What's reflected on page 10?

3 A Page 10 shows, again, on a little more  
4 granular basis, how fuel price on a month-by-month  
5 basis over the last couple years has behaved or  
6 misbehaved as the case may be.

7 You can see in this chart the fall of '05  
8 is when the hurricanes hit and things spiked. In  
9 fact, at certain days during the months of September  
10 and October of '05, we were playing close to \$3 a  
11 gallon for jet fuel.

12 Fortunately it's moderated a bit, leveled  
13 out at about \$1.75. But the telling point to me is  
14 that you see since it leveled out, it's starting to  
15 inch back up again, along a consistent trend line  
16 over the last couple of years.

17 So this is an issue that we have to learn  
18 to live with for the future. I don't see this trend  
19 line changing. I think there's a lot of speculation

20 as to where fuel eventually is going to go. Some

21 have it spiking again, even more dramatically.

22 But the bottom line is I think we have to

1 learn to live with fuel at the \$2 a gallon level for  
2 the foreseeable future.

3 Q \$2 or less or \$2 or more?

4 A Well, the business plan we built had \$1.75  
5 in it in 2006. I think that plan quite honestly is  
6 vulnerable to a higher -- I know today we're paying  
7 roughly a buck 85 in fuel. That's what we paid  
8 yesterday.

9 Q I was just going to ask, I take it the  
10 fuel market changes day-to-day?

11 A Hour-by-hour.

12 Q And how much did it change yesterday?  
13 Where did it end yesterday?

14 A I think it ended all in at \$1.85,  
15 including transportation costs. That's what we were  
16 paying in the marketplace yesterday for fuel.

17 Q What is shown on slide 11?

18 A Another area we experienced a tremendous  
19 amount of cost pressure is on the interest line. As

20 you can appreciate, with your borrowing base going

21 from \$5 to \$13 billion, interest costs have moved

22 right alongside it. In fact, interest costs have

1 tripled over this period of time.

2       We had \$372 million in interest costs in  
3 2000. We had over a billion dollars in 2005 prior  
4 to filing. That's a \$700 million growth on an  
5 annual basis, below the line. So after you get your  
6 operating profits sorted out, you then have to cover  
7 a billion dollars of interest costs to break even.

8       MR. HARRIS: Excuse me, one question. How  
9 much of this is ComAir and how much of it is  
10 mainline?

11       THE WITNESS: ComAir, I think, is roughly  
12 100 million plus or minus of that number. The rest  
13 of it would be mainline, if I'm not mistaken. We  
14 excluded ASA because we sold ASA, from this chart.

15       BY MR. GALLAGHER:

16       Q Now, we have all of this interest expense  
17 in 2005. Is that all wiped out because of the  
18 bankruptcy filing?

19       A Well, some of it is, but certainly not the

20 majority. When we filed, we had roughly \$4 billion

21 of unsecured debt on our balance sheet, and that

22 debt will be permanently restructured as part of our

1 plan of reorganization. So we'll never pay that  
2 debt. That's going to save us in the order of 250  
3 to \$300 million on an annual basis. So that  
4 1,074,000,000 will come down to about \$750 million  
5 for 2006.

6 Q So that's interest expense that has  
7 literally been wiped out by the bankruptcy process?

8 A It's been wiped out, and those are  
9 theoretically -- not theoretically, in real terms,  
10 the sacrifices of the unsecured debt holders.  
11 That's about expense Delta will never pay again.

12 So when we talk about the \$3 billion plan,  
13 roughly 250 to \$300 million of that is coming from  
14 the interest savings with the elimination of that  
15 debt.

16 Q And then those debt holders will also --  
17 their principal will not be returned, I take it, in  
18 cash?

19 A Yes, they will -- they will receive equity

20 in the new reorganized company. But that does leave  
21 roughly \$750 million of interest costs going  
22 forward, and that \$750 million on secured

1 borrowings, so if we want to reduce that even more,  
2 we'd have to return more of the mainline aircraft.  
3 We're looking at that, whether we need to go deeper  
4 with respect to our mainline fleet.

5 But where we sit today, we prefer not to.  
6 We think those borrowings are appropriately secured.  
7 But really all it does is it brings you back to  
8 where you were in 2004, in terms of interest costs.

9 Q Well, is there any countervailing interest  
10 costs?

11 A Countervailing in what way?

12 Q Going up, added interest costs.

13 A Sure. Part of the \$750 million is the  
14 cost -- the interest costs on the DIP. And while we  
15 are pleased with what we were able to raise with the  
16 DIP in terms of \$2 billion in cash, and I'm pleased  
17 to say we still have that \$2 billion in cash on the  
18 balance sheet as we sit today, very expensive  
19 financing. And various tranches are at various

20 levels, but I think on average we're paying about

21 LIBOR plus 6-1/2 or LIBOR plus 7 on that, which is

22 close to 11 percent, 11 or 12 percent on average for

1 that \$2 billion. So very, very expensive debt in  
2 order to survive.

3 And again, that's another reason why we  
4 got to get that debt paid down, refinanced, retired.

5 MR. HARRIS: How much are you earning on  
6 the debt, the \$2 billion?

7 THE WITNESS: On cash?

8 MR. HARRIS: Yes.

9 THE WITNESS: In the bank? We can only  
10 invest it in very short-term, given the nature of  
11 where we're at. So you're probably looking at  
12 somewhere in the 4 to 5 percent range. Negative  
13 arbitrage, probably in the 7 percent range.

14 BY MR. GALLAGHER:

15 Q What's reflected on page 12?

16 A Page 12 shows the third area where we  
17 experienced the most amount of cost growth in the  
18 business since 2000 in terms of how our financial  
19 model has changed. And this is the impact of the

20 2001 pilot contract.

21 As I mentioned, when we signed the

22 contract in 2001, we were in a very different

1 financial position than we sit today. And we signed  
2 the contract. We're not walking away from that.  
3 But it was the most expensive contract in aviation  
4 history at the time. The compounded rate of growth  
5 in that contract over the four years shown here is  
6 34-1/2 percent. So when we talk about, as we will  
7 talk about, you know, the size of the pilot  
8 concession, the billion dollar concession, the  
9 dramatic 32 percent reduction they make, quite  
10 honestly, it brought us back to what we had given  
11 them over that period of time.

12 Q What's reflected on slide 13?

13 A 13 shows the financial effects of that  
14 contract. And from 2000 to 2004, and I don't show  
15 2005 here, because obviously we already had the  
16 impact of the restructured agreement as being part  
17 of the \$5 billion I'll be talking about, but our --  
18 you know, when you factor in not just the rate  
19 growth but also the cost of benefits and the cost of

20 work rules, the average pilot to Delta cost us in  
21 2000 \$182,000, is costing us over \$300,000 in 2004,  
22 or 67 percent increase on an annual basis. That's

1 about \$840 million a year.

2 Q Now, what's reflected on page 14?

3 A On page 14 it sums up these adverse  
4 impacts. And there are other adverse impacts. I  
5 don't mean to be exhaustive. I mean, there's  
6 pensions and government taxes and other things that  
7 we've had to deal with over this period of time.  
8 But these are the major, major elements.

9 \$3 billion coming out of our revenue base,  
10 almost \$3 billion in higher fuel, the cost of the  
11 new pilot contract in 2001 and the interest expense.

12 So we had over \$7 billion of adverse  
13 impacts. When you think of Delta as a \$15 billion  
14 entity, in terms of its revenue base, that meant we  
15 had to restructure, eliminate, find new ways to  
16 save, or new revenue sources, for almost half of our  
17 revenues.

18 So when we talk about the magnitude of  
19 what we need to do and why the pain and sacrifice is

20 as substantial as it is, it's because 50 percent of  
21 our revenues, 50 percent of our basic revenue in  
22 2000, is gone and will not return, unless we do

1 something about it.

2 Q All right. We've summed up the overall  
3 financial condition and pressures. What's reflected  
4 on page 15?

5 A Well, 15 starts to show what we've  
6 attempted to do and what we did do prebankruptcy.

7 Q You were not idle during that period?

8 A No, we were not idle at all during that  
9 period, unfortunately. And we did an awful lot. In  
10 fact, in aggregate, on an annual basis, we  
11 identified and implemented reductions totaling \$5  
12 billion on an annual basis over that period of time.  
13 So \$5 billion is the annual benefit from where we  
14 sit today as measured against, you know, kind of  
15 2002 is where we started tracking some of these  
16 changes.

17 Certainly right after 9/11 we implemented  
18 some widespread capacity reductions. We implemented  
19 close to, I think, 12,000 total head count

20 reductions at that time. However, after 9/11, no  
21 one knew what was going to happen. We didn't know  
22 whether it was going to be permanent, a temporary

1 blip, how quickly things would recover.

2       Clearly in 2002 as we got indication that  
3 this thing was going to take a lot longer to  
4 recover, and a lot more permanent in nature, we  
5 began a series of what we call profit improvement  
6 initiatives. They were designed to go out and look  
7 for areas to save, whether it be changes in the  
8 nonemployment area with respect to distribution  
9 costs or maintenance or the like, as well as  
10 employment areas.

11       And the buckets of the \$5 billion fell  
12 essentially into three areas. It fell into  
13 employment reduction, cost reductions in both pilot  
14 and nonpilot areas, and nonemployment-related  
15 reductions.

16       \$5 billion in total, and I'll walk you  
17 through each one of them. But before I do, one  
18 thing I do want to point out, as you'll see, close  
19 to 60 percent of the \$5 billion, the 1.8 billion

20 dollars of nonpilot employment reductions and \$1.1  
21 billion of pilot employment reductions, close to 60  
22 percent of the 5 billion, was from our employees.

1 And that is tremendous, in terms of the amount of  
2 sacrifice.

3 And again, it depicts one of the problems  
4 we had in terms of staying out of court, was we  
5 didn't have the vehicle to bring all parties to the  
6 table, so the people that had the most to lose, you  
7 know, us employees, were the ones sacrificing the  
8 most.

9 One of the things you will see in the new  
10 \$3 billion plan is a much more equitable sharing of  
11 the pain going forward, such that only 1/3 of the 3  
12 billion is employee-oriented as compared to close to  
13 two-thirds of the plan that we had to implement.

14 Q What's reflected on page 16?

15 A 16 lays out -- again, this is all  
16 prebankruptcy -- what we did in the nonemployment  
17 area. We saved \$2.1 billion through many, many  
18 teams and vehicles. And these are just an  
19 illustration of some of the things we did.

20           We've implemented lean manufacturing  
21 processes throughout our technical operations,  
22 saving a tremendous amount of material and handling

1 costs. We implemented a widespread reduction of  
2 commissions, particularly in the U.S. domestic  
3 place.

4 Q Commissions to whom?

5 A To the travel agencies. And also invested  
6 heavily in online so that our online, which is the  
7 cheapest -- which is the cheapest form of  
8 distributing the travel cost, is moved towards  
9 Delta.com.

10 We simplified fleet, even if it meant  
11 sitting things like MD 11s in the desert and  
12 collecting dust. So we did move with respect to  
13 fleet simplification and reducing other kind of  
14 aircraft types.

15 We implemented new coach air partnerships  
16 with continental and northwest, among others. We  
17 closed a hub in Dallas, again on an out-of-court  
18 basis. I think we may be the only major carrier to  
19 have closed a hub on an out-of-court basis.

20           Again, we left a lot of embedded  
21 infrastructure that we couldn't get out because we  
22 were out of court that we're now tackling now that

1 we're in court. Again, it was still the type of  
2 moves we needed to make in order to try to save this  
3 company from having to file.

4       And finally, we did, as part of the runup  
5 in the fall of '04 to a potential bankruptcy filing,  
6 negotiate certain lessor and vendor rate in  
7 negotiations. We had marginal success, but we did  
8 have some success.

9     Q   It's slightly beyond my official role, but  
10 would you spell Delta.com so that everybody  
11 listening knows where to book their air travel?  
12 We'll forgive the spelling, but it's Delta.com.  
13 What's on page 17?

14     A   It outlines what we did with respect to  
15 the nonpilot employment reductions, the pages I just  
16 took you through were nonemployment-related. These  
17 are nonpilot employment-related reductions. And  
18 it's \$1.8 billion. It's measured against 2002  
19 dollars to where we sit today.

20            Again, many things. A huge amount of  
21 technology has come into our business that's driven  
22 a lot of productivity improvements in the airports

1 are the best way to see that today, with the kiosks  
2 and the self-service check-in, and Delta direct  
3 phone lines in the airport lobbies and gate readers  
4 and the like. That's the part that's most evident  
5 to our customers. But there's technology throughout  
6 many parts of the business in terms of more  
7 efficient scheduling and other ways in which we're  
8 reducing costs.

9       We've done an awful lot of outsourcing of  
10 the nonpilot jobs, outside sourcing of maintenance,  
11 outsourcing of reservations, outsourcings in the  
12 airports, outsourcing of the ramp work, et cetera.  
13 A tremendous amount of job loss. We were replacing  
14 those jobs, those jobs people are doing today, with  
15 non-Delta badged employees, and a tremendous amount  
16 of cost and pain attached to that.

17       We implemented 10 percent salary reduction  
18 the first of '05 in connection with our out-of-court  
19 restructuring efforts.

- 20 We implemented for the first time health
- 21 care cost sharing with respect to medical. In 2001,
- 22 Delta employees across the board didn't pay anything

1 for their medical benefits. We implemented for the  
2 first time in 2002, again, something that seems hard  
3 to believe today, we implemented the first time cost  
4 sharing, we increased that cost sharing over time.  
5 Today I think we pay roughly 25 to 30 percent of our  
6 medical premium. We're not sure if that's the exact  
7 number. But it's probably that magnitude.

8 Q By "we" you mean employees?

9 A All employees.

10 Q That's the employee's share?

11 A Employee's share, correct.

12 We implemented changes in the retirement  
13 scheme. The Delta benefit plan, the defined benefit  
14 plan for the nonpilots, was changed during this time  
15 frame. In fact, in 2003, and converted over to a  
16 cash balance plan, saving a tremendous amount of  
17 money with respect to the ultimate pension cost.

18 And, you know, in finality, one of the  
19 most difficult parts of this chart is that we

20 eliminated as part of this process 22,000 jobs,  
21 necessary to save the company, just to get us to  
22 where we were on a prebankruptcy basis. That's

1 22,000 jobs that were eliminated.

2       And in fact, as part of the \$3 billion  
3 plan, we've announced and we're in the process of  
4 implementing another seven to nine thousand jobs  
5 being eliminated.

6       So by the time we get to the end of 2006,  
7 we'll have eliminated 30,000 nonpilot jobs from  
8 Delta, which is close to, from where we sat in 2001,  
9 I'd say close to 35, 40 percent of the employment of  
10 nonpilots have been eliminated over this four-year,  
11 five-year period.

12       MR. HARRIS: How many of those jobs were  
13 outsourced, and how many were just eliminated?

14       THE WITNESS: I couldn't -- I could get  
15 that answer back to you. Off the top of my head, it  
16 was a -- I'd say it was more eliminated than  
17 outsourced. Because when you outsource a job, you  
18 have another -- you still have a cost you've got to  
19 pay for that.

20           So it was more productivity-driven and  
21 work elimination than pure outsourcing. But, you  
22 know, the outsourcing was not insignificant.

1 BY MR. GALLAGHER:

2 Q And when you reflect the savings on this  
3 chart due to outsourcing, is that net savings?

4 A That is net of the cost of the  
5 outsourcing, that's correct.

6 Q All right. Now, you say on here that the  
7 nonpilots had a 10 percent salary reduction. That  
8 was effective January 1 of '95 -- excuse me, 2005?

9 A That's correct.

10 Q But on page 12, you said the pilots -- you  
11 showed the pilot increases from May of 2001 forward.  
12 What about all the ground employees? Were they  
13 getting progressive increases over the period of  
14 time from May of '01 to December of '04?

15 A No, no, effectively, as you were looking  
16 at back on page 12, looking at the 34 percent  
17 increase, there were select groups, a few groups,  
18 that needed to get a couple raises. I think  
19 mechanics were one group. But by and large, no,

20 there were no raises given anywhere in Delta during  
21 this time frame over that five-year period, from  
22 2000 forward. We just couldn't afford it.

1 Q Then what's reflected on page 18?

2 A On page 18 it shows the pilot  
3 contributions towards the \$5 billion of out-of-court  
4 restructuring.

5 Q And this was all due to the agreement that  
6 was negotiated in late October of '04 and became  
7 effective December 1 of '04?

8 A The lion's share was, yes, the 1.1  
9 billion, obviously a billion of the 1.1 billion  
10 dollars is the 2004 pilot contract. The 32-1/2  
11 percent rate reduction was essentially the return of  
12 the rate growth over the period of time from 2000.  
13 We implemented a substantial amount of work rule  
14 changes. We froze on a soft basis the defined  
15 benefit plan with respect to our pilots, and we  
16 implemented the same level of cost sharing with  
17 respect to premiums for health care that all other  
18 nonpilots were paying for the several years prior to  
19 that.

20           We also implemented, and pilots were part  
21 of the changes not just as part of the 2004 pilot  
22 contract but other technology-driven enhancements,

1 in crew scheduling and more efficient work rule.  
2 Not contractual changes but, you know, kind of  
3 scheduling and productivity and technology-driven  
4 changes over this time frame, from 2000 to 2004. So  
5 that's roughly \$100 million of savings the company  
6 realized from those savings alone. The unfortunate  
7 part -- unfortunate part of this is we have 2800  
8 fewer pilot jobs than 2001.

9 Q Were any of those pilots furloughed?

10 A A number were. I think today we're  
11 sitting with approximately 500 pilots on furlough.  
12 The vast majority of these jobs that have been  
13 eliminated have been funded through early  
14 retirements, and the lump sum features of the  
15 pension plan triggered an awful lot of early  
16 retirements over the last couple of years.

17 Q Did Delta trigger any of these early  
18 retirements?

19 A Delta made no moves to early retirement

20 benefits.

21 Q We've covered the prebankruptcy \$5 billion

22 efforts. What's reflected on page 19?

1     A   Well, 19 brings you up to 2005, and, you  
2 know, the decision to restructure out of court was  
3 premised on the implementation of the \$5 billion  
4 program. And the \$5 billion wasn't fully baked by  
5 2005, but a lot of it was, and was to be fully  
6 implemented by 2006.

7           But when you compare the \$5 billion to the  
8 \$7 billion cumulative pressures that I talked about  
9 earlier, it unfortunately turned out to be  
10 insufficient, and we still needed to file.

11          When we -- when we decided to try to  
12 restructure out of court, I think it was clear to  
13 all parties it wasn't guaranteed. We were in a very  
14 fragile condition, as we entered the year. We still  
15 had balance sheet debt of \$13 billion that had not  
16 been addressed. The plan in 2005 was to lose a  
17 billion dollars. That is the plan, if all worked  
18 well. And obviously, we came well off the plan in  
19 2005 and lost over \$2 billion.

20 But from there, you know, entering the  
21 year, things did get worse. Yields continued. We  
22 talked about the fall of '04, summer of '04, big

1 fare sales breaking out in the domestic marketplace.  
2 That continued into 2005, so that downward  
3 trajectory on yields in the domestic marketplace  
4 continued.

5       Fuel prices skyrocketed. I mean, fuel  
6 prices at the beginning of 2005, hard to recall,  
7 just a little over 12 months ago, it was roughly \$42  
8 a barrel. That was our forward curve estimate, as  
9 we enter 2005. Obviously, we paid well over \$60 a  
10 barrel for much of 2005, and that's not to mention  
11 the important refining crack spread that almost  
12 tripled over that time frame as well.

13       Another factor that was important for us  
14 with respect to 2005 that we were unsuccessful in  
15 avoiding was that our Visa and Mastercard processor,  
16 our credit card processor for Visa and Mastercard,  
17 that contract expired in August of '05, was  
18 scheduled to expire. And we, given our fragile  
19 condition and the deteriorating nature of the

- 20 business, we could not find another credit card
- 21 processor to take Visa/Mastercard, short of putting
- 22 up a \$750 million deposit up front. August of '05,

1 \$750 million of cash up front. And Visa/Mastercard  
2 is 45 percent roughly of our revenues. So, you  
3 know, to use a non-Visa/Mastercard saying, we  
4 couldn't leave home without it. We needed to have a  
5 processor in place, and we needed to put that  
6 deposit in place.

7 Q Now, Mr. Bastian, those of us who are not  
8 as familiar as you are with what you mean by "credit  
9 card processor" and why they would need such a  
10 deposit, can you explain that a little bit?

11 A Sure. They were concerned about, you  
12 know, Delta's survival and potential liquidation if  
13 we didn't make it. And they didn't want to be left  
14 holding the bag with respect to advance travel  
15 purchases that Delta couldn't fulfill, because if  
16 Delta can't fulfill them, credit card processors are  
17 on the hook. Legally and there's Congressional -- a  
18 law in place that protects them. The reality is we  
19 couldn't get them to accept our credit.

20 Q Protects them, meaning the processors?

21 A The processors, that's right.

22 Q And is the credit card processor like the

1 Visa/Mastercard enterprise, or is it somebody  
2 separate?

3 A No, it's a bank, U.S. Bank is the  
4 processor that we have. We wound up resigning with  
5 U.S. Bank, but as I say, we've got a \$750 million  
6 deposit that we had to put in place in order for  
7 them to continue to accept our Visa/Mastercard  
8 purchases.

9 Q And does that represent some substantial  
10 portion of the liability, the float, if you will,  
11 between --

12 A It's 100 percent.

13 Q 100 percent?

14 A It's effectively 100 percent.

15 Q And that's the float between the time  
16 people charge tickets on their visa or Mastercard  
17 and the time they fly?

18 A That's correct.

19 MR. HARRIS: Do you get interest on that?

20 THE WITNESS: We get marginal interest, I

21 think roughly 2 percent, very small.

22 BY MR. GALLAGHER:

1 Q Now --

2 A And we were, just to carry the story  
3 forward, we were able to secure some financing  
4 against that hold-back just a couple months ago.  
5 And we took out a -- which was new in the industry,  
6 hadn't been done before, a \$300 million letter of  
7 credit, so that we actually would receive back \$300  
8 million of that, to have cash back in pocket.

9 The problem with that letter of credit is  
10 we're paying roughly 12, 13 percent interest rate on  
11 that money. So again, that 2 percent is a bad  
12 negative arbitrage.

13 Q Wait a minute, Mr. Bastian. If you  
14 already had \$2 billion of DIP financing, why did you  
15 go out and get \$300 million more of expensive  
16 borrowed money?

17 A Well, the reality is when we looked at our  
18 cash forecast and we entered the process, we looked  
19 at the fall -- excuse me, the spring of 2006 as

20 being a very low cash period of time. In fact, we  
21 were looking at cash just a little over a billion  
22 dollars for us at that point, a good bit of it

1 driven by this deposit we had to make. So our  
2 ability to actually get cash back in pocket gave us  
3 a little buffer against the volatile nature of, you  
4 know, fuel spike, fare war, any kind of other  
5 endemic influence that might impact our business.

6 Q So you thought you needed more cash?

7 A We did need more cash.

8 Q Now, we've talked about everything  
9 prebankruptcy, but before we go into the bankruptcy  
10 period, I want to talk about -- a little bit about  
11 your communications with ALPA throughout this period  
12 of time. Tell us what is a quarterly financial  
13 update.

14 A Every quarter, and I think over certain  
15 periods of time we did these almost on a monthly  
16 basis, either I or one of my individuals would sit  
17 down with ALPA's economic and financial advisors,  
18 certain members of the ALPA team, and update them  
19 with respect to the condition of the company, the

20 month or the quarter that just closed, how we're  
21 doing, what our outlook is for the upcoming quarter  
22 or year.

1 Q And the 2001 agreement requires that ALPA  
2 get certain financial information and route and  
3 traffic information on a monthly basis, does it not?

4 A That is correct.

5 Q And then the quarterly review is to --  
6 reviews the financial results at the end of each  
7 quarter?

8 A It's a discussion of the results, a  
9 question about any issues, any issues or concerns  
10 we're worried about, you know, how the business is  
11 being managed effectively.

12 Q Did you participate in most of those  
13 quarterly reviews in 2002, 2 and 3?

14 A I participated in most of them, yes.

15 Q And during the course of those quarterly  
16 reviews, did you share with ALPA the increasing  
17 difficulties that Delta was facing?

18 A Absolutely.

19 Q All right. Did you share with ALPA the

20 various things that Delta was doing to respond to

21 its financial condition?

22 A Absolutely. They were very interested

1 with respect to what we were doing to manage the  
2 issues in the business.

3 Q And did you share with them both the big  
4 picture and the details of the profit improvement  
5 initiative and transformation plan?

6 A In excruciating detail.

7 Q And did they ask for backup?

8 A They asked for a lot of backup.

9 Q And did you provide it?

10 A We absolutely did.

11 Q All right. And when did Delta first  
12 suggest to ALPA that the discussions start on the  
13 subject of reducing pilot labor costs under the 2001  
14 agreement?

15 A My understanding -- and I wasn't  
16 specifically personally involved in this -- but in  
17 the early part of 2003 is when Delta's management  
18 first approached ALPA with respect to the issues we  
19 were experiencing. We at that point in time were

20 starting on these profit improvement initiatives.

21 It was a period of time where it looked like the

22 recovery from 9/11 was going to take a lot longer

1 than anyone had originally thought and a lot more  
2 permanent in nature.

3 And I believe the discussions began at  
4 some level, I don't think they got too far, but I  
5 believe the first approach was made in the first  
6 part of '03.

7 Q And United Airlines had filed for  
8 bankruptcy in December of '02; correct?

9 A They had.

10 Q And in the spring of '03, in March  
11 particularly, United reached its first round of  
12 concession agreements with its unions; is that  
13 right?

14 A I believe that's right.

15 Q And at that same month, March of '03,  
16 American Airlines reached negotiated solutions with  
17 its unions?

18 A A substantial amount of reductions with  
19 its unions, in order to stay out of court.

20 Q When did Delta finally have success

21 reaching negotiated agreement with ALPA?

22 A October of '04.

1 Q And that was the predicate for entering  
2 the year 2005, which you've just described?

3 A That's correct. That was the basis to  
4 stay out of court.

5 Q Now, what's reflected on page 20?

6 A Well, page 20 is a chart I had shown  
7 earlier, again, indicating just where we were with  
8 respect to immediately prior to filing. The path we  
9 were on, the billion five that we saw kind of  
10 walking out the door, if you will, and just how  
11 quickly the fortunes can change and the degree of  
12 volatility that we face in this industry.

13 You know, we did raise -- we were  
14 successful, we raised the \$2 billion DIP that we  
15 talked about, and we're sitting today with \$2  
16 billion, so that entire \$2 billion is still in our  
17 cash account, being managed on a daily basis very,  
18 very tightly and very, very carefully. But that \$2  
19 billion, as you can see from this chart, all of it

20 is borrowed money at those high interest rates.

21 Q What did you do when you saw this

22 forecast?

1 A I got pretty nervous.

2 Q And --

3 A But honestly, it was not a surprise to me.

4 I -- I saw, you know, from the outside looking in  
5 this company was struggling big time. So when I  
6 came back, I think I came back with my eyes wide  
7 open and knew that there was a reality that this  
8 might indeed be necessary.

9 Q All right. And when you say "this," what  
10 do you mean?

11 A Making a decision to file quickly.

12 Q And what's reflected on page 21?

13 A Page 21 is a summary of the \$3 billion  
14 plan that we've referred to.

15 Q And before we get into the details, let me  
16 ask you, when was this plan developed?

17 A This plan was developed effectively in the  
18 summer, I'd say August, of '04. I came back in late  
19 July.

20 Q '05?

21 A Yes, I came back in July of '05. The

22 company during that summer had started to look at

1 additional ways it could improve the revenue picture  
2 and the network picture. As the business started to  
3 get tough, as they were looking at fuel continuing  
4 to skyrocket and the yield picture not getting any  
5 better, were there additional steps that the company  
6 could take on an out-of-court basis to avoid a  
7 filing.

8       And there was a certain amount of change  
9 with respect to the network, the revenue base of the  
10 company, some additional changes. But  
11 fundamentally, a lot of those changes had already  
12 been implemented because on an out-of-court basis,  
13 you can't get out of the contracts, if you can't get  
14 out of the cost of the fleet, you're generally  
15 probably better off flying the darn things than  
16 letting them sit in the desert and collect dust.

17       So there was a limit to what we could do  
18 with respect to the network. But what we then  
19 turned the direction towards is, well, if we were to

20 file, what could we do, in terms of improving the

21 network, improving the profitability and the

22 productivity of our business?

1           And so we went through a series of  
2 analyses, very, very deep analyses, you know, in the  
3 summer of '05, looking at what changes we could make  
4 and we would make. Dramatic reductions in capacity  
5 in the domestic marketplace. We have effectively  
6 pulled down roughly 15 percent of the U.S. ASM  
7 capacity over the last few months.

8           We're growing internationally, growing  
9 internationally about 20 percent. The domestic  
10 marketplace is where, as I said, the heat is on.  
11 The international, there's heat there, believe me,  
12 it's no walk in the park, but it certainly is a much  
13 more profitable undertaking, and it better balances  
14 the network with respect to international/domestic  
15 flow.

16       Q   But I wanted to talk about process first,  
17 about developing this business plan. That was in,  
18 you said, started in August, during the summer?

19       A   That's correct.

20 Q And when was the -- when did negotiations

21 and discussions start with respect to DIP lenders?

22 A Early part of August.

1 Q And as you went to the DIP lenders, did  
2 you need to have a business plan to --

3 A Yeah, we obviously needed to put together  
4 our "in-court strategy" in this business plan. We  
5 did a two-year plan because, quite honestly, looking  
6 at the time left and where the cash was going, we  
7 didn't have time to do an exhaustive five-year  
8 analysis. We had to put something together, pretty  
9 radically, that had changes we could implement in a  
10 short period of time. We had a two-year business  
11 plan that we took covering 2006 to 2007 to the DIP  
12 lenders, and we first started to share that with  
13 them in mid-August.

14 Q Now, I take it from earlier discussions  
15 that Delta was close to a bankruptcy filing in  
16 October of '04, before it reached its settlement  
17 with ALPA?

18 A We were literally on the courthouse steps.

19 Q So some preparatory work had been done

20 previously. You weren't starting totally from

21 scratch?

22 A We had -- we had done a lot of preparatory

1 work, yes. But that said, there's filing, and  
2 getting ready to file is night and day. There's a  
3 lot more work to be done, which you know going in.

4 Q On August 16, Delta delivered in a letter  
5 to ALPA triggering -- a notice of liquidity  
6 shortfall in a bankruptcy protection letter. Are  
7 you aware of that?

8 A I am.

9 Q On that same day, did you meet with ALPA's  
10 leadership and financial representatives?

11 A Yes, that day I met with, again, the  
12 leaders of the -- from the economic and financial  
13 group, their outside investment banker, I think, was  
14 there. Certain members, I can't recall who  
15 specifically, certain members of the ALPA leadership  
16 were there at that meeting, too.

17 Q And did you share with them at that time  
18 the then whatever was the current version of the  
19 business plan?

20 A I believe at that time I shared with them  
21 what we were doing with respect to, first of all,  
22 looking at where the cash forecast was going. I

1 shared with them the dramatic decline we were  
2 looking at, shared with them that it looked likely  
3 that we would need to file sometime probably the  
4 middle of September. The reason we were, you know,  
5 needed 30 days is because we had a lineup to do. We  
6 had to get the financing in place, had to get the  
7 business plan finalized. And that takes time. I  
8 mean, this is a big deal.

9 Q And just to make it clear, this was all  
10 under and subject to a very strict confidentiality  
11 agreement, was it not?

12 A Absolutely, absolutely.

13 Q Did -- in that briefing, did you discuss  
14 with ALPA the fact that you had initiated  
15 discussions with DIP -- potential DIP lenders?

16 A We shared with them a list of banks that  
17 we were going to solicit and that we had started to  
18 solicit, yes.

19 Q All right.

20     A   And we had a competitive auction for the  
21   DIP.  There was a number of lenders that were very  
22   interested in the business.

1 Q And did you offer ALPA further briefing on  
2 the status of DIP loan negotiations?

3 A We kept them apprised. I think, the  
4 latter part of August, near the end of August, we  
5 had another meeting with them where we shared with  
6 them where it stood with respect to in all  
7 likelihood of the bank that we were going to select.  
8 I think I shared with them the details, because the  
9 business plan at that point had been pretty well  
10 fleshed out that we had taken to the marketplace.  
11 And the fact that, you know, confirmed with them  
12 that the mid-September timing looked likely.

13 Q So ALPA saw the business plan at that  
14 point, they learned the status of the DIP financing  
15 negotiations and your likely pick even before the  
16 DIP loan was consummated?

17 A That's correct. And they had a lot of  
18 questions, you know, why and how and, you know, the  
19 process that we were implementing. I mean, they

20 were -- again, they -- as they should, they have got

21 a vested interest in the stake of this organization,

22 and they had a lot of questions and a lot of

1 detailed questions, good questions, as to why we  
2 were going where we were going.

3 Q And did Delta bring anyone out -- any of  
4 its outside advisors into the briefing process?

5 A Yeah, I believe Mr. Tim Coleman from  
6 Blackstone was with me at the briefing, and  
7 Blackstone, together with Delta, Blackstone is our  
8 outside investment bank, was leading a lot of the  
9 negotiations with the various parties.

10 Q And did Delta share with ALPA its  
11 estimate -- its assessment of the fleet -- first of  
12 all, the financial details on the current costs of  
13 every aircraft in the fleet and the likely savings  
14 if those were marked to market in a bankruptcy  
15 process?

16 A Yeah, we shared with them the savings, and  
17 essentially they ran across many of these  
18 categories. You know, the Chapter 11 savings on  
19 this page are roughly \$1 billion, and what we could

- 20 expect to save on fleet, what we could expect to
- 21 save with respect to facility and vendor
- 22 renegotiations, what we would expect to save from

1 the elimination of the unsecured debt. A number of  
2 other areas as well.

3 Q Now, Mr. Simon suggested yesterday, or at  
4 least implied -- I don't want to put words in his  
5 mouth -- that ALPA was surprised by Delta's  
6 bankruptcy filing. In your view, is there any way  
7 the ALPA leadership could have been surprised?

8 A Mr. Simon --

9 MR. SIMON: Objection, objection. I  
10 suggest there is no -- no way the transcript can be  
11 read that is consistent with the predicate for that  
12 question.

13 MR. GALLAGHER: Well, then I withdraw that  
14 predicate.

15 MR. SIMON: That's a good idea.

16 MR. GALLAGHER: And I'll simply ask  
17 Mr. Bastian more directly.

18 BY MR. GALLAGHER:

19 Q To your knowledge, were the ALPA

20 leadership surprised by Delta's bankruptcy filing?

21 A It would be impossible for them to be

22 surprised since I updated them where we were going.

1 Q All right. And during the same period of  
2 time, Delta was trying to sell ASA, one of its  
3 commuter subsidiaries; correct?

4 A Yes, one of the liquidity initiatives that  
5 we had underway, we had -- you know, prior to the  
6 run-up to filing was a monetization of ASA, our  
7 regional jet in Atlanta, and we had a deal that we  
8 were looking to consummate, and we eventually did  
9 consummate, with SkyWest for the sale of ASA during  
10 the same period of time.

11 Q And that sale was consummated before the  
12 bankruptcy filing and then subsequently ratified  
13 before the bankruptcy court; correct?

14 A That's correct. We received, I think,  
15 cash proceeds of roughly \$450 million from the sale.  
16 And it was important to get that done before we  
17 filed, because if we were to have done it after  
18 filing, it would have been held up in the court  
19 process. As you can see, we needed the cash.

20 Q All right. Now, and did you brief ALPA's  
21 financial consultants and staff on the status of the  
22 ASA transaction?

1 A Yes, we did. We kept them apprised. And  
2 again, they were very interested, as they should be  
3 interested, in how the company was managing the  
4 business.

5 Q And did you take personal phone calls from  
6 their financial staff about the status of these?

7 A Yeah, I would receive, you know, what were  
8 a number of weeks -- over a number of weeks, calls  
9 directly, e-mails, as to how things were  
10 progressing.

11 And again, I think we have a very open  
12 relationship. They have got my home number, they  
13 have got my cell number, they know where to find me  
14 whenever they need me.

15 Q Now, with all that background, would you  
16 tell us about the business plan that you developed?

17 A Sure. As I was starting to say earlier,  
18 we were -- beginning of the summer of '05, as things  
19 started to get bleak, we were looking at what we

- 20 could change with respect to the network. Very
- 21 focused on closing that revenue gap, the 20 percent
- 22 and whatnot, and making structural changes,

1 leveraging the bankruptcy process to eliminate a lot  
2 of the asset base.

3       We've got as part -- just to put some  
4 premise around this, we have got roughly 200  
5 airplanes that we are going to -- between mainline  
6 and the regional jets that we're going to eliminate  
7 as a result of the bankruptcy process. And to this  
8 point, we're actually roughly halfway through that  
9 in terms of rejecting or retiring or eliminating  
10 from our fleet. So 200 aircraft in total is, I  
11 think, roughly split 50/50 between mainline and the  
12 regional jets.

13       Now, many of those aircraft, the 200, were  
14 actually sitting doing nothing, not many, but a fair  
15 number. So part of it was just eliminating the cost  
16 of assets that were producing nothing for us, but a  
17 lot of it was also changing the nature and makeup of  
18 the network.

19       One of the initiatives that the

20 productivity and revenue base was focused on was  
21 fleet simplification. We are eliminating four fleet  
22 types of flying. A lot of the old, the 73200,

1 73300s, 76200s and 73300 Germania subfleet, for  
2 fleet types, all of which have a tremendous amount  
3 of inefficiency embedded in terms of the maintenance  
4 of separate fleet type, staffing of separate fleet  
5 types, the scheduling of separate fleet types, are  
6 gone. In fact, they will all be gone by the fall of  
7 this year. Four fleet types out in that period of  
8 time.

9       Those four fleet types alone represent  
10 about 75 aircraft so again, just to give you a sense  
11 of the dramatic nature of how quickly we're moving  
12 on this restructuring.

13       We're changing the flow of the regional  
14 jets in our hub markets, in Cincinnati and Atlanta,  
15 to try to better balance connect -- to try to deal  
16 with that overflight issue and point-to-point,  
17 trying to be less reliant on flow traffic. Today in  
18 Cincinnati prior to the restructuring, over 80  
19 percent of the traffic was connect traffic. And

20 again, if people have options to avoid Cincinnati,  
21 they do so at, in fact, a better revenue premium as  
22 compared to having to travel through Cincinnati. So

1 pulling some of that flow market out, a lot of the  
2 regional jets you see us eliminating is addressing  
3 some of that hub changes that we're making.

4 Q Now, Cincinnati is an important market to  
5 us. You weren't disparaging Cincinnati, were you?

6 A No, but we're negotiating with the  
7 Cincinnati authorities, so we need to get our lease  
8 rates down.

9 Q I understand. But the passenger wants to  
10 avoid a connection anywhere, if possible, in favor  
11 of a nonstop flight?

12 A Absolutely. And they will pay a premium,  
13 by and large, for that -- for their time savings.

14 So we went through this, and we looked at  
15 roughly \$1.1 billion of net profit improvement we  
16 could make as a result of all the restructuring,  
17 implemented over a two-year period.

18 Again, this is not something you flip a  
19 switch and turn the lights on. It's going to take

20 about two years to implement the amount of change

21 and get the revenue back over this period of time.

22 It will close, by our estimation, roughly

1 50 percent of that RASM gap we've talked about, that  
2 20 percent revenue deficiency that we have, we're  
3 targeting closing 50 percent of that over the next  
4 two years.

5 Q Now, Mr. Bastian, there's a risk that it  
6 sounds simple and quick and glib to say 1.1 billion  
7 here. Was this a bunch of executives sitting around  
8 a table saying, well, I think we can get \$1.1  
9 billion out of here?

10 A No, it's many late nights and long days  
11 and months of study and analysis. Again, you know,  
12 we looked at and have been studying for the last  
13 year prior to filing what we could potentially do,  
14 if we were in court. And so once you're in court,  
15 it unlocks a lot of levers that weren't available to  
16 us out of court.

17 So as a result, this is something that had  
18 been in the works for a number of months prior.

19 Q What's reflected in the Chapter 11

20 savings?

21 A After we looked at all the revenue changes

22 and network changes, we then obviously moved to the

1 Chapter 11 savings in terms of what the process  
2 could provide as well. And I touched on many of  
3 these, but one particularly I want to point out in  
4 terms of the fleet savings, we are in the process  
5 and have implemented a significant amount of the  
6 fleet savings already to the point where we're  
7 essentially reducing the average cost of our rental  
8 aircraft by almost 50 percent from where we had been  
9 prior to filing.

10       So 5-0, in terms of where the market was  
11 versus what we're paying. That in total is going to  
12 save us about \$450 million a year, just with respect  
13 to negotiating with all these fleet vendors. And  
14 again, those were not easy negotiations. Section  
15 1110 of the bankruptcy code puts a clock at how  
16 quickly we can do that in order to be able to  
17 retain, we have a 60-day period of time that we had  
18 to implement these or run the risk of losing these  
19 aircraft, with lessors coming in and claiming these

20 aircraft.

21           So I think we've gotten approximately 400

22 of that \$450 million already secured. More to go,

1 we're not completely done yet, but a tremendous  
2 amount of work on that.

3 I mentioned the other savings with respect  
4 to interest on the unsecured debt. Facility and  
5 vendor negotiations. We have literally hundreds of  
6 thousands of contracts that we're in the midst of  
7 renegotiating today. Big airport facilities in  
8 Boston and Cincinnati, you know, places that we're  
9 going to retain a presence in those markets, but we  
10 can't retain them on the terms the airports were  
11 charging us previously, so we're going through, and  
12 you will see us rejecting airport leases and a whole  
13 variety of stuff.

14 So this is an exhaustive, exhaustive  
15 program that we're working through, but all with the  
16 goal to generate roughly a billion dollars of cash  
17 savings a year from all those other constituencies,  
18 non-Delta specific employees, non-Delta, you know,  
19 contributions, if you will, towards Delta's success.

20 MR. GALLAGHER: All right. Mr. Chairman,

21 I have just noticed the clock. Would this be -- I'm

22 not sure of the witness's stamina, or the board's,

1 but would it be a convenient time for a break?

2 MR. BLOCH: Absolutely. We can take a  
3 vote, but let's just take a break.

4 (Recess 10:58 to 11:21 a.m.)

5 MR. BLOCH: I think we're ready to  
6 proceed. Mr. Gallagher?

7 MR. GALLAGHER: Thank you, Mr. Chairman.

8 BY MR. GALLAGHER:

9 Q Mr. Bastian, before we broke, we were on  
10 page 21 of your presentation.

11 MR. HARRIS: I thought we've been broke  
12 the whole time.

13 (Laughter.)

14 THE WITNESS: The message is getting  
15 through.

16 BY MR. GALLAGHER:

17 Q Yes. I'm not sure if you had finished  
18 your observations about this page.

19 A Well, no, I hadn't finished. You know, we

20 went through this -- the build of this business plan  
21 sequentially, and as I said, we did the network, the  
22 revenue, and quite honestly, anytime you're

1 rebuilding a business, it's always better to do it  
2 with improved revenues than further cost sacrifices.

3       We got that together, we did the Chapter  
4 11 savings. The problem with it, when you look at  
5 the \$2 billion, those two areas contribute,  
6 obviously, we were still short in the business plan.

7       And this business plan that we've laid out  
8 here as its first goal is to eliminate the cash  
9 bleed. This is a company that's bleeding cash. We  
10 obviously have no more borrowing capacity, and we  
11 need to cut off the cash bleed. So our goal in  
12 2006, while not a terribly lofty goal, by most  
13 measures, is to stop the bleed with respect to pay  
14 for our bills, pay for our costs, pay for our  
15 capital, pay for any debt that we have to --  
16 maturities that are due in 2006, so that we  
17 essentially end the year with \$2 billion in the bank  
18 as we started the year with \$2 billion in the bank  
19 and go from there.

- 20           But you have to stop the bleeding first
- 21 before you can start to get better.
- 22    Q   If you stop the bleeding, what does that

1 translate to in terms of profit and loss?

2 A In 2006 it's still a fairly sizable loss.

3 The profits won't come until 2007. They trail. But

4 at least you can stop the cash bleed. And when we

5 did the run-up in terms of the first two items, we

6 realized we'd still be short, and we'd still be

7 bleeding cash in 2006. And that's when we had to go

8 back and then look at the -- another round of

9 employment cost reductions and employee sacrifices.

10 We were quite reticent to do it. As I said, the

11 employees contributed significant amount towards the

12 \$5 billion already. It was not something that we

13 were looking to do.

14 We were hoping to find ways to avoid it,

15 but it was unavoidable, given the nature of where

16 we're at. And we need a little over \$900 million on

17 an annual basis to hit the goal, stop the bleed

18 in '06 and start to build cash for '07. And that's

19 how we got to the \$930 million at that time in cost

20 reductions, allocated one-third to the pilots, in  
21 large total, summary total, and two-thirds to the  
22 nonpilots. One-third pilots, two-thirds nonpilots.

1 Q And the two-thirds for the nonpilot  
2 employees, did that include another pay cut?

3 A That included another pay cut on average  
4 of somewhere between -- there's different rates, but  
5 between 9 and 10 percent on average, in terms of  
6 nonpilot pay cuts.

7 Q When did they become effective?

8 A It became effective in November of this  
9 past year, November 1, in fact. Almost immediately  
10 upon the announcement, we announced this plan late  
11 September, and pay cuts went into effect November 1.

12 In addition to that, we've also announced  
13 a very significant job reduction, 7 to 9000 nonpilot  
14 jobs. That's in addition to the 22,000 that I  
15 mentioned earlier, so that by the end of this year,  
16 we'll have eliminated 30,000 nonpilot jobs, a  
17 tremendous change with respect to our employment  
18 base.

19 Q Were there any changes to the pension

20 program for nonpilots?

21 A We also hard-froze the pension plan of the

22 nonpilots, as of the first of '06, such that our

1 nonpilots now did not have any pension arrangement  
2 of any sort, any retirement arrangement that they  
3 are accreting value in the current year, zero.  
4 There's not a replacement plan, not a fund  
5 contribution plan. We realize that's not a  
6 situation that we can maintain for the long term,  
7 but while we're in court, we said that we can't  
8 afford to be putting another pension scheme in  
9 place, retirement scheme, defined contribution  
10 scheme in place, until we understand our future.

11       It also has roughly \$200 million of  
12 additional overhead reductions. Many of the  
13 administrative folks, we're looking at close to 2500  
14 administrative positions eliminated on the overhead  
15 ranks as well. So it's massive in terms of its size  
16 and its scale.

17     Q   And what's reflected on page 22?

18     A   Well, 22 is the goal of the business plan.  
19     It's to build a plan and a path forward so that

20 we're a viable company once again that's got a  
21 stable, long-term future. We're not looking to be  
22 back where we were in the late '90s, on the top of

1 the heap. I'd love to get back there, but  
2 realistically, we have so far to go that just to get  
3 a stable outlook is a tremendous achievement.

4       And with respect to attaining that goal,  
5 there's four key tenets that I've laid out here, the  
6 most important of which is, number one, that we need  
7 to attain a competitive cost structure. And that's  
8 competitive cost relative to the revenue that we  
9 produce.

10       You know, you can look at competitive  
11 costs in a lot of different ways. You can have the  
12 lowest cost in the industry. But if your revenues  
13 are even worse, you don't have competitive costs.  
14 You can have high cost structure, you know, United I  
15 look at as an illustration of that. They're taking  
16 more of a high cost approach outside of their  
17 bankruptcy exit, but they have the revenues to  
18 support that. They have a substantial revenue  
19 premium in the industry, and they believe that's a

20 winning strategy. We'll see.

21 But for Delta, we need to figure out a

22 Delta solution. And Delta's cost structure needs to

1 fit within its revenue-producing capabilities, so  
2 when we look at that on a peer-by-peer basis, on a  
3 group-by-group basis across the company, it needs to  
4 be in relationship to that. So attaining  
5 competitive costs is number one.

6       We also need to improve that unit revenue  
7 performance. We're not satisfied, we don't believe  
8 we should be as low in terms of the deficiencies.  
9 We know we've been hamstrung with respect to trying  
10 to do this restructuring out of court. We need to  
11 get the revenue improvements. That's a billion  
12 dollars, as you see, of the 3 billion.

13       I already touched on the elimination of  
14 the cash bleed. But importantly here, it's not  
15 eliminating the cash bleed, it's starting to build  
16 the balance sheet for the future. This is an  
17 airline that's starved itself over the last number  
18 of years with respect to renewal of property, plant,  
19 equipment, fleet and the like. And we need to find

20 long term a way to start building some new airplanes

21 back into the schedule, to start growing again.

22       If you're staying still, you'll be losing

1 ground in this industry. You need to go out  
2 competitively with some fleet investments in the  
3 business, so we have to have the cash not just to  
4 sustain the day-to-day but to start to build for the  
5 future. That's also part of this plan.

6       And finally, restoring profitability.  
7 It's going to take two years. You know, the plan  
8 today is to lose about \$600 million in '06. I'm  
9 pleased to say we're doing a little bit better  
10 in '06 than that, you know, in the months of January  
11 and February. Not a tremendous amount, but a bit  
12 better. But it's going to take a while to turn this  
13 thing around on a profit level.

14       In '07 we have a projection to make \$400  
15 million profits in '07. So again, tremendous  
16 achievement giving me lost \$2.2 billion just a year  
17 ago to a profit of \$400 million.

18       Quite honestly, that may sound like a lot  
19 of money, given where we've been. That's a 2

20 percent margin. Revenue base at that point will be

21 around \$17 billion, earning 2 percent on our

22 revenues.

1           When I talk about slim margin for error,  
2 that's what I'm referring to. \$400 million is not a  
3 lot of money with respect to a margin for error in  
4 the future.

5       Q   For some of us in the room, Mr. Bastian,  
6 who are much more labor types than financial types  
7 and might not fully appreciate what you mean by  
8 "repair the balance sheet," can you elaborate on  
9 that and why?

10      A   Well, during bankruptcy, we will be  
11 restructuring debt and looking to restructure --  
12 hopefully restructure the unsecured debt as part of  
13 the plan of reorganization, and take that off our  
14 future cash obligations, we're still going to have a  
15 tremendous amount of debt going forward.

16           In our estimates, I don't want to give an  
17 estimate, there's media and public people in the  
18 room here, we can do that privately if you need to,  
19 but there is still going to be a substantial amount

20 of debt going forward that we need to -- it's a  
21 secured debt, secured by aircraft and whatnot, that  
22 if you take out further debt -- and you do have the

1 opportunity to reduce debt further, you have to give  
2 back more aircraft and whatnot.

3       There's a fine line between when you tip  
4 over, you're starting to shrink too aggressively and  
5 leaving revenue opportunity on the table and you  
6 can't succeed. So that's what we mean by repair the  
7 balance sheet, with respect to the debt. But also  
8 then reinvest in the business.

9       You know, we've got, unfortunately, very  
10 interesting dynamics on our fleet. We're retiring,  
11 as I mentioned, the older fleet, 75 older aircraft,  
12 so on paper our fleet got younger. But in reality  
13 it didn't. You know, our fleet is aging every year  
14 and whatnot. It's kind of funny how this business  
15 works.

16       We've got to get back again with respect  
17 to starting to bring new airplanes on the property,  
18 start to renew the business, start to grow again,  
19 and start to take, hopefully, the cost advantages

- 20 and the cost competitive nature that we seek to
- 21 solicit, and go out in the marketplace and win again
- 22 and whatnot. We haven't won in a while. We need to

1 start winning again.

2 Q And these eliminating the cash bleed and  
3 repairing the balance sheet is a prerequisite or  
4 predicate for that?

5 A If you don't eliminate the cash bleed,  
6 you're not going to be around.

7 Q What's reflected on page 23?

8 A 23 is a recap of what I've been talking  
9 about most of the morning. On the left-hand side of  
10 the page, you can see the adverse impacts, the \$7  
11 billion that I won't go through again. But you can  
12 see the total amount of change that we've had to  
13 endure over the last five years.

14 You can see why on paper, the \$5 billion,  
15 while it was a bold and valiant effort to stay out  
16 of court, wasn't sufficient. It didn't cover what  
17 we needed to with respect to the amount of adverse  
18 impacts that continued on into 2005. The \$3 billion  
19 business plan, we do believe, will provide the

20 foundation for survival. But I've got to tell you,

21 it doesn't leave a lot of margin for error or

22 disruption.

1           The \$7 billion that we've experienced to  
2 date, I don't know what the future holds, I don't  
3 know when the next spike comes, I'm not sure when  
4 the next outbreak of something else happens.  
5 Unfortunately, we've seen way too much of it over  
6 the last number of years. And I'd be willing to  
7 bet, over the next couple of years, something is  
8 going to happen that's going to be not positive for  
9 us or for our industry.

10          So in that vein, we don't have a lot whole  
11 of margin for error, but we do believe it's a  
12 responsible plan to build for the future.

13       Q   These are all annual amounts; is that  
14 right?

15       A   Annual savings, annual impacts. And  
16 again, it's 50 percent of our revenue base. So 50  
17 percent of the company's revenue base has been  
18 permanently restructured, permanently changed.

19       Q   Were you personally involved in arranging

20 the DIP financing for Delta?

21 A I was.

22 Q All right. Would you tell us what's

1 reflected at page 24.

2     A Sure. In arranging the DIP and receiving  
3 the \$2.2 billion in total that we did receive, there  
4 are certain covenants that set forth performance  
5 requirements for the business. While we did talk  
6 about the DIP does provide the lenders a certain  
7 amount of super priority status and protected  
8 status, it doesn't mean that they don't have fairly  
9 significant demands on the company with respect to  
10 performing.

11         And if we were not to meet their  
12 performance standards, then we'd be back at the  
13 table with them, having to renegotiate and having to  
14 fix whatever the problems were, or face an  
15 accelerated, you know, call, call on the loans.

16         What this page on 24 sets forth is the --  
17 one of those covenants, which is called the EBITDAR  
18 covenant. EBITDAR, again, is earnings from  
19 interest, taxes, depreciation and aircraft rentals.

- 20 It's intended to be a proxy, and it's the standard
- 21 proxy in the financial markets for cash flow
- 22 generation capability of a business.

1           What this does, it sets out the minimum  
2 cash flow expectations that the DIP lenders have for  
3 the business.

4           The red line is -- excuse me, the blue  
5 line is the business plan. That's what we went to  
6 the market with when we laid out where we saw our  
7 future going. And as you can see in that business  
8 plan, there's a tremendous amount of growth. And  
9 these are 12-month trailing numbers.

10          So if you look at January '06, around the  
11 billion dollar mark, that's what our EBITDAR for the  
12 last 12 months ending January '06 was. And you can  
13 see by the time you get to the end of '07, you know,  
14 we need to improve on an annual basis that run rate  
15 to just under \$3 billion. So about \$2 billion of  
16 cash. That's what the business plan, you know,  
17 called for, and calls for.

18          The lenders will take that business plan,  
19 and they will say this is what the minimum we expect

20 is. You know, it's classic in this arrangement that  
21 you have a little bit of cushion. I mean, because  
22 again, when you're restructuring a business of the

1 size and significance of a Delta with the amount of  
2 volatility that we face, you need to leave yourself  
3 a little room for error or misstep. But you can't  
4 leave yourself a lot. You need to buy yourself the  
5 time to go back and get back on track.

6       So we negotiated hard that cushion that  
7 you see between the blue line, the business plan,  
8 and the red line, which was the covenant, to give  
9 ourselves, to protect the company, protect the  
10 company's employees, the chance to survive without  
11 having to continue to go back to the banks every  
12 other week or month or year, or whatever time frame  
13 you're looking at, and explain why we're not  
14 succeeding.

15       So that was hard fought, and that was not  
16 in there intended to be a buffer for, well, you can  
17 take off some of the sense of urgency because you  
18 don't need all the savings, you don't need all the  
19 cash, because you're not going to be in violation of

20 the covenant. That's not what it's intended to be.

21 It's intended to be hitting the business

22 plan, providing for external shocks, not internal.

1 Q All right. What does footnote 2 mean?

2 A That includes as part of the covenants  
3 that we took -- and essentially, the numbers run, we  
4 negotiated 20 percent reduction from the business  
5 plan, in terms of performance. That's not -- that's  
6 not an atypical level of cushion in a DIP  
7 arrangement of this nature, but was somewhat  
8 atypical.

9 And one of the things that you have to  
10 recall is when we were negotiating this in  
11 September, these covenants, in September of '05,  
12 that's when fuel was really spiking, and there was a  
13 lot of nervous people as to what was going to happen  
14 in the fuel markets and if Delta was going to make  
15 it.

16 As part of that, we were able to negotiate  
17 with the lenders, in addition to that 20 percent  
18 haircut, the availability to use \$250 million of  
19 additional cash against the covenant if we had

20 excess cash, and I'll show you a cash covenant slide

21 coming up, if we had excess cash above the cash

22 covenants, you could apply it against the EBITDAR

1 covenant.

2       This was, my understanding from talking to  
3 the bankers, somewhat unique in our ability to  
4 generate that. And it was hard fought. We spent a  
5 lot of long hours and long nights, you know,  
6 battling with the lenders to give us that  
7 flexibility, because we didn't know where fuel was  
8 going to go, and that was intended to cover some of  
9 that spike in fuel.

10    Q   So this was something Delta wanted to give  
11 Delta extra margin?

12    A   We fought hard for that buffer so that we  
13 could protect ourselves and give ourselves the time  
14 we need to restructure successfully in court and not  
15 feel like we're having to continually go back to our  
16 employees, continually go back to our vendors, go  
17 back through the process to do it over again.

18       United had the experience of having to go  
19 renegotiate its covenants a number of times, and

20 every time it did, things stopped and it slowed  
21 down, and it took them almost three and a half years  
22 to exit bankruptcy.

1           We need to build ourselves a little buffer  
2 so we're not right on the edge of, you know, living  
3 at the mercy of the banks. We already are at the  
4 mercy of the banks, but I don't want to be there  
5 every week explaining why we're not hitting our  
6 target.

7     Q   And this specifies what prices for fuel  
8 are in the business plan in footnote 1; correct?

9     A   It does.

10    Q   What does slide 25 show?

11    A   Slide 25 is a scenario, and these are the  
12 things that we model when we are negotiating the  
13 covenants. And that would be watched on a regular  
14 basis. And this is a fuel price sensitivity chart.  
15 What it shows, the red line is the same, that's the  
16 minimum covenant. That doesn't change.

17           But the blue line is Delta's business  
18 plan, if fuel was to average \$2 a gallon for jet  
19 fuel over this two-year time line, as compared to

20 what the business plan -- the business plan has fuel

21 at \$1.74 for 2006 and a little over \$1.80 for 2007.

22 So if you were to go back to the earlier

1 slide and see where the blue line was, coming back  
2 down to where it's at today, that differential is  
3 the cost of added fuel. Fuel just as a -- keeping  
4 in mind, every penny fuel moves on us per gallon is  
5 about \$25 million a year. So a 25-cent fuel  
6 reduction from \$1.75 to \$2, \$750 million, if my math  
7 is correct.

8 MR. SPAN: 625.

9 THE WITNESS: Excuse me?

10 MR. SPAN: 625.

11 THE WITNESS: 625, sorry. It's a big  
12 number. It's a big number. That is what's  
13 reflected in this chart in terms of if fuel averaged  
14 \$2 a gallon. You see we'd be in violation or right  
15 on the line for most of the period.

16 Fuel today is not far from \$2. I mean, we  
17 paid in the December quarter on average \$2.06 a  
18 gallon. Yesterday we're in the market we paid  
19 \$1.85. I mean, that was the market price of fuel

20 yesterday. So we're not too far from this, so this  
21 is not an unrealistic fear or concern that we have,  
22 and we're watching it very carefully.

1 BY MR. GALLAGHER:

2 Q You heard Mr. Simon say yesterday, even  
3 the company's plan at \$2 a gallon shows a violation  
4 of the covenants; is that right?

5 A That's correct.

6 Q Well, what are you going to do about it?

7 A Well, we're working on it as we speak. I  
8 mean, we're looking for additional ways. \$3 billion  
9 plan is not a static plan. We're hoping to do  
10 better than \$3 billion in a lot of other areas. One  
11 of the things we're doing is we're out there  
12 looking, talking to the financial markets about  
13 opportunities to reduce our cost -- the cost of  
14 borrowing.

15 We've got an awful lot of activities in  
16 play. We're hoping to do -- you know, hit the  
17 revenue numbers, maybe even do better on revenue.  
18 There's many avenues and many levers the company  
19 continues to proceed. We didn't put \$3 billion out

20 there and say that's all we want to do. We're  
21 looking to save, and we're trying to build up a  
22 little bit of a nest egg so in the event it goes to

1 \$2, we're not going to be at the mercy of the  
2 lenders.

3       The green line on this chart is ALPA's  
4 proposal, the 100 -- I don't have the exact numbers,  
5 whatever we've quoted as the ALPA annual proposal  
6 being.

7       As you can see, for virtually the entire  
8 time, starting in the summer of '06, if fuel was at  
9 \$2 and we were to accept ALPA's proposal, we'd be in  
10 violation of the covenant.

11     Q   And if you do violate the covenant, do the  
12 lenders foreclose immediately, or do they come and  
13 talk to you?

14     A   I think they would be wise to come and  
15 talk to us. I think the -- I don't think they would  
16 want to do that to Delta necessarily. I think --  
17 but what we would do is I think they would want to  
18 understand why. And if it's because there's some  
19 event that we're managing the best we could, but it

20 was -- a fuel spike, I mean, these external events

21 are understood. These are the risks of the

22 business.

1           As long as the company is being proactive  
2 about trying to manage the risks as best it can, I  
3 think we'd have a different reception.

4           If it was because we didn't hit our  
5 business plan targets because we decided to back off  
6 from a certain part of the business, we decided  
7 that, no, we don't need market competitive costs for  
8 any subsection of the population, be it employees or  
9 vendors or whatnot, I think there's -- I think it's  
10 a very different conversation.

11       Q   And to state the obvious, we haven't gone  
12 back and increased our proposals to ALPA, asking for  
13 more savings, have we?

14       A   In the -- in light of a higher fuel price  
15 in play? We have not. In fact, we've reduced them,  
16 in fact.

17       Q   And what's reflected on page 26?

18       A   Well, page 26 shows a current picture of  
19 where the markets are for projected fuel per gallon.

20 As you can see from the lines, these were snapshot  
21 dates, they weren't picked for any intentional  
22 purpose. It does move on a day-by-day basis. But

1 this is the general trend we've seen over the last  
2 couple months in the markets.

3 Fuel in the back half of '06, in all the  
4 forward financial projections, these are financial  
5 markets, if you were to go out and buy forward fuel,  
6 this is what you'd be paying in these out months,  
7 it's at \$2 a gallon, in fact, slightly above \$2 a  
8 gallon, for the last half of '06.

9 Q Before we go -- use the jargon, can you  
10 tell the board what the forward curve is?

11 A Well, there's a financial market to go out  
12 and advance purchase fuel that sets basically those  
13 terms, just like any other commodity. The forward  
14 for jet fuel is in the \$2 range, as I say, in the  
15 out months. The red line here is where the business  
16 plan was.

17 Now, the business plan, we didn't build  
18 this business plan with our head in the sand here.  
19 This is where the market was at the end of December

20 literally. It was at \$1.75. But in January, we had  
21 Nigeria breaking out, issues in Venezuela, there was  
22 a number of issues in Iran and in the Middle East,

1 all caused fuel spikes and whatnot that jumped, you  
2 know, in the space of literally 30 days from the end  
3 of December to the end of January and anywhere  
4 between 10 to 20 cents per gallon, where we closed  
5 the year out.

6 We talked about a thin margin for error in  
7 terms of these sense activities. If I was to build  
8 a fuel plan today, what I thought fuel was going to  
9 be for 2006, I'd be pretty close to \$2.

10 Q So make sure I understand what these lines  
11 are on page 26, if we went out today to buy jet fuel  
12 for delivery in December, or if we had gone out on  
13 February 7 --

14 A These are sample dates at that point in  
15 time, if we were to go out and advance purchase  
16 fuel, that's what we'd have to pay.

17 Q All right. So this is what the market is  
18 forecasting?

19 A That's what the market tells you the

20 long-term fuel prognostication is. We hope they're  
21 wrong, we hope it comes down. No reason to believe  
22 we're smarter than the markets.

1 Q All right. What's reflected on page 27?

2 A Page 27 is another scenario. This assumes  
3 fuel comes in on plan, the \$1.74 for the year, and  
4 stays -- and of course, the plan in 2007 as well.

5 The red line again, the covenant line, is the same,  
6 that doesn't change. But as we've talked about, we  
7 have a tremendous amount of revenue growth built  
8 into the plan, and unit revenue improvement.

9 For 2006, we're looking at our unit  
10 revenues growing by 6 percent a year, compared to  
11 where they were in 2005. 6 percent RASM improvement  
12 is baked into the plan, part of the \$1.1 billion in  
13 the \$3 billion plan.

14 I'll tell you, 6 percent, I think, is  
15 aggressive, I think it's attainable. But I've got  
16 to tell you, my eight years at the company, I've  
17 never seen 6 percent unit revenue improvement in  
18 this business, in this company. It's aggressive.

19 So if only 3 percent of that shows up and

- 20 materializes over the time frame, this is what
- 21 happens to our business plan. You can see the blue
- 22 line again staying generally above the covenant

1 levels, but touching it towards the end of '07.

2 Again, you can see the ALPA proposal for most of  
3 2007 actually being below.

4       So even if fuel came in, but we didn't hit  
5 our revenue target, and 3 percent is not a lot of  
6 movement, I mean, 3 percent -- again, this business  
7 can move plus or minus rapidly. That's what would  
8 happen, and we'd be again in substantial default of  
9 the covenant.

10    Q   All right. Now, we've talked about the  
11 EBITDAR covenants. Did you say those are a rolling  
12 12-month?

13    A   They are rolling 12-month, you know, kind  
14 of proxies for cash generation.

15    Q   All right. And what's the other covenant?

16    A   The other covenant is a cash covenant, and  
17 that's on page 28.

18    Q   Can you explain?

19    A   This line, the red line on the bottom is

20 the minimum cash that we need to have on hand at any

21 point over the next two years. And you can see it

22 fluctuates between \$750 million and a billion

1 dollars.

2       The reason why it goes up or down is  
3 because in the late fall, early part of the year  
4 tends to be the seasonally weaker points for the  
5 business. So we negotiated, negotiated hard, for  
6 reductions in the cash levels that we needed to have  
7 on hand.

8       So it's between 750 and a billion dollars  
9 throughout the next two years.

10       The blue line is the business plan. This  
11 is the plan that we closed 2005 with, so it's really  
12 updated even from what we went to the markets with  
13 at the end -- in the fall of '05 to what our 2006  
14 offering plan is. I'm very, very pleased to say  
15 we're actually -- we closed 2005 about \$400 million  
16 better than the plan we had set ourselves out with  
17 when we were in the markets in the fall of '05. And  
18 that's due to a myriad of things, but what it tells  
19 you is we're managing this process, this bankruptcy

20 process, efficiently.

21 That's bought us more room on this

22 covenant. And again, it allows us to manage the

1 business on a cash level a little more effectively  
2 and more efficiently without having to worry about  
3 the violation of DIP.

4 Q Let me make sure I understand. In January  
5 of '06, the blue line looks around \$1.9 billion.  
6 That's higher, that's the actual cash?

7 A This was the plan that we have in place,  
8 the detailed operating plan and budget buildup for  
9 2006 that we closed 2005 with. And actually, we're  
10 at today around \$2 billion, 1.9 billion to \$2  
11 billion, depending on the time of the month.

12 Q And that reflected here is higher than the  
13 original business plan?

14 A Yeah, when we went to the market with  
15 this, we were actually looking in the first half  
16 of '06 being somewhere 1.2 billion, 1.3 billion  
17 range, I mean in the spring. We've been able to do  
18 a number of things successfully to build some of  
19 those cash reserves and cash resources.

20 But that's why the numbers -- the cushion

21 looks larger on the liquidity than it does on the

22 EBITDAR.

1 Q All right. And that's because you've been  
2 building up cash. And you mentioned the letter of  
3 credit?

4 A We've been working our tail off doing  
5 everything we can to preserve cash. Some of it is  
6 timing. Some we're going to have to give back.

7 Q Whose money is it? Is it all borrowed  
8 money?

9 A It's all borrowed money.

10 Q When does Delta have to begin paying back  
11 the DIP loan financing?

12 A We actually start to pay back one of the  
13 tranches, which is the American Express tranche, in  
14 July of this year. In the next three months, we  
15 need to start making payments down on the \$2.2  
16 billion of debt. So the lion's share comes due at  
17 the end of the bankruptcy -- at the end of a  
18 30-month term. But there is a tranche, the American  
19 Express tranche, which is \$300 million, that we need

20 to start paying back starting in July.

21 Q And the remainder is due either upon exit

22 from bankruptcy but no later than March of '08?

1 A That's correct.

2 Q Now, what's reflected on page 29?

3 A 29 is another sensitivity using the same  
4 assumptions, if fuel was to average \$2 a gallon for  
5 the period of time, what would happen to the cash  
6 level of the corporation. And as you can see, the  
7 business plan on cash, not on EBITDAR, but on cash,  
8 we'd actually be able to sustain above the  
9 covenants, with \$2 per gallon fuel.

10 However, ALPA's proposal would put us  
11 again substantially below the covenant in the last  
12 half of '07. In fact, the startling thing to me  
13 about the proposal at \$2 a gallon, again, which I  
14 think is a very realistic assumption, is we'd be  
15 only at \$750 million of cash under ALPA's proposal  
16 at the end of '07.

17 Back half of '07 is when we're  
18 hopefully -- during '07, building a plan of  
19 emergence from bankruptcy and whatnot. If we show

- 20 cash trailing down over the remaining part of '07 to
- 21 a level of \$750 million, what that will guarantee is
- 22 we'll never get out.

1 Q And what's reflected on page 30?

2 A 30, again, is another sensitivity on cash  
3 using the earlier scenario that if only half of the  
4 revenue growth is achieved. We didn't want to  
5 overplay this and do both, revenue and fuel at \$2 a  
6 gallon. So just one or the other. And again, you  
7 see the similar situation occurring.

8 The business plan being able to sustain  
9 the covenants, if only half of the revenue growth  
10 comes about, which is still, you know, 3 to 4  
11 percent revenue growth, unit revenue growth per year  
12 over the next two years. The ALPA proposal again  
13 would be substantially below the covenants in the  
14 back half of the year.

15 Q Well, even though we didn't graph it,  
16 Mr. Bastian, suppose both untoward events happen,  
17 fuel goes to \$2 a gallon and we only make half of  
18 our revenue targets.

19 A Well, I would look to my calculator to

20 know what that impact would be, but I'm told it's

21 \$600 million at 25 cents a gallon, 25 million times

22 25 cents. So we'd be --

1 Q It wouldn't be pretty, I take it?

2 A It wouldn't be pretty. I don't know that  
3 there would be much left.

4 Q What's reflected on page 31?

5 A 31 is a depiction of our competitive  
6 positioning. And one of the strengths Delta has --  
7 and Delta has a lot of strengths. We're talking  
8 about, obviously, a lot of doom and gloom and  
9 concern and negative. And I don't want to come  
10 across as someone who doesn't believe. I believe in  
11 this plan. I think this plan can work, I think this  
12 company can be saved. I think this can be turned  
13 around.

14 One of the reasons is we do have an  
15 advantage to the network carriers on a cost level.  
16 We've got an 11 percent unit cost advantage as  
17 measured against the network carriers. You can see  
18 Delta in blue at 10.22 cents, that's per seat mile  
19 unit cost for the mainline. And you can see

- 20 Continental and United and American and Northwest,
- 21 all who have higher unit costs than Delta has.
- 22       So we've got a formula that we can

1 leverage to go to market and win, and that 11  
2 percent advantage is notable, and it's important.

3       However, the problem we have is it pales  
4 relative to the 20 percent revenue disadvantage that  
5 we have. And as you can see, our revenues -- and  
6 these are full-year 2005 total revenue per ASM of  
7 9.5 cents -- is roughly 20 percent below where our  
8 network peers are.

9       So, you know, what it tells you is that  
10 when you're in the marketplace and needing to look  
11 at what is competitive cost, it has to take into  
12 account the revenue disadvantage that we'd have  
13 against our network peers.

14       One of the things in ALPA's brief they  
15 talk about is that, you know, Delta already has  
16 better unit cost performance against the network  
17 carriers, and why should other members have to  
18 contribute even more to that cause, if you will.

19       The problem is because we have 20 percent

20 unit revenue disadvantage. You can't have costs  
21 ahead of your unit revenues, the business model  
22 simply doesn't work. So that negative 9 percent

1 arbitrage is what's killing us relative to the  
2 network peers.

3       Quite honestly, if you look on the other  
4 side of the chart, you look at the low-cost guys,  
5 you can see we are at substantially higher cost than  
6 the low-cost guys, and we do get a revenue premium  
7 against the low-cost guys, but that's -- that  
8 differential is even worse.

9       So we are, you know, unfortunately  
10 somewhere in no man's land. And this is one of the  
11 things we've got to dig out and why we're working as  
12 aggressively as we can.

13       We've got revenues that are more like  
14 low-cost carriers with costs closer to the high-cost  
15 network carriers, and we've got to fix this fast.  
16 Because if we don't fix it, we're not going to be  
17 around to talk about it.

18    Q   What's reflected on page 32?

19    A   32 summarizes what I just went through.

20 We closed 2005, if you took the revenue per ASM  
21 minus the cost per ASM, which is the simple math,  
22 the difference on that for Delta is what we call our

1 profit and loss for ASM.

2 In 2005 it was a negative .72 cents, so  
3 what that means is for every seat mile that traveled  
4 in 2005, and we had 130 billion seat miles in 2005,  
5 we lost three-quarters of a penny on each one of  
6 those 134 billion seat miles that traveled.

7 Obviously, that's an unsustainable position.

8 Obviously, that's why we're in court.

9 You move to the right-hand side of the  
10 page, this is our plan for 2006, and as you can see,  
11 our goal, our plan, is to move that above the line  
12 so that we actually generate and earn .22 cents per  
13 seat mile.

14 This is if the plan is fully implemented,  
15 we get the full savings of all elements of the \$3  
16 billion plan that materialize in 2006 as scheduled,  
17 as called for, we'd be making .22 cents.

18 Great improvement? We're still at the  
19 bottom of the industry. And it shows it's going to

- 20 take several years to repair and get back to a
- 21 sustainable level that you can view as viable.
- 22       The other thing this chart does not show

1 is that when you do this calculation of RASM and  
2 CASM, you don't take into account the debt cost, the  
3 financing cost. That's considered to be below the  
4 line, nonoperating in business. That's \$750 million  
5 that has to be paid, so that .22 cents, while again  
6 it's good that it's positive, isn't nearly enough to  
7 cover the debt cost of 750 million in 2006.

8 As a result, that's why we're looking at a  
9 loss in 2006, even with all elements of the plan  
10 being put in place in 2006. It's going to take us a  
11 couple years to dig out.

12 Q What's reflected on page 33?

13 A 33 starts to get into the labor cost  
14 discussion and the rate comparatives and the  
15 analysis that we've done. I touched on most of this  
16 already, but just to summarize real quickly, when we  
17 developed the \$3 billion plan, we fully looked at  
18 the net worth, fully looked at the revenue  
19 enhancements, what we could do under Chapter 11. In

20 total that's about \$2 billion a year improvements on  
21 the heels of the \$5 billion plan we already have  
22 implemented.

1           It still left us with a hole to close that  
2 we estimated at roughly \$930 million. And so, you  
3 know, in the allocation of how we would develop that  
4 \$930 million, we did a number of things.

5           First of all, you know, we looked at each  
6 labor group's comparative ranking of how they sat  
7 against their peers, so how mechanics were paid  
8 versus mechanics at other carriers, how flight  
9 attendants were paid, how pilots were paid and  
10 whatnot. And we said we need to go to market with a  
11 competitive cost structure or we're simply not going  
12 to make it. And competitive is not just based only  
13 on where we sit against their peers but where they  
14 sit against those that our revenue is closest to.

15           Again, we don't have United's revenues.  
16 It's hard for us to pay United's costs. So that's  
17 how we developed the proposal with respect to each  
18 of the individual groups. In addition to that, we  
19 also looked at things like the benefit plan, you

20 know, we hard-froze the nonpilot plan. The pilot  
21 plan, we proposed a hard freeze, we have as part of  
22 our proposal. We have a soft freeze in place, but

1 we've proposed a hard freeze for the pilot plan as  
2 well.

3 We've looked at, you know, additional  
4 administrative costs and overhead reductions and the  
5 like. So in total, the \$930 million was developed  
6 that way. Then after we went through that, we said,  
7 well, how does this compare to the allegation of the  
8 employment cost? We had about \$3.5 billion of  
9 employment costs in 2005. Is the 600/300 million  
10 split equitable when looking at the size of the  
11 pool? That was, to us, a check to make certain  
12 we're approaching this thing equitably.

13 Q Then what is reflected on page 34?

14 A 34, we'll start walking through some of  
15 the rates of our various employee groups to show how  
16 they compare, again, why we believe our proposal  
17 with respect to ALPA is fair and equitable.

18 This is a chart that -- where our airport  
19 agents are paid today. I mean, this is top of

- 20 scale, after you make it up to the top, after 12
- 21 years or so service. Their annual savings.
- 22 Q This is after Delta implemented a cut on

1 November 1?

2 A This is after the implementation of the  
3 November 1, 2005 pay cut.

4 Our airport agents are paid at the top of  
5 scale, \$36,480. You can see they are, you know,  
6 just about at the bottom with respect to the market  
7 groups, only slightly ahead of Northwest, not  
8 entirely sure this is the final Northwest TA, I  
9 presume, with the airport agents.

10 But clearly, and you will see this trend  
11 throughout most of the nonpilot groups, you are  
12 clearly in the bottom half and almost all in the  
13 bottom third of the various peer groups.

14 Q The TA for Northwest agents has been  
15 ratified, so that is their new contractual  
16 agreement?

17 A I'm not aware whether it has or has not.

18 Q I'm sorry?

19 A I'm unaware of whether it has or it

20 hasn't.

21 Q What's reflected on page 35?

22 A 35 are the reservation agents. And you

1 can see again where they sit relative to their  
2 peers. People that do the same amount of work at  
3 different carriers. There's a little bit of a blip  
4 on this page with respect to JetBlue. It looks like  
5 they have got a substantial reduced cost, almost  
6 all, if not all of the JetBlue reservation agents  
7 are at-home positions, so they work at home. So  
8 obviously they don't get paid the same level, you  
9 know, for -- for convenience of staying at home  
10 rather than having to come into the office.

11 JetBlue is a little bit of an anomaly.  
12 But again, relative to Northwest, relative to Air  
13 Tran, you can see our reservation agents pay down  
14 towards the bottom half, close to the bottom third  
15 of their peer groups.

16 Q Now, I notice that for Delta the  
17 reservation agents' rate and the airport agent rate  
18 is the same; is that right?

19 A That is correct.

20 Q At Delta all of the agents, the  
21 reservations, the airport, both inside ticket agents  
22 and outside ramp workers, are all treated as

1 customer service agents?

2 A They're all customer service agents and  
3 they are all on a similar scale.

4 Q What does page 36 reflect?

5 A 36 shows our flight attendant rates as of  
6 the 1st of February. And here you can see our  
7 flight attendant at the top of the scale makes  
8 \$35,544. That is, again, in the -- a little closer  
9 towards the middle of the pack, you know, when they  
10 all stack up. But clearly, when you look at the  
11 dollars, towards the bottom half of the rack-up.

12 One of the reasons why we did -- when we  
13 looked at the flight attendants, and we did  
14 different rate reductions for different work groups,  
15 we were a little concerned with moving the flight  
16 attendants even lower, just because they're taking a  
17 bunch of hits in other areas. They're taking hits  
18 in per diems, taking hits in some work rules and  
19 whatnot that we didn't want to compound the level of

20 pay cuts.

21       They took a 10 percent pay cut, but one of

22 the reasons why we were careful not to push them

1 even further down on the list.

2 Q What's reflected on page 37?

3 A 37 is mechanics, in terms of where they're  
4 at. We're paying \$59,000 for our mechanics at top  
5 of scale, again, substantially below the industry  
6 average, if you will, in the lower third.

7 One of the things I want to talk about,  
8 these various pilot -- nonpilot rates is, you know,  
9 I'm personally not comfortable, this is where we  
10 want our people to be for the long-term. I mean, we  
11 have to go back and generate the revenue, we have to  
12 improve customer service, we have to improve the  
13 profitability of this airline.

14 However, for the short term, this is what  
15 we need to survive, to have a long-term and whatnot.  
16 So I'm not comfortable personally with where these  
17 rates are. We need to do something about it, to get  
18 our employees paid appropriately with respect to  
19 what the work we're asking them to do. We're asking

20 them to do an awful, awful lot for us. So I just  
21 want to put that as a caveat. We don't think  
22 attaching people towards the bottom of the scale is

1 a winning strategy. I'm not saying it is.

2 Q What's reflected on page 38?

3 A Now we've moved into the pilot categories.

4 What this is is a sample chart that shows where the

5 rates are for the 737-800 equipment and the A 319

6 and 320, which some carriers obviously have the

7 Boeing equipment, other carriers have air

8 bus-dominated fleet, to get them all on the same

9 page, we used those rates as comparatives.

10 And as you can see, where we stand today

11 with the Delta pilots, you know, based on the 2004

12 contract, this is the billion dollar concessionary

13 contract, Delta pilots are second highest on the

14 rate scale in this category.

15 Q That's even after the 2004 cuts?

16 A This is with the billion dollar pay cut.

17 The red line shows where ALPA's proposal would move

18 the pilots to. And as you can see, the pilots would

19 be the second highest, tied with American, the

20 second highest in this rate category, if we were to

21 accept ALPA's proposal.

22           You can see where the company proposal is.

1 We're more towards the middle of the pack, if you  
2 were to count across, it's number five out of 10  
3 with respect to the competitive rankings.

4 Still significantly above USAir,  
5 significantly above United, above Northwest TA, and  
6 even above JetBlue. So this is for the company  
7 that's got the most ground to cover and the weakest  
8 position. The company's proposal still is to be  
9 middle of the pack with respect to its pilots.

10 Q JetBlue is not an ALPA carrier, but do you  
11 know if Northwest, United and the merged America  
12 West are?

13 A They certainly are.

14 MR. HARRIS: Can I just ask, it says  
15 "hourly rates," is that a composite? Is that  
16 12-year? What is it?

17 BY MR. GALLAGHER:

18 Q Top of scale.

19 A Top of scale.

20 Q Top of scale, senior captain. That's all  
21 of our comparisons are based on that, and that's  
22 what has been the consistent practice between the

1 parties for analytical purposes.

2 A In fact, that's one of the problems that  
3 we face, when you see Air Tran being higher, and  
4 it's obviously a source of great consternation for  
5 our pilots, that the Air Tran top of scale rate is  
6 higher than what the company's proposal is. AT  
7 stands for Air Tran. One of the problems is the  
8 pilots on average, very few Air Tran pilots are top  
9 of scale, if any.

10 So the real rates they're paying, you  
11 know, in present dollars is substantially below  
12 that.

13 Q And in contrast, where are Delta's pilots  
14 relative to seniority standing?

15 A The seniority is across the board, given  
16 we've had so many pilots early retire. It wouldn't  
17 be fair for me to approximate that.

18 MR. HARRIS: I was going to ask, is it  
19 possible to get some kind of information about the

20 spread of pilots?

21 MR. GALLAGHER: Certainly.

22 THE WITNESS: Sure.

1 MR. HARRIS: This is just not a meaningful  
2 figure, in my view, as to what is going on, because  
3 as Mr. Bastian said, Air Tran has very few senior  
4 pilots, and we don't have any idea how many senior  
5 pilots there are at Delta in this category.

6 MR. GALLAGHER: Right.

7 MR. HARRIS: I mean, sure, we can assume  
8 that 777s are senior pilots, but we can't  
9 necessarily assume that 737s are senior pilots.

10 MR. GALLAGHER: This proceeding is for  
11 your information, so I assure you, by all means, ask  
12 for anything you don't see and would like to see,  
13 and we'll get it for you, I guarantee you.

14 And I'm told --

15 MR. HARRIS: I assume you --

16 MR. GALLAGHER: And I am told, just  
17 coincidentally, that every Delta captain has at  
18 least 12 years of seniority.

19 MR. HARRIS: That's why I asked what it

20 was. But this is hourly rates, but this is hourly

21 rates for captains and not for FOs?

22 MR. GALLAGHER: Correct. The FO

1 percentages generally are calculated as a percentage  
2 of captains, or it's the scale.

3 MR. HARRIS: I know. I can do 60 percent,  
4 too, but my problem is I'm trying to find out where  
5 we really are.

6 MR. GALLAGHER: Right. And we'll get you  
7 a seniority distribution.

8 BY MR. GALLAGHER:

9 Q What's reflected on page 39?

10 A 39 is another sample category. This is  
11 the 757 captain rates, comparative where we sit  
12 today. Again, under the 2004 contract, our 757  
13 captains are paid at the top of the industry on an  
14 hourly rate basis. ALPA's proposal would move them  
15 to second in the industry, second to American. The  
16 company's proposal would move our 757 pilots,  
17 captains, to four out of seven. Again, you know,  
18 ahead of USAir, ahead of Northwest TA, and ahead of  
19 America West. Something I would label more middle

20 of the pack.

21 Q Then what's reflected on page 40?

22 A Page 40, again, is another sample

1 category. We didn't -- the other categories we look  
2 at, you find some similar trend lines. This is for  
3 the 777, again, our pilots are paid at top of the  
4 industry on the 777. ALPA's proposal would keep  
5 them tied with American at the top of the industry.

6 Our proposal would move them to number  
7 four out of six. You know, one thing I want to add  
8 to this, and again, I -- these are moves that are  
9 significant, these are sacrifices that I absolutely  
10 appreciate what this means to the individuals  
11 attached.

12 The problem is we don't have the revenue  
13 of these other guys that we're matching on this  
14 page. We don't have American, Continental, United  
15 or Northwest revenue, even, for that matter, yet  
16 we're still trying to do our best to pay our pilots  
17 a reasonable and fair rate of pay.

18 You know, you ask me some of the things I  
19 wake up at night worrying about. I worry about

20 whether our proposal is aggressive enough, whether

21 we should be asking for more, not less, in light of

22 that.

1 Q All right.

2 A I'm not suggesting we do. I'm not saying  
3 that. But I'm saying that's a thing I worry about.  
4 I know ALPA is concerned about not taking more bites  
5 at the apple than are necessary. I'm concerned.

6 Q So in sum, how do the rate comparisons  
7 between the nonpilots and pilots stack up?

8 A Well, in total, the -- I've moved to  
9 another slide, sorry.

10 In total, the nonpilots are all at the  
11 bottom half of the pay scale, most of them are in  
12 the bottom third of the pay scale. I would -- you  
13 can draw your own assessment from the charts that we  
14 present, but I'd say our rates for the Delta pilots  
15 are generally middle of the pack.

16 Q Now shifting gears from pay rates to  
17 overall costs or unit costs, can you tell us what's  
18 reflected on page 41?

19 A Sure.

20 Q So go slowly until Mr. Horowitz returns.

21 MR. HARRIS: He can read quickly.

22 MR. GALLAGHER: Okay.

1           THE WITNESS: 41 is an analysis of what  
2 our Delta labor pilot costs are on a per block hour  
3 basis. And as Mr. Kasper testified yesterday,  
4 analyzing costs on a per block hour basis is a  
5 rather standard measure that most carriers do, in  
6 terms of evaluating the cost-effectiveness and  
7 productivity of its pilot group.

8           In fact, we do the same thing with our  
9 flight attendants, look at our flight attendant  
10 costs per block hour.

11           The calculation is relatively simplistic,  
12 it takes the total pool of cost to the pilots and  
13 divides them by the number of hours that they fly,  
14 basically, look at how much we're paying per hour of  
15 flying.

16           There are various metrics that people use,  
17 I appreciate that. This is the one consistently  
18 internally that we look at that we think is the best  
19 measure of overall cost, productivity and

20 cost-effectiveness.

21 From this chart, one would surmise, and I

22 would surmise, that based on our 2004 contract, our

1 pilots today are paid the best in the industry; even  
2 after the concessionary contract, they're paid the  
3 best in the industry. And I think some of the  
4 earnings charts Mr. Kasper showed yesterday support  
5 that thesis.

6       The proposal, if we were to accept it,  
7 from ALPA -- and there's a couple of notations on  
8 there. There's -- we have various proposals, and I  
9 don't want anyone to read too much into it, but  
10 there's a proposal if the DB plan terminates or if  
11 it didn't terminate, what would be the various  
12 arrangements.

13       ALPA's proposal shown here, assuming the  
14 DB plan terminates and their offer to us  
15 implemented, the Delta pilots would be second in the  
16 industry, substantially above, you know, almost  
17 everybody else but American. This is for the  
18 carrier that's got the biggest and the most  
19 difficult hill to climb, and the greatest amount of

20 revenue deficit to cover, second highest.

21 Delta's proposal, in the event the plan is

22 able to be sustained, would be still second highest,

1 to American. Again, a substantial reduction but,  
2 quite honestly, I think a very fair proposal.

3       We also show that in the event the  
4 company's pension plan was to be terminated, the  
5 pilot's plan was to be terminated, where the pilot  
6 costs would be. And here again, I would say it's  
7 probably more middle of the pack, in terms of what  
8 that overall rate per hour, that block hour cost is.  
9 Substantially higher than JetBlue, Air Tran, USAir,  
10 America West. Interestingly, even higher than  
11 Continental, which, when I saw these numbers, I  
12 found kind of stunning. And that's with the  
13 assumption that the DB plan was to be terminated.

14     Q   Now, we know from the negotiating table  
15 and elsewhere that ALPA doesn't like metric of pilot  
16 cost per pilot block hour, they prefer unit labor  
17 cost measures based on ASM. Would you tell us  
18 what's reflected on page 42?

19     A   Sure.

20 MR. SIMON: Could we --

21 MR. GALLAGHER: I'll withdraw the

22 predicate about what ALPA's position is.

1 MR. SIMON: Thank you.

2 BY MR. GALLAGHER:

3 Q And I'll simply ask the witness to -- and  
4 I'll try to refrain from that.

5 MR. SIMON: I'm tolerant, but there's a  
6 limit.

7 MR. GALLAGHER: I know, I know.

8 MR. HOROWITZ: There's the jurisdiction,  
9 work jurisdiction issues.

10 MR. GALLAGHER: I understand.

11 BY MR. GALLAGHER:

12 Q What's reflected on page 42?

13 A As you said, there is a lot of debate  
14 always as to what the rate metric is. We have this  
15 internally, we look at it. And this is -- these are  
16 CASM metrics, and we've shown throughout the charts,  
17 Delta needs to improve its unit CASM performance and  
18 its cost competitiveness accordingly.

19 What this chart shows is where the

20 nonpilot labor cost per ASM would be with our full  
21 business plan implemented, which we are intending  
22 and are on track of implementing.

1           We'd be at 1.47 cents with respect to our  
2 nonpilot labor costs. Again, substantially below  
3 many of the higher priced carriers, American, United  
4 and Continental, on par with USAir, America West,  
5 you know, not too far from JetBlue, substantially  
6 above Air Tran still, but again, Air Tran has got  
7 that seniority, call it juniority advantage, with  
8 respect to its work force, especially in the  
9 noncategories, they have a very, very young work  
10 force, and as a result of that, compared to Delta's  
11 nonpilots who, I'd say 75 percent in many categories  
12 are already top of scale, you know, it is a very  
13 difficult advantage and disadvantage to cover.

14           So this is where the nonpilots would be.  
15 Clearly towards the back end and the low end of the  
16 scale.

17       Q   Now, you've done such a good job at  
18 getting your nonpilot labor costs down, Mr. Bastian,  
19 that you don't need any pilot labor cost reductions;

20 is that right?

21 MR. SIMON: So much for that problem.

22 THE WITNESS: Do I need to --

1 BY MR. GALLAGHER:

2 Q Well, what's reflected on page 43?

3 A Page 43 is the same analysis for pilot  
4 CASM, pilot cost per available seat mile. And as  
5 you can see, with respect to the 2004 contract  
6 that's the subject of these hearings, on a CASM  
7 basis, the Delta pilots are second highest in the  
8 industry, at 1.03 cents. The company's proposal and  
9 ALPA's proposal is shown under a couple different  
10 scenarios. ALPA's proposal, if the plan were to  
11 terminate, what would happen. Delta's proposal is  
12 if the plan was to be sustained and also if the plan  
13 was to be terminated.

14 And as you can see, in this chart, if the  
15 plan was sustained, and I'm not suggesting it is,  
16 but if it was, we'd be again towards the middle of  
17 the pack. If the plan was to terminate, we'd be in  
18 the lower half of the rankings with respect to pilot  
19 costs per available seat mile. Very consistently

20 with where the nonpilots are.

21           You know, there's limitations on these

22 metrics, any type of metrics that we use. CASM

1 metrics are very useful when you're trying to  
2 aggregate and compare different drivers of costs.  
3 But when you look at an individual labor group, you  
4 know, I think you have to look at the driver of that  
5 cost.

6       So for pilots, we believe this is one  
7 metric you can look at, much more telling metric is  
8 block hours, because that's how they're paid and  
9 whatnot. We do that for other work groups, too.  
10 Flight attendants, the same. Mechanics we look at  
11 the productivity of mechanics based on maintenance  
12 events, look at the productivity of reservation  
13 agents based on calls handled, our airport agents  
14 based on the amount of passengers enplaned,  
15 et cetera.

16       So there are some fundamental drivers to  
17 the business that we look at. But you can look at  
18 CASM when you're trying to get an aggregate picture.  
19 But it's not the best metric, in my opinion. And I

20 think Mr. Kasper testified as well with respect to  
21 getting to the underlying, is this the right metric  
22 and the right bar or right benchmark to use.

1 Q Do you know if the relative gauge or size  
2 of the aircraft in Delta's fleet is larger or  
3 smaller than average, than industry averages in  
4 terms of --

5 A Sure. One of these reasons why this  
6 metric is a bit misleading is because gauge plays a  
7 significant part, and gauge is number of seats on an  
8 airplane. Delta's aircraft on average are higher  
9 than the total -- than the industry. We have a much  
10 higher gauge with respect to per aircraft. And as a  
11 result, the amount of ASMs we tend to produce per  
12 each aircraft that takes off is more than the  
13 competitors.

14 That has the effect on the revenue line of  
15 actually compressing your unit revenue performance,  
16 because you have more seats on the plane that you  
17 have to fill up, you tend to fill those last seats  
18 on some lower fare levels, just simple math.

19 Cost, it has the same effect, it actually

20 has a benefit with respect to managing costs down to

21 curve as well. Again, you have to look at your unit

22 CASM and unit costs in relationship to your unit

1 revenue, and to the extent you can generate the same  
2 level of RASM because you have gauge, that offsets  
3 why on a CASM chart you might be a little bit lower  
4 than average.

5 Another reason why you have marketing  
6 decisions that you don't try to place against the  
7 employees and say you're less productive or more  
8 productive based on how marketing wants to fly the  
9 aircraft in terms of number of seats.

10 Another great illustration of that is our  
11 Song aircraft, you're familiar with Song, we fly 757  
12 currently, we're going to be converting it to  
13 mainline. But we have, although the exact number is  
14 somewhere between 15 to 20 more seats on Song, no  
15 first class, all coach product. But it's a 757  
16 Delta plane, Delta rates, the 757, same pilot flies  
17 that as flies the Song aircraft and whatnot. Yet  
18 you would have a lower pilot CASM on Song because  
19 you have more seats on the plane than you do with

- 20 respect to the mainline carrier, for the same job,
- 21 same aircraft, the same pilot, yet your unit revenue
- 22 is also lower, too.

1           So in other words, there's a trade-off in  
2 that.

3     Q   So your actual costs for 757s in the  
4 mainline for pilots and 757s in Song are exactly the  
5 same; is that right, for pilots?

6     A   No, our pilot unit costs in Song are  
7 lower.

8     Q   No, actual costs, dollars paid.

9     A   The actual dollars paid are the same, but  
10 the unit cost would be lower, because you have more  
11 seats on the plane. And I'd also say the unit  
12 revenues is lower because -- the same reason.

13    Q   All right. What's reflected on page 44?

14    A   Well, 44 is a recap slide, and I tell you  
15 when we developed the proposal of 930 million, which  
16 has since been changed to \$910 million of savings,  
17 we wanted to also make certain, not with respect to  
18 only actual rates per peers but in terms of share of  
19 the pie and share of the sacrifice, that that 910

20 million dollars has been equitably shared across the

21 groups.

22 And as you can see from this chart, in

1 2005, total costs, and these are before the  
2 reductions, nonpilots are roughly 65 percent of our  
3 payroll, and our pilot -- including benefits, and  
4 our pilots are roughly 35 percent of the payroll.

5       The allocation of the \$910 million savings  
6 is very similar, in fact, the nonpilots are taking a  
7 tad higher share, 66 percent, and the pilots are at  
8 34 percent.

9       So again, another check that we  
10 implemented to make certain our proposals were fair  
11 and equitable in proportion to how our costs rolled  
12 out.

13    Q   All right. What is reflected on page 45?

14    A   We also looked at this based on historical  
15 trend lines, in terms of ensuring ourselves that  
16 it's fair and equitable. And this chart goes back  
17 to 1990. And you know, any time you take a snapshot  
18 with respect to looking at pilot groups, you have to  
19 understand the history.

20           So if you were to look at, for example,  
21 the pilots, the dramatic reductions in 2004, they  
22 are huge. You can see from the top of the line how

1 far they have come. That's awesome, from a finance  
2 guy's point of view. As an individual, I can  
3 appreciate. Problem is we look at three, four years  
4 ahead, how that climbed so dramatically with  
5 respect.

6       What this chart does is it goes back to  
7 1990 and baselines both employment groups, total  
8 pilot costs and total nonpilot costs, at 1990, as a  
9 point in time and just tracks how the total cost,  
10 not per head, but just the total cost of those two  
11 groups moved in rough comparison.

12       And you can see through the '90s, they  
13 both moved up, the nonpilots moved down. In the  
14 mid-'90s, I presume at 7.5, I wasn't here, in part  
15 of that -- there was a pay cut pilots took during  
16 that point in time that got restored, that the  
17 pilots were relatively flat through the late '90s  
18 with respect to their rates.

19       Then starting in 2000 is when the lines

20 really started to deviate. The contract in 2001,  
21 that caused the total pilot costs to balloon, the  
22 nonpilot costs are actually starting to come down,

1 as we said, that we've got jobs being eliminated,  
2 we've got pay freezes in effect, et cetera, while  
3 we've got the pilot increases going on.

4 When we got to 2004 and we had the  
5 concessionary agreement, you can see the pilot costs  
6 coming dramatically down. Then lower again in 2006,  
7 based on the proposal, based on the company's  
8 proposal.

9 Q 2005 -- excuse me, through 2005 is actual  
10 as reported on form 41?

11 A Correct. 2006 reflects the company's  
12 proposal, including, you know, if the plan were to  
13 terminate, what would happen to total pilot costs,  
14 such that by the time you get to 2007, those groups  
15 are actually at the same point. And then the  
16 pilot -- we have offered a little bit of growth in  
17 the pilot rates on the back end of the contract, and  
18 that's causing some of the change in -- and I think  
19 there's some growth in the business plan as well

20 that's helping -- starting to improve the pilot

21 ratio towards the back end of, of course, 2010.

22 Q And the last day of the contract term

1 under the company's proposal is December 31, '09;

2 correct?

3 A That's correct, yep.

4 Q And the company's proposal has a 1-1/2

5 percent pay increase on that date?

6 A It does.

7 Q And so that increase wouldn't show up

8 in '09, would it?

9 A That would be -- take effect into '10,

10 sure.

11 Q So carrying it out to '10 enables us to

12 show the effect of that increase?

13 A Right, right. So the message on this

14 chart, you've got to look at history. And anyone

15 can pick a snapshot of a date and time, and you

16 really have to go back historically to see how these

17 rates compare.

18 Q And what's the net outcome here in terms

19 of pilots versus nonpilots?

20     A   The net outcome based on the company's  
21 proposal is, again, we think there's been an  
22 equitable share in the pain and sacrifice, again,

1 when you look at what we've had to do as a company  
2 since 2001, and just fix on that number and see  
3 where we need to end to save this company. We  
4 believe that pain, while it's been severe in both  
5 camps, is justified in terms of why -- the pilot  
6 rate reduction of 34 percent, the nonpilots did not  
7 have a 34 percent decrease, but they didn't have the  
8 decreases either. They were frozen. In fact, their  
9 10 percent reduction brought them -- continued at  
10 lower levels than the pilots were through the 2004  
11 and 2005 time frame.

12 Q And what's reflected on page 46?

13 A 46 is the same analysis, only using ALPA's  
14 proposal. So the only difference here is that you  
15 see the growth and ALPA's proposal has a snap-back  
16 of the reductions that they have offered. They have  
17 a back end of the time frame, such that the pilots  
18 end by 2009 substantially higher than where the  
19 nonpilots are. And you can see, again, the

20 deviation starting to grow back again.

21       Again, another reason why we don't believe

22 ALPA's proposal is fair and equitable relative to

1 all constituents, all employees.

2 Q And ALPA's wage rate proposals are  
3 staggered, are they not, so there is a build-back to  
4 the end point?

5 A That's correct.

6 Q Excuse me, to the starting point. Now we  
7 want to turn, Mr. Bastian, to the subject of the  
8 defined benefit pension plan. Can you tell us  
9 what's reflected on page 47?

10 A Sure. 47 gives a snapshot of what's going  
11 on in our pension plans. And again, our plans are  
12 the subject of a lot of very emotional discussion,  
13 rightfully so. It's a very, very difficult topic.  
14 For pilots and nonpilots both.

15 Again, as I was saying earlier, you have  
16 to provide some history, some context in terms of  
17 what's going on here. This chart shows the funded  
18 status of both the pilot plan and nonpilot plan.

19 The pilot plan is in red, nonpilot plan in

20 blue, going back from 2001 to 2005. And these are  
21 ERISA funded levels, so this is not accounting  
22 gimmickry. This is ERISA laws, if you will, in

1 terms of where ERISA mandated the calculations and  
2 how the calculations are performed.

3       And as you can see, in 2001, both plans  
4 were fully funded. In fact, funded above the  
5 liability levels. And in 2002 the pilot plan was  
6 still fully funded, actually slightly above the  
7 liability level.

8       However, from 2001 forward, there's a  
9 number of factors that are going on in terms of  
10 impacting the funded status of plans, some of which  
11 are the same between pilots and nonpilots and some  
12 of which are different.

13       First of all, during this time frame, the  
14 market conditions in terms of the asset base were  
15 obviously very difficult in 2001 and 2002. The  
16 market came back, and it wasn't Delta's asset  
17 performance, quite honestly, it was the market's as  
18 a whole. That effect is shown over the time frame,  
19 because we have adopted a smoothing method of asset

- 20 allocation, so that you see the impact of that
- 21 spread across the years, you don't see a big blip in
- 22 any one year in terms of subperformance with respect

1 to the asset plan.

2           Secondly, in addition to that, you have  
3 interest rates reducing, long-term rates reducing,  
4 which causes the liability to go up over this time  
5 frame. So not only do you have the assets under  
6 pressure, you have the liabilities growing.

7 Mathematical in terms of how the calculation works,  
8 but causing the plan to be more underfunded on a  
9 year-over-year basis.

10           And thirdly, you also have the company's  
11 financial condition. We were not in a position to  
12 be making huge contributions and payments into the  
13 plan. We're meeting our minimums, absolutely  
14 meeting our minimums. We suspended making  
15 contributions the day we filed for court protection.  
16 But we were meeting all of our minimums up to this  
17 point in time.

18           So that's a general reason why the plans  
19 are moving in the direction in which they are

20 moving. But our financial constraints limited how

21 much we could put into these plans.

22 But even in 2004 both plans were at the

1 75, 76 percent funded level. So not that far apart.

2 Now, the big difference between the  
3 graphs, the red lines and the blue lines, is the  
4 impact of the pilot lump sums. And pilots can opt  
5 when they retire or if they early retire to take a  
6 lump sum withdrawal, 50 percent of their accrued  
7 benefit on the date of retirement.

8 Q And that's present value?

9 A That's the present value of that benefit.  
10 And as a result, as the company found itself in  
11 increasing financial difficulty, as concerns were  
12 starting to be raised with respect to the solvency  
13 of the plans, we had a substantial number of pilots  
14 opt to take early retirement and early outs.

15 In fact, over the last two-year, we had  
16 roughly 1500 pilots take early retirements and  
17 receive those -- in almost all cases, receive those  
18 lump sum payments, to the tune of about \$1.4  
19 billion.

20           So that's why, when you look at why the  
21 pilot plan looks so significantly underfunded than  
22 the nonpilot plan, that's the main factor in terms

1 of the differential in the spread.

2       Again, it was a plan design, a plan  
3 feature, that nonpilots do not have that option,  
4 they do not have that right. That was bargained for  
5 by ALPA back in 1990, I believe. And, you know, at  
6 that point in time, no one ever anticipated this  
7 company would be in the straits we're in today.

8       If we had to do it over again, I'm sure we  
9 would prefer not to have those lump sums. But given  
10 where the plans are, given the anti-cutback  
11 provisions of ERISA, there's nothing we can do about  
12 it.

13     Q   What's on page 48?

14     A   48 shows how those lump sums have been  
15 paid out over the last five years. You can see the  
16 big spike, these are cumulative numbers, the big  
17 spike towards 2004 or 2005 in terms of size of the  
18 lump sums.

19       And, you know, one of the things that we

20 need to deal with in this session is, you know, the  
21 future of the plan. And one of the reasons why the  
22 pilot plan is at very serious risk, extremely

1 serious risk, and it's because of the lump sum deal  
2 option.

3       Given that we are now in what's labeled a  
4 liquidity shortfall, meaning the pilot plan does not  
5 have sufficient liquid assets available to pay  
6 benefits over the next three years, sufficient  
7 assets to pay but not liquid assets. It's an ERISA  
8 definition; the plan is in suspension with respect  
9 to its ability to pay lump sums.

10       We anticipate before the year is out that  
11 that liquidity shortfall will be resolved, not by  
12 virtue of the fact that the company is making any  
13 contributions into the plan, but the simple math  
14 that you've got, you know, benefit payments and lump  
15 sums will be less, because the benefit stream is  
16 based on a trailing 12-month calculation.

17       So you use benefit payments for the last  
18 12 months, multiply that times 3 to get your next  
19 three-year projection. Because you have so much big

20 lump sums in the last 12 months, you cause that

21 calculation to be skewed.

22         Since we suspended paying lump sums in

1 September, by the time we roll off a lot of those  
2 big lump sums over the last 12 months, that benefit  
3 stream calculation is a lot lower, so we come out of  
4 liquidity shortfall.

5 I'm not an ERISA person, but my  
6 understanding is the point we come out of liquidity  
7 shortfall, those lump sums would be eligible and  
8 would be paid out, and we're worried about a run on  
9 the bank. Obviously, with the pilots that still  
10 have lump sums available to them, I think our  
11 estimate today is we have roughly 800 pilots on the  
12 payroll that, if they were to retire, would receive  
13 a lump sum of \$500,000 or more. We believe a  
14 substantial number of those pilots would opt to take  
15 the lump sums and cash out, and quite honestly, I  
16 wouldn't blame them.

17 MR. HOROWITZ: Once they cash out, do they  
18 foreyield or give up the rest of their vested  
19 benefits, or do they still have some vested benefits

20 under the plan that they are still entitled to

21 receive?

22 THE WITNESS: It's a 50 percent payout of

1 their benefits, so they would be entitled to the  
2 annuity stream from that plan.

3 BY MR. GALLAGHER:

4 Q For the other 50 percent?

5 A For the other 50 percent. However, if it  
6 went into the nonqualified portion, there's a  
7 qualified and nonqualified, we've suspended making  
8 the nonqualified payments, again, under prepetition  
9 service.

10 MR. HOROWITZ: And at age 60, the other 50  
11 percent, would they have an option for a lump sum,  
12 or would that be an annuity, or how would that be  
13 paid out?

14 THE WITNESS: The other 50 percent?

15 MR. HOROWITZ: Yes.

16 THE WITNESS: It would only be an annuity.  
17 The first 50 percent is lump sum, the rest in  
18 annuity.

19 MR. HOROWITZ: Is the annuity paid by a

20 plan, or does it go to an outside vendor?

21 THE WITNESS: I believe it's paid by the

22 plan. There's a nonqualified and qualified. The

1 nonqualified is paid out of the company assets. The  
2 qualified up to I -- I guess the threshold, which I  
3 think is 200,000 roughly, is paid by the plan.

4 BY MR. GALLAGHER:

5 Q Now, in light of the funded status of the  
6 plan as it exists today, the pilot defined benefit  
7 plan, Mr. Bastian, what happens when Delta emerges  
8 from bankruptcy if the plan is still in existence?

9 A Well, one of the reasons for -- two big  
10 reasons why we're concerned about the lump sum  
11 starting up again, and, you know, all calculations  
12 indicate it absolutely will start up again, in the  
13 fall of this year, if the plan is still intact.

14 One is the operational disruption. If we  
15 were to lose 800, 1000 of our most senior pilots,  
16 you could imagine the havoc it would wreak with  
17 respect to our airline with respect to being able to  
18 cover those lines, have replacements trained in  
19 time, et cetera. It would take us probably a couple

20 years to dig out from something of that sort.

21 So many of our most profitable

22 international flying we would need to suspend for a

1 period of time, putting a huge hole with respect to  
2 our recovery prospects. But as importantly, if not  
3 more importantly, is that prior to or at the time of  
4 exiting, we would need to make any catch-up payments  
5 required which the lump sums would have depleted the  
6 plan by, and in our estimates, I think if we had  
7 somewhere around 800 to 1000 pilots early retire,  
8 that catch-up payment would be well over a billion  
9 dollars that you would have to be -- you would have  
10 to make at or shortly after you exit from bankruptcy  
11 in order to proceed.

12       So when you're looking at needing to raise  
13 exit financing and exit capital, I think it would be  
14 highly unlikely if you could raise sufficient  
15 capital on an exit, turn around and put a billion  
16 dollars into the pension plan. I don't think that's  
17 going to be where the lenders would want to put the  
18 money.

19       Q Now, --

20     A   Which is one of the reasons why, you know,  
21 even with the legislative discussions going on, we  
22 have -- I have concluded personally after spending

1 even more time and research in this area, that it's  
2 likely the plan is not going to survive.

3 Q That's the pilot plan?

4 A The pilot plan.

5 Q Now, under our current law --

6 MR. BLOCH: Mr. Gallagher, let me  
7 interrupt for just a minute. I realize we're pretty  
8 much near the end of the exhibit, and there is some  
9 virtue to getting through that, if for no other  
10 reason than to give ALPA some chance to look at  
11 their progress over the lunch. But I just want to  
12 get a sense from you as to how much longer your  
13 direct is going to be.

14 MR. GALLAGHER: I'd say 10 minutes.

15 BY MR. GALLAGHER:

16 Q Mr. Bastian, you mentioned legislative  
17 action. But before -- under the current law, can  
18 Delta sustain its nonpilot defined benefit plan?

19 A Under current law, we cannot, and we've

20 been public about this, we cannot sustain either  
21 plan, based on what the -- where the plans sit  
22 today, based on the funding obligations due to the

1 plan, there are several billion dollars, \$3 billion,  
2 I think, in total contributions that would be  
3 scheduled to be paid over the next several years.

4       We don't have anywhere close to that kind  
5 of money to be able to pay. So one of the reasons  
6 we've been as aggressive in the legislative front  
7 and looking for the funding relief for the plans is  
8 that we do believe there's a prospect, certainly on  
9 the nonpilot plan, of retaining it, if we have 20  
10 years to stretch those 2, \$3 billion of payments  
11 over, as compared to having to come up with that  
12 cash in the next two to three years.

13       So there's no question that if the  
14 legislative relief doesn't appear, both plans will  
15 be terminated, absolutely no question about that.  
16 The company cannot survive with the obligations due.

17       If, however, the legislation does come  
18 about and the legislation that passed the Senate  
19 that is now in the House in the conference committee

20 being discussed is a 20-year funding period of time,  
21 that's moving, if you will, to catch up those plans,  
22 we have hard-frozen the nonpilot plans, so there's

1 no more service going into -- the liability is  
2 capped, and we would take 20 years to catch up, to  
3 get the assets in line with the liabilities.

4 We believe that 20 years, there's a very  
5 good shot, if all other elements of the plan work,  
6 there's a very good shot of keeping that nonpilot  
7 plan.

8 If we had the same element for the pilot  
9 plan, I think there would be a decent shot at the  
10 pilot plan as well. The problem is the lump sum  
11 that we can't address with respect to the  
12 legislation. We can't sustain a big lump sum run on  
13 the bank.

14 Q And that legislation has passed the Senate  
15 and is in conference committee?

16 A That's my understanding. And we  
17 anticipate getting resolution over the next 30 to 60  
18 days, from what we're told.

19 Q And what is the Akaka amendment?

20 A Do you want to go to the next slide or --

21 Q Yes.

22 A We probably need an actuary here. I don't

1 know much about this stuff -- before I get to the  
2 Akaka amendment, let me just outline the basis under  
3 which the proposal we've made to the pilots in the  
4 event their plan terminates.

5       The left-hand column is the current  
6 proposal that the company has made to ALPA. And by  
7 our calculations, the active pilots, the 6000 active  
8 pilots of Delta, have accrued benefits of \$1.2  
9 billion today. That's the active pilot liability  
10 that we get from our actuaries.

11       When you look at the combination of the  
12 company note, which we've talked to earlier, the  
13 \$330 million, plus the present value of benefits  
14 that would be paid by the remaining assets of the  
15 plan, terminated plan, plus the PBGC, and again the  
16 PBGC sets a minimum guarantee, I think roughly  
17 \$30,000 a year for pilots today.

18       The \$614 million would be equivalent of  
19 what the PBGC plus plan asset payouts, combined with

20 the \$330 million company note, there would be \$944

21 million of value returned to the pilots in

22 replacement of the termination of the plan, leaving

1 the present value of those benefits lost at \$261  
2 million.

3 Still, I'm not -- I understand, that's a  
4 big loss. I mean, it's a \$260 million loss. That's  
5 not small. But what it is, it's 78 percent of the  
6 value. So when people talk about the plan going and  
7 losing the pension, they're losing 22 percent of the  
8 pension, not 100 percent of the pension, by our  
9 calculations.

10 MR. HARRIS: Are you saying that if the  
11 pilot takes a 50 percent payout, PBGC will still pay  
12 the \$28,800?

13 THE WITNESS: No, if the plan was to  
14 terminate, the lump sums wouldn't be available to be  
15 paid, so the pilots would not get a 50 percent  
16 payout.

17 MR. HARRIS: This is assuming a  
18 termination of the plan?

19 THE WITNESS: This assumes a termination

20 of the plan, that's correct.

21 MR. GALLAGHER: And the note is -- the

22 note is -- the proposal, which includes the note, is

1 if the defined benefit plan terminates, there will  
2 be a \$330 million note. So the plan termination  
3 scenario that this is based on assumes no more lump  
4 sums get paid out, all active pilots --

5 MR. HARRIS: It assumes PBGC doesn't go  
6 broke, too? Right?

7 MR. GALLAGHER: Granted.

8 THE WITNESS: That's correct.

9 MR. SIMON: Can we have a moment's  
10 colloquy? I realize this is not traditional and may  
11 not be appropriate, and if the panel would rather  
12 not do it, I will certainly keep quiet.

13 But I think it would help the process of  
14 the case and the progress in the case to try and get  
15 something fairly clear? I don't know if  
16 Mr. Gallagher would --

17 MR. GALLAGHER: I'd rather just finish  
18 real quick before lunch.

19 MR. SIMON: Fine. Withdrawn. Withdrawn.

20 BY MR. GALLAGHER:

21 Q Mr. Bastian, so that we can take a lunch

22 break, would you as quickly as possible explain the

1 remaining few slides?

2 A Sure. There is a last -- you've got to go  
3 back to the slide, still on the same slide here,  
4 because there's a very important element here.

5 As part of the pension legislation,  
6 there's a change that has been proposed by Senator  
7 Akaka to the fact that Mr. Simon referred to  
8 yesterday in terms of the inequity that pilots are  
9 forced to retire at age 60 and thus aren't eligible  
10 to get paid for the highest level of PBGC guarantee  
11 of -- I think it's \$47,000 a year at age 65 today,  
12 they are forced to take a \$30,000 payout.

13 There's an amendment that's been proffered  
14 by Senator Akaka, which, as my understanding, is  
15 included in the House Airline Relief Bill as passed  
16 and has also been approved at least in terms of  
17 direction from the -- excuse me, the Senate bill has  
18 been approved by the house in terms of sending the  
19 direction to the house conferees, that they are in

20 support of this amendment, that would pay pilots, I

21 think it's specifically to pilots, the age 65 PBGC

22 guarantee, despite the fact that they retire at 60.

1           So increasing the benefit from 30,000 to  
2 47,000 dollars a year effectively. That, obviously,  
3 is not final. I mean, it's obviously we'll wait and  
4 see when the legislation comes out. Obviously, the  
5 PBGC is in there battling around on that topic.

6           But to the extent that was to pass, and  
7 again, indications are that there is a fair bit of  
8 optimism we're hearing that it will pass, that would  
9 actually reduce the hit to the pilots, reduce the  
10 hit to the active pilots, from \$261 million down to  
11 \$63 million. We're not offering -- we're not saying  
12 we'd reduce the note, we wouldn't change our  
13 proposal any. But -- so the value lost, you know,  
14 goes down to 5 percent of the total, as compared to  
15 22 percent under the current -- the current way the  
16 legislation has been structured.

17           MR. HOROWITZ: That's measured from their  
18 currently frozen benefits as opposed to what the  
19 pilots in a much better economic environment would

20 have made, or if the plan had been funded?

21 THE WITNESS: The liability -- you're

22 talking about the liability?

1 MR. HOROWITZ: No, I'm talking about the  
2 78 and 95 percent numbers on your chart.

3 THE WITNESS: Yes, yes.

4 MR. HOROWITZ: I'm assuming they're  
5 measured from the current frozen.

6 THE WITNESS: Assuming the plan was to  
7 terminate today and hard-freeze today, the vested  
8 benefits they have up to this point in time.

9 MR. HOROWITZ: Thank you.

10 THE WITNESS: There's one other element I  
11 do want to offer. We also, in the event of a plan  
12 termination, we also have offered to ALPA reduced --  
13 reduction off of the 305, i.e., reinstatement of the  
14 401(k), there's a 2 percent 401(k) which is on the  
15 order of \$14 million a year that would help to  
16 offset some of the additional remaining amounts, so  
17 some credit being given back in that form as well  
18 here.

19 BY MR. GALLAGHER:

20 Q What's reflected on page 50?

21 A 50 is a high-level term of the note, it's

22 \$330 million. We have offered a term of 15 years

1 from issuance date, payable in 15 years in total,  
2 not amortized, but a bullet.

3 We are suggesting and proposing that the  
4 interest rate be negotiated based on what market  
5 rates for unsecured debt are at the time of exit.  
6 We obviously would not issue this, obviously, before  
7 the plan was to terminate, but based on our  
8 unsecured debt ratings at the time of issue, which  
9 we estimate today would probably be about  
10 approximately 10 percent, that's the interest rate  
11 the note would carry.

12 Q And what's reflected on page 51?

13 A 51 is another picture of the retirement  
14 arrangements, and we talked about the impact of the  
15 defined benefit plan and the pension plan. However,  
16 there are defined contribution plans that are in  
17 place. And while we have -- we don't have any  
18 defined contribution plan, with the exception of a 2  
19 percent 401(k) for our nonpilots today, we haven't

20 moved or proposed a change of any of the terms of  
21 the pilot DC plan, which is I think 8-1/2 to 9  
22 percent, in that range, in aggregate.

1           So this chart shows relative to those  
2 carriers that have either eliminated their defined  
3 benefits plans, meaning United and USAir, or never  
4 had them in the first place. For market competition  
5 needs again, in terms of needing to get to cost  
6 competitiveness, we have offered an 11 percent DC  
7 plan, in addition to what you saw earlier with  
8 respect to the defined benefit arrangements.

9     Q   That 11 percent is the 9 percent defined  
10 contribution plan plus the 2 percent 401(k);  
11 correct?

12    A   Yeah. And we believe this is a fair and  
13 equitable proposal forward, measuring against the  
14 marketplace, measuring against whom we're competing.

15    Q   JetBlue and Air Tran, with those low  
16 defined contribution percentages, do they have  
17 defined benefit plans in addition to that?

18    A   They do not.

19    Q   So that's the full pension or retirement

20 benefit at those carriers?

21 A This is where the competition is.

22 Q So when we see an Air Tran pay rate that

1 on occasion goes above Delta, that's not really  
2 reflective of its total employment costs?

3 A That's correct. That's correct.

4 Q What's reflected on page 52?

5 A 52 outlines also what we've offered to  
6 ALPA, in terms of profit sharing. And it's not just  
7 ALPA. It's all of our employees.

8 We realize the degree of sacrifices we've  
9 asked our employees to make, and what we have  
10 offered is first dollar of profit sharing back.  
11 Once we start winning together again, we will pay  
12 back 15 cents on every dollar that we earn, first  
13 dollar of profit sharing. Doesn't have to hit a  
14 threshold.

15 Look at United, I don't think United  
16 starts paying anything until they get above an 8  
17 percent pretax margin; American doesn't pay anything  
18 until they get \$500 million of profit. Delta, it's  
19 first dollar of profit sharing.

20 By virtue of this chart, I think it's fair  
21 to say that Delta's profit sharing plan is second  
22 best in the industry in terms of what's been

1 offered.

2 MR. HARRIS: I suggest your statement on  
3 American is not -- I was just there last week, I can  
4 tell you that's not accurate.

5 THE WITNESS: This is what we were told --

6 MR. HARRIS: Their incentive plan is --

7 THE WITNESS: The profit sharing plan or  
8 the stock option? The profit sharing plan?

9 MR. HARRIS: Yes.

10 THE WITNESS: We'll double-check that.

11 BY MR. GALLAGHER:

12 Q And what's shown --

13 MR. HARRIS: Their incentive plan, not  
14 their profit sharing plan.

15 THE WITNESS: This is the profit sharing  
16 plan.

17 MR. HARRIS: Incentive, which is part of  
18 profit sharing.

19 THE WITNESS: We have shared rewards as

20 well, which is based on operational performance,

21 it's not reflected here. So we have -- we'll get

22 all --

1           MR. HARRIS: That's not what I was talking  
2 about, again.

3           THE WITNESS: So anyway, from a profit  
4 sharing perspective, we do believe we've offered a  
5 very competitive and equitable profit sharing for  
6 the future.

7           BY MR. GALLAGHER:

8       Q   What's reflected on page 53?

9       A   Last slide, fortunately. This is our  
10 wrap-up.

11           I mean, Delta is under considerable  
12 financial duress, hopefully it's been evident from  
13 the presentation. We're in a battle for survival.  
14 We're in the bottom of the pile currently. We've  
15 got the bull's eye on Delta.

16           You know, there's no question that our  
17 competitors are looking at the rankings, they're  
18 seeing the same information about Delta and asking  
19 the same questions, not only will Delta survive, but

20 how to knock Delta out.

21 It's our task as a team, as a leadership

22 team, as a company, to figure out a plan to not only

1 survive but win in this marketplace. And the only  
2 way we can do that is through long-term  
3 competitiveness on rates of pay, on costs. It will  
4 take us a while to close that revenue deficiency.  
5 We own up to it, we accept it. We're going to fix  
6 it. But bottom line is we need to get our cost  
7 structure and our competitive balance back in check  
8 in order to meet the plan.

9 MR. GALLAGHER: I have no further  
10 questions at this time, Mr. Chairman.

11 MR. BLOCH: Thank you, Mr. Gallagher.  
12 Mr. Bastian, thank you very much.

13 Let me inquire from ALPA what sort of time  
14 you -- do you need time in addition to the hour that  
15 we're going to take for lunch?

16 MR. SIMON: It would be useful. But let  
17 me suggest we confer, because I'm trying to figure  
18 out where we're going tomorrow and how that fits in  
19 with Mr. Kasper and how it fits in with the

20 beginning of ALPA's case.

21 I mean, one thing I wouldn't want to do is

22 be in a position of going forward before we finish

1 with Mr. Kasper on Thursday.

2 MR. BLOCH: You mean going forward with  
3 cross on this witness?

4 MR. SIMON: Yeah, yeah. I'd like to have  
5 that witness finished before we begin to present our  
6 case. And it may be that how we work out the timing  
7 of the cross of Mr. Bastian and whatever else  
8 Mr. Gallagher has in mind, it seems to me if the two  
9 of us spend a few minutes talking about that, maybe  
10 talk to you about it, it might help things out.

11 MR. BLOCH: All right. For now we're  
12 planning to reconvene at 1:45. Thanks.

13 (Whereupon, at 12:47 p.m., the hearing was  
14 recessed, to be reconvened at 1:45 p.m. this same  
15 day.)

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1           AFTERNOON SESSION     (3:06 p.m.)

2   Whereupon,

3           EDWARD BASTIAN

4   resumed the stand and, having been previously duly

5   sworn, was examined and testified further as

6   follows:

7           MR. GALLAGHER: Thank you, Mr. Chairman.

8   I am sure this has never happened before in your

9   experience, but I forgot I have one more thing.

10          MR. BLOCH: There's always a first time.

11          MR. GALLAGHER: I have put before the

12   witness, provided to Delta's counsel and before the

13   panel a document marked for identification as

14   Exhibit 91.

15          (Company Exhibit 91 identified.)

16          BY MR. GALLAGHER:

17   Q   Mr. Bastian, can you tell us what this is?

18   A   This is a letter from Jerry Grinstein to

19   the Delta pilots dated November 11, 2004, prior to

20 the ratification of the 2004 concessionary contract.

21 Q In fact, this is in the interval while it

22 was -- after it was tentatively agreed to and before

1 it was ratified; right?

2 A That's correct.

3 Q And in this letter on page 2, did

4 Mr. Grinstein use the phrase "do it once and do it

5 right"?

6 A He did.

7 Q And what else did he say?

8 A Well, if you'd like, I'd read the

9 paragraph to put it in proper context.

10 Q That would be just fine.

11 A "Our intent is to do to once and do it

12 right, but the hard truth is that the precariousness

13 of our financial situation exacerbated by high fuel

14 costs and low yields, and the continuing changes in

15 our industry means there can be no guarantees.

16 "As we have learned, Delta must stay

17 competitive with the marketplace if we are to

18 survive and compete."

19 MR. GALLAGHER: I have no further

20 questions. Mr. Chairman, I would offer Company

21 Exhibits 90 and 91.

22 MR. SIMON: No objection.

1 MR. BLOCH: They will be admitted. Thank  
2 you.

3 (Company Exhibits 90 and 91 received.)

4 MR. BLOCH: Mr. Simon, cross-examination.

5 CROSS-EXAMINATION

6 BY MR. SIMON:

7 Q Good afternoon, Mr. Bastian.

8 A Good afternoon.

9 Q When you described the company's business  
10 plan throughout your testimony, do I understand you  
11 to be referring to the two-year plan that was  
12 presented to ALPA and various -- and the DIP lenders  
13 and others in essentially August and September  
14 of '05?

15 A The -- generally, yes. But we have since  
16 updated, obviously, our 2006 operating plan, so  
17 we've got a revised 2006 outlook that's been updated  
18 since we obviously did the fall business plan with  
19 you.

20 Q And could you describe for us the  
21 differences between your '06 update and your '05  
22 plan?

1     A   Well, one major difference, as I  
2 mentioned, is that we did close the year out roughly  
3 \$400 million in a better cash position than we had  
4 anticipated in 2005. But that -- you know, most of  
5 the other changes are relatively similar. I mean,  
6 there's some ups and downs in fleet change,  
7 obviously closer to fleet rejections and whatnot,  
8 detailed schedule changes, but the general targets  
9 are similar.

10    Q   When was it that you prepared the '06  
11 update?

12    A   That was part of the development of the  
13 2006 operating plan in -- I think we finalized that  
14 in the end of December, early January. Let me  
15 rephrase that. Probably middle of January.

16    Q   So that between August of '05 and  
17 mid-January of '06, between the plan you presented  
18 to ALPA and the debtor in possession lenders in  
19 August '05 and your mid-January '06 update, during

20 that four-month period, you ended up \$400 million

21 better in cash than your August '05 projection?

22 A Yeah, actually, I think from August

1 through December, for the five months, last five  
2 months of the year, we came up \$400 million better  
3 in cash, yes.

4 Q And does your '06 update project anything  
5 with regard to '06 as compared with your August '05  
6 projection for '06 that might be of interest to  
7 anyone interested in Delta's financials?

8 A Other than the improvement in cash that I  
9 just mentioned?

10 Q Well, the improvement in cash, as I  
11 understood it, was improvement of cash through  
12 December of '05?

13 A It just meant you're starting at a higher  
14 cash point entering '06.

15 Q Okay. And starting with that higher cash  
16 position entering '06 and dealing with the '06 plan,  
17 does '06 update have anything else of interest with  
18 regard to cash or anything else, as compared with  
19 your August '05 plan? Well, let's take --

20 A I mean, I would have -- I haven't gone  
21 back and compared the two plans to be precise. Cash  
22 is, I think, the single biggest change. Obviously,

1 there's a lot of detail changes. When you do a  
2 business plan, in the space that we were needing to  
3 do in August, at the pace we were moving, we didn't  
4 have a level to do a bottoms up.

5 Q I understand. But how about year end '06  
6 cash projections? Were there any differences  
7 between your August '05 plan and your  
8 mid-January '06 update, other than the \$400 million  
9 higher starting point in January '06?

10 What was the year end '06 cash projection  
11 in your August '05 plan, and what was it in your  
12 January '06 update?

13 A I'd have to refer. I don't have that in  
14 front of me. I can tell you what the '06 actual  
15 plan is. It's roughly about \$2 billion. I can't  
16 recall specifically what it was originally back in  
17 the fall for the end of '06.

18 Q Do you recall whether it was greater or  
19 lesser than the \$400 million improvement in '05?

20 A I wouldn't be surprised if it was a little

21 bit better, but I don't have the numbers.

22 Q Could you get them for us?

1           Or Mr. Gallagher, would you get them for  
2 us?

3       A   We could. I don't have them personally on  
4 me.

5       Q   No, I didn't expect you to have them now.  
6 We're going to be here for a few days, and I think  
7 it might be useful to have them?

8           MR. GALLAGHER: Restate exactly what it is  
9 you're looking for?

10       MR. SIMON: Sure. The August '05 business  
11 plan projected a year end '06 cash position.

12       BY MR. SIMON:

13       Q   Is that a reasonable assumption?

14       A   Yes.

15       Q   And, again, reasonable assumption that  
16 your mid-January '06 update for '06 also had a year  
17 end cash position projection?

18       A   That's correct.

19       Q   Those are the two figures I'd like.

- 20 Now, in addition to the January '06 update
- 21 of a projection for '06 and the original two-year
- 22 August '05 business plan, has Delta produced another

1 version or an update of a business plan or a  
2 longer-term projection than applies to '06?

3 A Yes, we have developed a five-year  
4 financial forecast. I wouldn't call it a business  
5 plan at this point. It's not to that level of  
6 granularity. But we have a five-year forecast that  
7 we've recently developed in the last month.

8 Q And has that five-year forecast been  
9 presented to any of your constituencies?

10 A Well, we certainly shared it with ALPA,  
11 and I believe we shared it with the advisors to the  
12 creditors committee.

13 Q And can you tell us what, if any,  
14 differences there are with regard, let's say, to '07  
15 as between the August '05 business plan and this new  
16 five-year -- I'm sorry, what do you call it so I  
17 have the name right?

18 A Projection.

19 Q Five-year projection, for '07?

20 A Again, I'm sure there's quite a few  
21 differences. One of the differences, obviously, is  
22 we did a scenario in the event that the pension plan

1 was terminated, what the numbers would look like.

2 Q Can we get from you a clear declarative  
3 statement on behalf of Delta, as opposed to your  
4 personal conclusion, that the pilot defined benefit  
5 plan will be terminated?

6 A I cannot give you that statement, no.

7 Q And can you describe for us how the  
8 company discusses the pension plan termination  
9 likelihood in view of your personal conclusion as  
10 reported this morning and your status as CFO and the  
11 institutional position of Delta?

12 It seems to me that -- well, ask that  
13 question. Have you expressed your personal  
14 conclusion to the top management, other than  
15 yourself, of Delta?

16 A I have.

17 Q Has anyone in the top management of Delta  
18 disagreed with that personal conclusion?

19 A I don't think conceptually anyone

- 20 disagrees. One of the issues, obviously, is it's
- 21 not within our purview to terminate a pension plan.
- 22 We have to have the PBGC terminate or go to court to

1 have it terminated.

2       So in terms of projecting the outcome, we  
3 can very well project the outcome in terms of what  
4 the likelihood is or not. But until we go through a  
5 court process, a legal process, I can't declare it  
6 dead.

7     Q   But is it your -- it is your conclusion,  
8 is it not, that you will go through that process for  
9 the termination of the pension plan, whether or not  
10 legislation, based upon the Senate bill, passes in  
11 the Senate?

12    A   I think because of the lump sum option,  
13 it's highly likely, yes, we will be needing to go  
14 through a termination.

15    Q   I want to push you on the highly likely.  
16 Isn't it certain, in your personal view,  
17 Mr. Bastian?

18    A   I wouldn't say that. I'd say I'd like to  
19 see the legislation before I said it's certain. I'd

20 say it's highly likely is not certain. I can't

21 predict where the legislation is finally going to

22 land.

1 Q But make an assumption with me. Based  
2 upon the Senate version of the bill, is it your  
3 conclusion that notwithstanding the passage of that  
4 legislation, the pilot defined benefit plan will  
5 terminate?

6 A I'm not certain where the lump sum --  
7 there's some lump sum options and alternatives that  
8 are mentioned in the various House and Senate bills.  
9 I don't know, in terms of allowing for lump sums to  
10 continue or not to continue, I don't know whether  
11 that's going to sit and reside.

12 My sense is yes, I think the plan is  
13 likely to be terminated. But I can't tell you 100  
14 percent certainty.

15 Q I'll come back to my other question. Is  
16 there anyone in top management that you are aware of  
17 that maintains likelihood of the continuation of the  
18 pilot defined benefit plan?

19 A I don't -- I'm unaware of anyone in

20 management that thinks it's likely we're going to be

21 able to keep the plan.

22 Q Has anyone expressed to you in upper

1 management the view that Delta will be able to keep  
2 its pilot defined benefit plan?

3 A I think I just answered that. No, I don't  
4 think anyone in management has expressed a view to  
5 me that they think it's likely we'll keep the plan,  
6 because of the lump sum provision.

7 Q Are you aware of what it is that Delta has  
8 expressed to the pilots at the collective bargaining  
9 table regarding the termination of the defined  
10 benefit plan?

11 A I think we took that same option -- I  
12 wasn't certainly there at all of the sessions, but I  
13 do believe we expressed at the table that we think  
14 it's likely the plan will be terminated.

15 Q And you're not aware of the fact that your  
16 bargainers, in fact, in effect, told the pilots --

17 MR. GALLAGHER: Object, Mr. Chairman, to  
18 facts not in evidence.

19 MR. SIMON: This is cross-examination. Of

20 course I can ask about facts not in evidence.

21 MR. BLOCH: Depends how you ask it. Let

22 me hear the question, please.

1 BY MR. SIMON:

2 Q Is it not a fact that you know that the  
3 representatives of Delta at the bargaining table  
4 with ALPA told them that the pension plan would be  
5 terminated?

6 A I am unaware of that. Certainly not in my  
7 presence.

8 Q Who is it that issues instructions to  
9 representatives of Delta at the bargaining table?

10 A I think it's the combination. Certainly  
11 Jerry Grinstein, myself, we solicit input from the  
12 board.

13 Q And did you participate in the management  
14 discussions leading to the statement by -- whatever  
15 statement they made, the Delta bargaining team with  
16 regard to the termination of the pilot defined  
17 benefit plan?

18 A Again, Bruce, I'm unaware of a statement  
19 that you mentioned was made.

20 Q Whatever statement was made. Are you  
21 aware of the fact that a bargaining position was  
22 formulated by Delta management to be conveyed to

1 ALPA at the bargaining table regarding the  
2 termination of the defined benefit plan, regardless  
3 of what that position was? Was there a position  
4 that was formulated?

5 A In our interim agreement that we just  
6 signed this last December, we agreed to negotiate in  
7 the event of a termination, a settlement. So  
8 fundamentally, yes, we have agreed and we agreed  
9 back in December that in the event of a termination,  
10 we would be talking about what the impact on the  
11 pilots would be.

12 Q My question to you is whether there were  
13 management discussions in which you participated in  
14 which the subject of what position the Delta  
15 bargainers would take in bargaining with regard to  
16 the termination of the defined benefit plan?

17 A In the event --

18 MR. GALLAGHER: Mr. Chairman, I'm going to  
19 object at this point on grounds of relevancy but

20 also on grounds of a collective bargaining

21 privilege. We're asking senior executive to talk

22 about the instructions given to negotiators.

1           And I would simply say that what's sauce  
2 for the goose is sauce for the gander, and if we're  
3 going to go in this direction, it may prolong the  
4 hearing a bit. But fair game for us to inquire of  
5 what instructions were given to their negotiating  
6 committee.

7           MR. SIMON: I think you'll find that the  
8 ALPA negotiating committee carries out with  
9 excruciating precision the instructions they're  
10 given by the MEC. But --

11          MR. BLOCH: Taking it a step at a time,  
12 the question was whether the witness participated  
13 in -- I'll read this, participated in management  
14 discussions in which the subject of Delta's position  
15 was brought up with the bargainers. And I take it  
16 the answer is yes to that. Is that true?

17          THE WITNESS: The answer is yes.

18          BY MR. SIMON:

19          Q   And again, without getting to what those

20 instructions were, were there instructions given to

21 the bargaining team growing out of those

22 discussions?

1 A There were.

2 Q Back in August of '05, when you were  
3 formulating your business plan, did the business  
4 plan assume the debt service costs associated with  
5 the DIP loan, which I believe you said was something  
6 like LIBOR plus 6-1/2 or 7 percent?

7 A We did have assumptions regarding the  
8 rates we would pay, sure.

9 Q And were those assumptions reasonably  
10 close to the LIBOR plus 6-1/2 to 7 that eventuated?

11 A I don't recall. I think we ended up  
12 getting slightly more financing support in the DIP  
13 than we originally had proposed or thought we might  
14 be able to get. That last tranche of financing came  
15 at a higher rate. So on average, it's probably the  
16 actual costs are a bit higher than we thought  
17 originally, but I'd have to go back and check.

18 Q And in any event, it was for more money  
19 than you planned, so it was something you were

20 prepared to --

21 A Yes.

22 Q Does your five-year projection assume any

1 increase in nonpilot costs for the years subsequent  
2 to emergence from Chapter 11?

3 A I believe in the years starting in 2008,  
4 we do have some assumptions regarding nonpilot  
5 costs, yes.

6 Q And do you recall what those assumptions  
7 are?

8 A I think there's a general assumption  
9 regarding some wage escalation, as well as some  
10 escalation in terms of seniority of the nonpilot  
11 work force.

12 Q Does the figure of 1-1/2 percent in  
13 each '07 and '08, in terms of pay rate increases,  
14 ring a bell?

15 A I don't think '07. I think -- again, to  
16 the best of my recollection, I think starting  
17 in '08, that's correct.

18 MR. GALLAGHER: Mr. Chairman, I'm advised  
19 that we have entered the zone of information that's

20 been designated as confidential, and I would ask the  
21 board's guidance and counsel's on exactly how we  
22 should deal with that. I don't know if he's going

1 to go further than he has, in which event we should  
2 make appropriate arrangements, or if you want to  
3 skirt around it and come back to --

4 MR. SIMON: I'm going to skirt around it.  
5 It's going to get awfully sloppy if we start closing  
6 the room. I will try to avoid the level of  
7 precision that might trigger that, but hope to stay  
8 substantively within the area that makes the point I  
9 want to make, if it can be made.

10 If the question you believe still triggers  
11 the confidentiality problem, why don't you pause and  
12 see whether Jack has a problem.

13 MR. GALLAGHER: And I would ask  
14 Mr. Bastian to raise his hand as well, since he's  
15 more aware of what's problematic.

16 MR. SIMON: We can all raise our hands.

17 (Laughter.)

18 MR. BLOCH: Did you want that, whatever  
19 that arcane procedure is, to apply to the question

20 you just asked?

21 MR. HARRIS: Or are you going to withdraw

22 it?

1 MR. SIMON: I'll withdraw it.

2 BY MR. SIMON:

3 Q When you assigned to the nonpilot  
4 employees the figure of, what is it, \$605 million a  
5 year in labor cost reductions --

6 A Right.

7 Q -- did that take into account any future  
8 increases to the nonpilot work force?

9 A Well, when we developed the 605, that was  
10 for the years of 2006 and 2007, and no, we don't  
11 have any assumptions. And I'm unaware of any  
12 assumptions that we'd be increasing the wages of our  
13 nonpilot employees in 2006 or 2007. So the answer  
14 is no.

15 Q But to the extent you anticipate or plan  
16 for increased wages in '08 and '09, that would  
17 provide for increases in nonpilot wages during a  
18 period of time that the ALPA cost reductions would  
19 still be in place?

20     A   Yes, it would.  And I think we've also  
21 offered ALPA increases in '08 and '09 as well, the  
22 tail end of those years.

1 Q You testified this morning that the  
2 continuation of a freeze in nonpilot pensions could  
3 not continue?

4 A Not indefinitely, no.

5 Q And do you have plans for rectifying what  
6 you consider to be a situation that cannot continue  
7 indefinitely?

8 A We've said publicly when we emerge from  
9 bankruptcy, we expect to put a replacement defined  
10 contribution plan in place for our nonpilot  
11 employees.

12 Q And have you quantified that, without  
13 asking you what the quantification is yet, until we  
14 hear from Mr. Gallagher?

15 A There is a quantification in the five-year  
16 projection. I don't have that number handy.

17 Q I believe you testified this morning that  
18 if the Senate version of the legislation now headed  
19 for Congress passes and becomes law, it would be

20 possible for the nonpilot defined pension plan to

21 continue in existence; is that correct?

22 A I believe what I testified is if we, you

1 know, hit our plan, because there's no guarantees in  
2 this world, but if we hit our plan, I think that  
3 we've got a good shot if the 20-year legislation  
4 comes about, of retaining the nonpilot plan, yes,  
5 and primarily because they don't have a lump sum  
6 option.

7 Q And do you know what the cost to Delta  
8 would be, assuming the 20 year amortization  
9 legislation pending, of maintaining the nonpilot  
10 defined benefit plan, for the years '06, '07, '08  
11 and '09, that is the years of your proposed 1113  
12 cuts for the pilots?

13 A I believe the annual cost is in the 80 to  
14 \$100 million range.

15 Q Are you expressing that in cash terms or  
16 in expense terms?

17 A Cash.

18 Q If I were to suggest to you that the cash  
19 cost for '07 would be more on the order of magnitude

20 of \$250 million, would that jog your memory?

21 A There would be a -- thank you for jogging

22 my memory. There would be a catch-up for missed

1 contributions during the period of time which we  
2 were in court and hadn't made contributions. That  
3 number, Bruce, is very hard to determine, because it  
4 depends on the length of time we're in, the amount  
5 of contributions we would have missed, as well as  
6 how the legislation would address that.

7       So yes, I think there is a \$200 million  
8 number that would be required, in that range, upon  
9 exit from bankruptcy if we were to retain the  
10 nonpilot plan.

11     Q    So if you added that to your previous  
12 statement, you get up to something over \$400 million  
13 over the four-year period?

14     A    Well, the \$200 million is retroactive from  
15 the point, you know, back to '05. So collectively  
16 the cash costs would be 400 million.

17     Q    400 million. Now, was that expense  
18 reflected in your August '05 two-year business plan  
19 or any piece of it?

20     A   In the August '05 business plan, first of  
21 all, we only did that plan for the period of time  
22 that we were in court. We don't have an exit plan

1 in place.

2       What the assumption we made was similar  
3 for both the pilots and nonpilots, that we simply  
4 didn't have the cash to put in the plan for the  
5 period of time that we're in court, so no, it would  
6 not have been in there, that cash contribution, nor  
7 would we be today making that until we exited  
8 bankruptcy as well.

9     Q   Do you know if that amount, or any of it,  
10 is in your five-year -- your new five-year  
11 projection?

12    A   Under the scenario where the nonpilot plan  
13 is saved, yes, I believe we've put that in, assuming  
14 an exit of mid-'07.

15    Q   And again, assuming the passage of the  
16 legislation?

17    A   That is correct.

18    Q   Isn't one way to look at that that it's,  
19 in effect, the money that the company would be

- 20 saving from the termination of the pilot defined
- 21 benefit plan that will be funding the continued
- 22 existence of the nonpilot fund?

1 A I strongly disagree with that.

2 Q Do you. Money is fungible, is it not?

3 A No, it's not. We don't have a right to  
4 decide whether we're going to terminate a pension  
5 plan. It's the PBGC, and it's a very, very high  
6 standard of the distressed termination. At 80 to  
7 \$100 million a year, I think the company would have  
8 a very hard time proving that point in legislation  
9 that doesn't have 80 to \$100 million to keep that  
10 plan. So I don't think we have a choice. We want  
11 to keep them, we want to keep both plans. But I  
12 don't think we have the choice unilaterally to  
13 decide whose plan we're keeping or how we're  
14 funding.

15 Q Because you don't think 80 to \$100 million  
16 a year is really a big deal in terms of the  
17 company's survival or not?

18 A No, 80 to \$100 million is significant to  
19 this company, but in order to prove the distressed

20 termination standards of ERISA, as I understand it,

21 is pretty high.

22 Q I'll let the unspoken comparison remain

1 unspoken. When you testified about the revenue  
2 disadvantage this morning, among the things you said  
3 was that the revenue disadvantage was not nearly as  
4 pronounced when the 2000 contract was negotiated  
5 with the pilots. Do you recall that testimony?

6 A I recall that, yes.

7 Q How about when the 2004 letter of  
8 agreement 46 billion dollar a year pilot contract  
9 was negotiated? Was the revenue disadvantage fairly  
10 pronounced at that time?

11 A We certainly had a disadvantage. It grew  
12 during the course of 2004, as I testified. It grew  
13 fairly dramatically during the back end of the year.

14 Q But during the 2004 negotiations, were you  
15 aware of a revenue disadvantage?

16 A Absolutely.

17 Q And did you argue the revenue  
18 disadvantage, among other things, to the pilots as  
19 the need for pilot cuts in 2004?

20 A I think our need for pilot cuts in 2004  
21 was to get competitive costs and savings for the  
22 cash position of the company. I don't think it was

1 there to fund the revenue deficit. We were aware of  
2 that was one of the holes we needed to close, but I  
3 don't think it was necessarily tied to a revenue  
4 deficit.

5 Q No, no, but it was one of the structural  
6 problems that the company faced in terms of having a  
7 cost structure that, as you've said repeatedly, is  
8 necessary to meet your revenue disadvantage;  
9 correct? I mean, you never unlink the cost  
10 considerations from what you repeatedly describe as  
11 being the need to meet your revenue capacity;  
12 correct?

13 A In 2004 when we were developing the  
14 billion dollar need, we clearly understood we had a  
15 revenue deficit. I can't recall specifically  
16 linking it to the RASM. I'm certain we did, you  
17 know, it's dating my memory bank.

18 Q You testified this morning that the  
19 relative allocation of domestic flying isn't so

- 20 profitable or not so good, to international flying,
- 21 which is what better, was a problem that had to be
- 22 addressed and was being addressed. Do you recall

1 that?

2 A That's correct.

3 Q What were the assumptions in the two-year  
4 business plan, the August '04 business plan,  
5 regarding the switch in flying from domestic to  
6 international?

7 MR. GALLAGHER: '04 or '05?

8 THE WITNESS: You said '04.

9 MR. SIMON: I'm sorry. '05. Thank you,  
10 Jack.

11 THE WITNESS: The assumptions? Again,  
12 consistently with what I said, that we would be  
13 reallocating capacity from the domestic to the  
14 international system. I can't remember the  
15 percentages. It was consistent with the direction  
16 we were going.

17 BY MR. SIMON:

18 Q Do you recall or do you know whether your  
19 January '06 update assumes a more aggressive and

20 earlier transfer of domestic to international flying

21 than your August '05 two-year business plan?

22 A When we did the August '05 business plan,

1 we didn't have the schedule all fully baked. So  
2 again, I don't know that we would have had a  
3 specific schedule that I could respond to.  
4 Consistently as to is it faster or slower, I don't  
5 know.

6 Q Let's see again if I can help trigger your  
7 memory. If I were to suggest to you that the  
8 percentage of international flying in 2000 was 23  
9 percent, 2001, 24 percent; 2002, 24 percent; 2003,  
10 22 percent; 2004, 24 percent; and 2005, 26 percent.  
11 Do those numbers sound order of magnitude correct?

12 A They do.

13 Q And if I were to suggest to you that in  
14 your August '05 plan, you had projected that  
15 for '06, you would have a percentage of  
16 international flying, as compared with '05's 26  
17 percent, of 31 percent, does that sound about right?

18 A It sounds a little high, but it would be  
19 29 to 30 percent, I'd say, probably.

20 Q And would it trigger your memory if I

21 suggested to you that your -- pause.

22 Jack, let me confer with you for a second

1 to see if you think this is going to trigger us.

2 I would suggest to you that your

3 January '06 update projects '06, 34 percent

4 international flying, does that help your memory,

5 order of magnitude?

6 A 34 percent, based on the 2006 operating

7 plan?

8 Q Yeah.

9 A I don't remember the exact. I mean,

10 again, it's in the low 30s, if it increased, I can't

11 recall.

12 MR. SIMON: Can we have -- Jack, would you

13 stipulate to that?

14 MR. GALLAGHER: We'll check, but I assume

15 if -- we have the document and you have the

16 document. So if that's what it says, we'll

17 stipulate to it, as soon as we double-check.

18 MR. HARRIS: This is one of the documents

19 that was submitted to us in the prehearing brief?

20 MR. GALLAGHER: It is an ALPA exhibit, I

21 am told.

22 MR. SIMON: Exhibit 14.

1 MR. HOROWITZ: The five-year plan?

2 MR. SIMON: Yeah.

3 MR. GALLAGHER: I would note the plan is  
4 not the company's word for it. "Plan" is not the  
5 company's word for it, I don't believe.

6 MR. SIMON: Projection.

7 MR. WINSTON: ALPA Exhibit 14.

8 THE WITNESS: Just one thing I want to add  
9 to that. We are in a pretty dynamic environment,  
10 with plans moving around and whatnot. Setting a  
11 plan in August and actually implementation, we may  
12 have -- I'm sure we implemented schedule changes,  
13 some faster, some slower. I can't remember exact  
14 percentages.

15 BY MR. SIMON:

16 Q I apply no criticism.

17 A I know. I just wanted to let you know  
18 it's part of an evolving process.

19 Q Appreciate that. And I would ask again --

20 we can all check -- whether it would trigger your  
21 recollection that your projection for '07 would be  
22 39 percent international flying.

1 A For the full year?

2 Q Yeah.

3 A I -- I'd have to see the numbers.

4 MR. GALLAGHER: Mr. Chairman, can I put  
5 the document in front of the witness?

6 MR. BLOCH: I think it would be helpful.

7 MR. SIMON: If the witness isn't going to  
8 be able to do this, we'll do it through our  
9 testimony.

10 MR. BLOCH: I think it may be something we  
11 can stipulate to.

12 MR. SIMON: But we're having trouble. I  
13 don't want to torture the problem, and it would  
14 probably take us more time -- maybe it's something  
15 you have to deduce from the document. If the  
16 witness is not able to testify directly about it,  
17 our expert will.

18 MR. GALLAGHER: Well, there's no need to  
19 rack the witnesses memory, however, when the

20 document is available, he can check it and testify

21 to it quite accurately.

22 THE WITNESS: What's the question, 2007?

1 BY MR. SIMON:

2 Q I'm trying to establish the difference in  
3 projections of international flying for the  
4 years '06 and '07, those are the only years covered  
5 by the two-year plan, from the two-year plan. And I  
6 suggested to the witness it might help refresh his  
7 recollection if I said that the '04 two-year plan  
8 projected 31 percent for '06, 35 percent for '07,  
9 but that the five-year projection in mid-January  
10 projects '06, 34 percent and '07, 39 percent.

11 A I can tell you what the numbers are. It's  
12 not calculated as a percent. But for 2006, on ASM  
13 basis, which is how we'd calculate that, it's  
14 international is 42.7 billion ASMs out of the total  
15 ASM of 147.9 billion, whatever that math is.

16 Q One of the reasons I went to law school.

17 UNIDENTIFIED SPEAKER: 29.

18 THE WITNESS: That's 29 percent in '06.  
19 This is -- what document is this? This is the --

20 this is the five-year forecast. The 29 percent

21 in '07. In '07 is 46.9 billion divided by 143.4

22 billion.

1 UNIDENTIFIED SPEAKER: 32.8.

2 THE WITNESS: That's 32.8. That's the  
3 total of the system.

4 BY MR. SIMON:

5 Q Does that include regional flying total?

6 A Yeah, I was giving you system numbers, but  
7 they were total flying --

8 Q Let me suggest what I suggested earlier.  
9 We'll do that through our witnesses. No sense  
10 agonizing over it.

11 Can we get a conclusion from you?

12 (Laughter.)

13 A Please.

14 Q Would you agree that the percentage of  
15 international flying projected in your January '06  
16 update is a greater percentage than was included in  
17 your two-year August '05 business plan?

18 A Bruce, I don't have the business plan in  
19 front of me, so it should be simple math. I just

- 20 don't have the numbers. I'm not trying to be
- 21 difficult. If I had the numbers, I'd confirm them.
- 22 I don't have them in front of me.

1 Q Maybe this will help. Would you turn to  
2 page 6 of your five-year update.

3 A Okay.

4 MR. HOROWITZ: Is that ALPA Exhibit 14,  
5 your prehearing brief?

6 MR. SIMON: Yes.

7 MR. HOROWITZ: Marked at the bottom?

8 MR. SIMON: Yes.

9 MR. HOROWITZ: Thank you.

10 BY MR. SIMON:

11 Q The fourth bullet point.

12 A Right.

13 Q Do you see it refers to the 34 percent

14 in '06?

15 A Right.

16 Q Does that help?

17 A It says of mainline, it's 34 percent, not

18 the total company.

19 Q Yeah.

20 A I was referring to the total company.

21 It's 34 percent of mainline. I presume that's

22 right.

1 Q And could you tell us whether or not that  
2 is an increase in the percentage of mainline for '06  
3 that you had projected in your two-year August '05  
4 business plan?

5 A I don't recall what the percentage in that  
6 is. It might be up a little bit, but again, I'd  
7 have to see the numbers to verify that. I can't  
8 imagine it's up dramatically.

9 Q You testified this morning that you were  
10 hoping to do better than the \$3 billion  
11 transformation plan, the August '05 business plan,  
12 in a lot of other areas. Do you recall that?

13 A We are continually looking to do better,  
14 absolutely.

15 Q Well, could you be a little bit more  
16 specific with us about what those other areas that  
17 you're looking to do better in would be?

18 A Well, I think every -- every cost, every  
19 revenue component of this company, just because we

20 set a \$3 billion target, we don't feel comfortable  
21 that \$3 billion is something we should be resting  
22 on. So whether it be with our financing rates,

1 we're looking to improve that, whether it be with  
2 our revenue performance, whether it be with the  
3 amount of the productivity that we get out of our  
4 operations, we're looking to enhance that and  
5 improve that.

6 Q Okay. Well, let's take at least a couple  
7 of them one by one.

8 A Okay.

9 Q On the financial rates, I take it you're  
10 talking about your debt service costs going forward;  
11 correct?

12 A Correct.

13 Q And I believe you said you were talking to  
14 the financial markets about opportunities to reduce  
15 your costs?

16 A Correct.

17 Q Can you tell us at what state those  
18 discussions are?

19 A That truly is confidential, because I

20 don't want to queer a potential deal. It's a

21 very -- we're at a sensitive time of potentially

22 launching something.

1 Q Let me ask generically, may we assume that  
2 any such revision of your debtor in possession  
3 financing would produce a lower cost to the company?

4 A If we were successful, it would be a  
5 lower -- a lower financing cost, yes.

6 Q And can we assume generically that one of  
7 the reasons you are able to pursue those discussions  
8 is because your debtor in possession financing was  
9 oversubscribed to begin with and is selling at a  
10 premium today?

11 A Well, it is selling at a premium today.  
12 I'm not sure if it relates to the fact that it was  
13 oversubscribed. But it is selling at a bid premium,  
14 yes.

15 Q The fact that it's selling as a premium is  
16 what makes the discussions viable?

17 A Yes.

18 Q I'm trying to think of how to get around  
19 the confidentiality piece.

20 May I suggest a bench conference?

21 MR. BLOCH: I didn't hear you.

22 MR. SIMON: A bench conference?

1           MR. BLOCH: Sure. Should we step out in  
2 our chambers here?

3           (Laughter.)

4           (Bench conference.)

5           MR. BLOCH: All right. Let's proceed.

6           MR. SIMON: Maybe a word of explanation,  
7 for the record, and for everyone else in the room.  
8 The parties have an agreement on procedural aspects  
9 of this hearing and agreed in advance that when we  
10 got to the point where information considered by the  
11 company to be confidential and necessary to protect  
12 would arise, that we would work out and work out  
13 with the panel how to deal with it.

14           And suffice it to say that we have agreed  
15 to work together on this issue that we've just been  
16 discussing and to provide the panel either with a  
17 stipulation or such other evidence as becomes  
18 available that will fill in the gaps in between the  
19 question and the answers, and permit the panel to

20 have the information from which each of us may argue

21 very different conclusions, but just as to the

22 evidence itself.

1 Is that a fair statement, Jack?

2 MR. GALLAGHER: It is.

3 BY MR. SIMON:

4 Q Now, one of the other areas that you said  
5 you hoped to do better on was revenue, and we may  
6 get into the same kind of resolution of that issue  
7 as we just did with questions of restructuring the  
8 financing.

9 Could you define for us again generically  
10 the elements of revenue improvements over and above  
11 those contained in the two-year August '05 business  
12 plan that you are pursuing, in addition to the one  
13 we've already defined, which is the international  
14 flying, and then I'll come back and say and we're  
15 going to do the same with regard to that issue, the  
16 international flying versus domestic flying, as we  
17 did with the financing restructuring.

18 But is there anything other than the shift  
19 to international flying that would fit within that

20 category?

21 A Well, again, when we laid out the plan in

22 August of '05, we didn't have the details

1 specifically ironed out. So yes, we are continuing  
2 to tweak the schedule, implement for day of week  
3 scheduling to improve the profitability, and  
4 continuing -- you know, the scheduling process is a  
5 pretty dynamic process that you're looking to  
6 improve every single day.

7       So can I point to one initiative that's  
8 going to develop a whole lot of additional value?  
9 No, I can't. I can tell you it's a continual  
10 improvement.

11     Q   Can you tell us, again generically,  
12 whether the January '06 update versus the August '05  
13 two-year business plan had for '06 or '07 an  
14 incremental value to the revenue enhancement piece?

15     A   Again, I'd have to go back, pull it out.  
16 I think it may have been up a little bit, but I  
17 don't have the exact numbers.

18     Q   Order of magnitude?

19     A   I don't --

20 Q Won't hold you to it. See whether it's

21 worth looking at.

22 A I mean, I had testified this morning that

1 you're unit revenue growth in '06 is up about 6  
2 percent. I think that's fairly consistent with what  
3 we were looking at when we built the business plan.  
4 And so plus or minus, it's pretty close.

5 Q And to bring home for the record what I  
6 think may be plain, but I think deserves to be  
7 plain, you testified this morning, you testified  
8 before judge Beatty and I think you've said  
9 repeatedly that really the last thing you wanted to  
10 do, either in August of '05 or today for that  
11 matter, is to go to the employees for more money,  
12 until you'd exhausted every other alternative; is  
13 that correct?

14 A When we built the business plan, they were  
15 the last constituencies we looked for for  
16 contributions from, yes.

17 Q And just almost mechanically, the way you  
18 did it was first to identify what revenue  
19 enhancements the company could pursue, and that's

20 what produced, what, the 1.1 billion back in the

21 August '05 business plan?

22 A Correct.

1 Q And then you went to whatever nonlabor  
2 cost reductions you could squeeze out, and that  
3 produced the \$970 million; right?

4 A Correct.

5 Q And then you added those two together, and  
6 you looked at what you considered the cash hole to  
7 be and said, well, the cash hole has to be filled in  
8 with the missing \$930 million, so unfortunately, and  
9 reluctantly, that's what we're going to go to our  
10 employees for; correct?

11 A It's a sequential process. I wouldn't say  
12 it was as orderly as you just laid it out, but yes.  
13 Directionally, yes.

14 Q So that if it was apparent to you in  
15 August of '05 that instead of \$1.1 billion in  
16 revenue enhancements, you were able to achieve,  
17 let's say, \$1.3 billion in revenue enhancements and  
18 the cost reductions remained at the same 970 and the  
19 hole remained what it was, that the amount you would

20 reluctantly have to go to your employees for would

21 be 910 instead of \$930 million; correct?

22 A You said 200.

1 Q Yeah.

2 A I think you --

3 Q That you would --

4 A One example you used 20 --

5 Q The math would be that whatever additional  
6 you were able to get from revenue enhancements, you  
7 would have to ask less that same amount from your  
8 employees, assuming that the nonlabor cost piece  
9 remained the same, so that if the 1.1 billion was  
10 1.3 billion, so that you had 200 million more in  
11 revenue enhancements, you would have had to ask for  
12 200 million less in labor cost reductions?

13 A I wouldn't say it's as mechanical as that.  
14 Directionally, yes. Relatedly the employees were  
15 the last group we went to. But we also said we have  
16 to be market competitive on costs, in any part of  
17 the business, including our labor costs, if they're  
18 not competitive, we need to address that issue.  
19 So directionally, yes, labor was the last

- 20 group we looked at. But would we, if we thought
- 21 there was an extra 1 or \$200 million of revenue,
- 22 would we have pulled back on that labor component?

1 I'm not so certain.

2 \$200 million when you're bleeding cash and  
3 you've got no reserves and you're living on borrowed  
4 money, is not a lot of money.

5 Q No, but you didn't start with \$3 billion;  
6 right? I mean, you've told us that what you started  
7 with was a principal approach to pursue noncost  
8 benefits first?

9 A Absolutely.

10 Q Noncost of any costs -- first thing you  
11 were going to do is look at revenue enhancements?

12 A That's right.

13 Q And you squeezed and squeezed and what you  
14 produced was 1.1 billion?

15 A That's right.

16 Q Looking under every stone; correct?

17 A That's correct.

18 Q And then you said, okay, now let's go to  
19 our nonlabor costs and squeeze and look under every

20 stone there, and you came up with 970; right?

21 A Yes.

22 Q And then you added 970 and 1.1, and you

1 said, hmm, not enough to meet our cash needs; right?

2 A I said our cash needs was our interim  
3 step, in terms of closing the hole. Our cash needs  
4 were the interim step.

5 But I also said the goal of the plan was  
6 to build a viable company for the long term, with  
7 competitive costs across every part of the system.  
8 So to the extent we would have generated \$200  
9 million, following your line of thinking, of  
10 incremental cash and it was at rates that would be  
11 competitive in the marketplace, absolutely, we need  
12 to have competitive market rates. We would have  
13 continued to ask for the 930, yes.

14 Q Do you not recall testifying that if you  
15 could find another \$200 million somewhere, you were  
16 glad to take it and would not seek to take it out of  
17 labor?

18 A I'd have to look at my testimony.

19 Q But you're telling us now that it was not

20 just to fill a cash hole, but that you had another

21 purpose in mind, and that was to achieve what you

22 considered to be competitive costs across your

1 business?

2 A What I said, and I testified this morning,  
3 is our goal is to build a viable company for the  
4 long term, and you cannot do that without  
5 competitive costs, including competitive labor  
6 costs. And to the extent when we completed the  
7 review, if we found that our labor costs would have  
8 been above market, even if it generated some cash to  
9 pay down some debt or provide a little bit of  
10 support for the future, we absolutely would have  
11 done it.

12 Q Back in negotiations in 2004, leading to  
13 the billion dollars in labor cuts, was it your  
14 objective then to achieve a competitive labor cost  
15 pilot cost structure?

16 A We were certainly -- and we always need to  
17 focus on what's competitive in terms of labor costs.  
18 I do believe at that time we understood, even with  
19 the billion dollars, we'd still be on the high end

20 relative to other network carriers paying their

21 pilots.

22 Q So that you understood when you agreed --

1 MR. BLOCH: Sorry, Bruce. Please

2 continue.

3 BY MR. SIMON:

4 Q You understood that when you -- you agreed  
5 when Delta agreed with ALPA for the billion dollar a  
6 year cuts in '04, that you were still, in your view,  
7 not in a competitive pilot cost position; is that  
8 correct?

9 A Again, you're testing my recall, and I  
10 obviously wasn't sitting in the chair to make those  
11 decisions at the time, so I have to give you my  
12 point of view versus necessarily the CFO at the  
13 time.

14 But I think we appreciated the billion  
15 dollars was a huge, massive undertaking, and I think  
16 we were willing to take some risks in accords of  
17 getting the billion dollars accomplished, to stay  
18 out of court.

19 I don't think we said there were any

20 guarantees that those were the right rates at the

21 time.

22 Q My question to you is whether you

1 understood at the time you entered into the  
2 agreement, the '04 agreement, that the result of  
3 that agreement would leave you, in your view, not in  
4 a competitive pilot labor cost position in the  
5 industry?

6 A Again, I believe we understood that our  
7 rates would be on the upper end of the range, yes.

8 Q The question is whether you considered  
9 them to be competitive.

10 A You're asking me to go back in my recall.  
11 I -- I can't recall a conversation. And again,  
12 you're asking me to make a determination for  
13 something I wasn't responsible, not being the CFO at  
14 the time, as to whether it was acceptable or not  
15 relative to market pressure.

16 So I -- personally, personally, I think  
17 that we knew that our costs were going to be  
18 slightly higher than the industry average.

19 Q And you at that point were comptroller?

20 A I was.

21 Q And you were comfortable with that result?

22 A It was a couple pay grades above my head.

1 Q Did you articulate a position?

2 A I certainly did.

3 Q And do you recall what position you  
4 articulated?

5 A My personal -- I supported the deal,  
6 though I really -- I also expressed a lot of concern  
7 and sensitivity whether the deal was going to be  
8 sufficient to stay out of court.

9 Q This morning you said that you were doing  
10 better in January and February of '06. Do you  
11 recall that?

12 A We were doing a bit better, yes.

13 Q Could you define the "bit" for us?

14 A Sure. We ended January about \$25 million  
15 in profits better than plan, and February we haven't  
16 announced our results yet, so I'm not sure I'm free  
17 to talk about February.

18 Q Do you know when you'll be --

19 A At the end of March.

20 Q Order of magnitude --

21 A We can do it in a confidential

22 stipulation.

1 Q Yeah, okay. Someone make a note. Harking  
2 back to '04 for just a moment, it is correct, is it  
3 not, that the \$1 billion in pilot cost reductions  
4 that resulted from those '04 negotiations was, in  
5 fact, management's original ask?

6 A It was.

7 Q Do you have a copy of this morning's  
8 transcript?

9 A I do not.

10 Q Does someone have a copy for the witness?

11 MR. GALLAGHER: I don't have a copy  
12 either.

13 MR. BLOCH: We've got it on the machine.

14 MR. SIMON: It came over the transom in a  
15 plain brown envelope.

16 MR. HOROWITZ: What a country.

17 MR. SPAN: Bruce, what page are you going  
18 to?

19 MR. SIMON: 102. Just trying to clear

20 something up. Maybe if I read it, you'll be able to

21 clarify it.

22 BY MR. SIMON:

1 Q Question at the bottom of page 101 was --

2 MR. BLOCH: One moment, Counsel.

3 MR. SIMON: What slide is this referring

4 to?

5 MR. BLOCH: Page 36. I mean, I don't

6 know -- that's the reference I see. I don't know if

7 that's what you want.

8 BY MR. SIMON:

9 Q Let me read it and maybe it will help.

10 I'm on page 101. Maybe you can figure out what

11 we're talking about.

12 A 101.

13 Q Let me make sure if I understand, in

14 January of '06, the blue line looks around 1.9

15 billion." Then at the top of page 102, "that's

16 higher, that's the actual cash." Answer --

17 MR. SPAN: Wait, excuse me, Bruce. That

18 page number is not what I have on mine.

19 MR. BLOCH: Off the record for a moment,

20 please.

21 (Discussion off the record.)

22 MR. BLOCH: Back on the record. Take a

1 shot at it.

2 BY MR. SIMON:

3 Q "Answer: That was the plan that we have  
4 in place. The detailed operating plan and budget  
5 buildup for 2006 that we closed 2005 with and  
6 actually we're at today around 2 billion, 1.9  
7 billion to 2 billion, depending upon the time of the  
8 month."

9 A I'm sorry, Bruce. Are you on page 101?

10 Q Now I'm on top of page 102.

11 A Okay.

12 Q I'll let you catch up.

13 A Okay.

14 Q "And that reflected here is higher than  
15 the original business plan." That's line 7.

16 "Answer: Yes. When we went to market  
17 with this, we were actually looking in the first  
18 half of '06 being somewhere 1.2 billion, 1.3 billion  
19 range, I mean, in the spring. We've been able to do

20 a number of things successfully to build some of

21 those cash reserves and cash resources."

22 I guess I'm just trying to hone in, as

1 long as this piece is public, on what the difference  
2 is between what you planned in your August '04 plan  
3 and what actually eventuated in -- up through the  
4 end of '05 and January and February, because the  
5 difference between 1.1 and 1.2 and 1.6 and 1.7 looks  
6 a little bit better -- I shouldn't say a little, it  
7 looks better than the 400 million you described  
8 earlier. Do you want to -- can you reconcile that  
9 for us, I guess is my question.

10 A August '04. I mean you mean August '05.

11 Q '05. Thank you very much for the  
12 correction.

13 A When we originally did the budget, excuse  
14 me, the business plan for '06, the spring looked to  
15 be a very sensitive cash period. And consequently,  
16 we did a lot of stuff in the intervening period to  
17 try to bolster our cash resources in the first half  
18 of '06.

19 I mentioned we raised the letter of credit

20 facility to offset \$300 million for hold back. Some  
21 of that may have been in the business plan, I'm not  
22 sure the full amount was.

1           We also fuel moderated somewhat during  
2 that time frame, so there was some fuel relief on  
3 the cash line. And as I said, about \$400 million,  
4 in terms of where we opened the year at.

5           So, you know, our forecast for the spring  
6 is to get in the 1.7 billion to 1.8 billion range,  
7 so we would have about a \$500 million, plus or  
8 minus, better cash position than we originally were  
9 fearing.

10       Q   Jack and I agree you ought to be the one  
11 to answer this question, and then I'll ask the next  
12 question in terms of your answer. Is the year  
13 end '06 cash projection contained in your  
14 January '06 update confidential information?

15       A   I would say no.

16       Q   You think not. Can you tell us what your  
17 January '06 update shows --

18           MR. GALLAGHER: Can I call the SEC lawyers  
19 first?

20 (Laughter.)

21 MR. SIMON: He's the CFO. If he signs the

22 Sarbanes Oxley, he can tell us what's --

1 THE WITNESS: We have made certain of  
2 our '06 and '07 projections public. I don't know if  
3 our cash position was or not. Certainly our  
4 earnings has been.

5 BY MR. SIMON:

6 Q Well, if you don't feel comfortable with  
7 it, let's leave it --

8 A I'd opt to the safety of just putting it  
9 in confidential, in case we inadvertently disclose  
10 something that hasn't been disclosed.

11 Q We'll put it down as another thing to put  
12 in the stip. Let me get in the base question that I  
13 know is not confidential. Can you tell us what in  
14 your August '05 two-year business plan you were  
15 projecting year end '06 cash to be, so that once we  
16 get the confidential number, we'll be able to match  
17 it with the other? Will it help, I will try --

18 A Bruce, I don't have that plan in front of  
19 me. I'd be happy to read it to you if I had it.

20 Q Order of magnitude, would it help if I --

21 it's 1.252 billion? Does that sound about right?

22 A That could be right, but, you know,

1 there's certain assumptions that were obviously  
2 changed with respect to certain financing sources.  
3 So I'm not certain that 1.25 billion is the same  
4 basis as the '06 operating plan was developed.  
5 That's the only caveat I'd offer.

6 Q Well, why don't we leave that for  
7 inclusion with the confidential stip. Again, not to  
8 belabor the obvious, the difference being that if  
9 there is hundreds of millions of dollars of  
10 difference between the '05 business plan, which  
11 formed the base for the ask and the base for the  
12 1113 motion and the January '06 update, then we  
13 believe that is something that will provide  
14 interesting base for argument from both sides. I  
15 don't imagine it takes too much imagination to  
16 project what our argument would be.

17 MR. GALLAGHER: Do you want to know if  
18 it's borrowed money?

19 MR. SIMON: I think the witness has

20 testified it's borrowed money. It was borrowed  
21 money to be in August '05, and the borrowed nature  
22 of the money was ground right into the bankruptcy

1 protection letter.

2 BY MR. SIMON:

3 Q When you did the \$2 fuel oil contingency  
4 projection, did you take into account in those  
5 slides the percentage of revenue improvements that  
6 would be associated with the fuel increase?

7 A Those slides only isolated on one  
8 scenario, that being fuel. So no, we did not assume  
9 we could get revenue benefits. I'll tell you,  
10 though, we discussed whether we should, and we  
11 concluded that we should not, because today fuel is  
12 pretty darned close, as I said, it was \$1.85  
13 yesterday. We don't think a 15 cent per gallon jump  
14 in the price of fuel is necessarily going to yield a  
15 whole bunch of additional revenue benefits.

16 We've already seen revenue stabilize in  
17 terms of pricing support at today's higher fuel  
18 level. So no, we did not include, and we concluded  
19 it wouldn't be appropriate to conclude, because we

20 don't think there is necessarily incremental revenue

21 you could attach to a 15 cent per gallon movement in

22 fuel.

1 Q Notwithstanding Southwest's 10 fare  
2 increase announced yesterday?

3 A There are fare increases that have been  
4 announced over the last several months. That's why  
5 we've got a 6 percent revenue growth. We were  
6 planning, we built a plan assuming there's going to  
7 be revenue growth and fare increases this year.

8 Q There is a pretty standard assumption  
9 about fare recovery associated with fuel increases,  
10 is there not, one that you've used in the past?

11 A I don't think there's standard. I think  
12 there is certainly a relationship, and I think it  
13 depends. We've seen in the last six months a much  
14 higher percentage of support, as I said, for pricing  
15 at this higher fuel level. I'm not certain that  
16 that relationship is going to continue as it  
17 ratchets up or not.

18 Q Don't you have an analytical framework in  
19 dealing with fuel increases that assumes a certain

20 percentage of the impact of the fuel increase to be

21 met by fare increases?

22 A In 2005 when we looked at our revenues, we

1 believe, and it's hard to prove what's driving what,  
2 but we believe roughly 30 percent of the run-up in  
3 fuel was able to be offset through higher revenue.  
4 I'm not certain that relationship is holding today  
5 in 2006.

6 In other words, fuel has stabilized at  
7 this level and it's fluctuating 10, 15, 20 cents a  
8 gallon plus or minus. I don't think you can see the  
9 direct correlation at that same point in time.

10 Q But in '05 you saw --

11 A In '05 you saw fuel run up about 40, 50  
12 percent in value.

13 Q And you have not, in making projections  
14 and submitting those projections to other of your  
15 constituencies, included a 30 percent recoupment  
16 factor in your contingency plan?

17 A In what -- in 2006?

18 Q Yes.

19 A I'm not aware of one, no.

20 Q Is it fair to conclude that low-cost  
21 carriers have a greater percentage of their flying  
22 in shorter hauls than do the trunk line carriers?

1 A Yes.

2 Q Is it fair to say that fuel consumption is  
3 greater on short hauls than it is on long hauls?

4 A Yes.

5 Q And is it fair to say, then, putting aside  
6 hedging strategies, that taking into account just  
7 the impact of fuel increases, that fuel increases  
8 impact more strongly upon a low-cost carrier's  
9 operating results than does -- it does on trunk line  
10 carriers?

11 A I think there is a certain inefficiency to  
12 the shorter stage line, but I will tell you the  
13 localized carriers also have new and fuel efficient  
14 fleet as compared to our fleet, which is many years  
15 older. So I'm not certain that there's necessarily  
16 a one-for-one offset.

17 Q Now, notwithstanding your \$2 contingency  
18 slides, it is still part of Delta's business plan,  
19 both as expressed in August of '05 and your

20 five-year projection in January of '06, that the '06

21 cost of fuel would be \$1.74 a gallon; correct?

22 A When we built the '06 operating plan, we

1 used the assumptions where the market was at the end  
2 of '05, and that was \$1.74.

3 Q And has that continued to be your  
4 operating assumption, your business projection  
5 assumption?

6 A Actually, we've just recently updated  
7 our '06 forecast, and we are raising the fuel price  
8 assumption.

9 Q Updated it beyond the five-year projection  
10 you've given to ALPA?

11 A Well, for the 2006 component. We do a  
12 short-term forecast on a 90-day rolling basis to  
13 manage cash, and today we think fuel is probably at  
14 about \$1.85, which is what we're paying today.

15 So I think the fact that, you know, again,  
16 your plan is an evolving vehicle when you have a  
17 dynamic commodity like fuel, you have to make  
18 certain you're pricing it appropriately to the  
19 market.

20 Q Have you presented that \$1.85 update to

21 ALPA?

22 A I don't think we've -- I think we just

1 finished the forecast last week.

2 Q And so the --

3 A I don't think they would be surprised to  
4 see it, though.

5 Q And so the five-year projection that you  
6 issued in January of '06 which did include \$1.74  
7 plus 5 percent increases in '07 and later years, is  
8 now no longer operative?

9 A The baseline for that was our 2006  
10 operating plan. We didn't go through and make  
11 changes to the 2006 operating plan, for purposes of  
12 the five-year forecast. Once you finish the plan,  
13 then you update it on a regular basis, sometimes  
14 monthly, sometimes quarterly, sometimes weekly,  
15 depending what's going on in your business, with  
16 respect to current market conditions.

17 Fuel is above the plan levels and we need  
18 to make certain we have an accurate forecast.

19 Q And my question to you is whether, then,

20 the January '06 update, it has to be scrapped and  
21 replaced with a new updated figure for fuel for '06.  
22 A Well, again, I don't -- "scrapped" is a

1 strong word. I mean, there's all parts of the plan  
2 that have pluses and minuses, so I don't think the  
3 plan directionally needs to be scrapped.

4 But I think some of the assumptions need  
5 to continue to be updated, revenue assumptions as  
6 well.

7 Q Have you informed the creditor committee  
8 professionals that the \$1.74 contained in the  
9 five-year January '06 update is now no longer  
10 operative? I won't use "scrapped." Is it no longer  
11 operative?

12 A I believe on our last call with the  
13 creditors committee advisors, we did say that we're  
14 updating our forecast for 2006, and yes, we're  
15 looking at a higher fuel price, because that's where  
16 the market is at today. So \$1.85.

17 Q And does that include, then, for out  
18 years '07 and out a 5 percent increase over now  
19 \$1.85?

20 A No, no, I'm not saying that.

21 Q What are you saying?

22 A I'm saying that you've got to continue --

1 once you build an operating plan, you make  
2 adjustments based on how the year is rolling out.  
3 We don't stop and update five-year forecast just  
4 because fuel spikes by 10 cents. At the appropriate  
5 time there will be an update.

6 Q So that at the moment, someone trying to  
7 understand your five-year update should assume fuel  
8 for 2006 at what?

9 A \$1.85.

10 Q And fuel for 2007 at \$1.85 plus 5 percent  
11 or \$1.74 plus 5 percent?

12 A I wouldn't at this point in time call fuel  
13 for 2007. Part of it, we don't plan to be fuel  
14 prognosticators. Our crystal ball is no better than  
15 anyone else's. All we know is where the market is  
16 at today. And for the plan in 2006, to the extent  
17 the market is higher than planned, we've got to  
18 address that reality and start making plans to deal  
19 with that reality. And that's the process of the

20 forecast.

21 Q But your five-year forecast does have a

22 fuel projection for '07, '08, '9 --

1 A Right.

2 Q Okay. And that fuel oil forecast  
3 for '07, '08 and '09 is \$1.74, plus 5 percent each  
4 year. My question to you is whether someone who is  
5 reading that plan, trying to make sense out of it,  
6 assumes that '07 fuel will be as it was set in the  
7 January '06 to be, \$1.74 plus 5 percent, or \$1.85  
8 plus 5 percent, or something else?

9 A I have not updated the 2007 plan just  
10 because fuel is \$1.85 levels today, to say that  
11 that's the new level for 2007. I think the plan for  
12 2007 is fair the way it's presented, and we'll have  
13 a chance to update it as we move along.

14 Q Okay. So that sitting here today, we are  
15 to assume that fuel for 2007 is \$1.74 plus 5  
16 percent?

17 A That's as good as any other assumption.

18 Q Pardon?

19 A It's as good as any other assumption.

20 Q No, no, but that's the assumption built

21 into --

22 A That was the assumption we used.

1 Q -- the '06 five-year projection?

2 A That's right.

3 MR. BLOCH: Mr. Simon, I think we're going  
4 to take a brief break at this point. Let's hold it  
5 to 10 minutes.

6 (Recess 4:33 to 4:46 p.m.)

7 MR. BLOCH: I think we can wrap it up.

8 Mr. Simon.

9 BY MR. SIMON:

10 Q Mr. Bastian, I believe you testified that  
11 all Delta pilots who were at the top of grade, had  
12 12 years or more of seniority; is that correct?

13 A I don't think I testified to that. I said  
14 I think we'd have to get back on the seniority  
15 scale. There was a question raised. I personally  
16 don't have -- I mentioned to the panel, I didn't  
17 know exactly the seniority rankings by fleet type  
18 for our Delta pilots someone from the audience  
19 mentioned that all captains are at top of scale.

20 Q I meant --

21 A That's not my area of expertise.

22 Q That's not your testimony?

1 A I don't know if that's true or not.

2 Q I would suggest to you you might want to  
3 check, because I think you'll find it's not true.

4 A I did not testify to that.

5 Q Do I recall you testified, though, that  
6 AirTran, Value Jet, that no one was at top of scale?

7 A I didn't say no one, or I don't believe I  
8 said no one. I said certainly there is a  
9 considerable amount of their pilots that are not at  
10 top of scale, and we'd have certainly a seniority  
11 differential between Value Jet and AirTran.

12 Q Because Value Jet started service in '93  
13 and AirTran took over, when, in '94? So isn't it  
14 likely that the pilots that were hired back in '93  
15 and '94 now be at the top of scale?

16 A If they're still around there, I guess. I  
17 don't think that's the majority.

18 Q Back in the hearing before Judge Beatty,  
19 which was the end of November, I guess, you

20 testified that you were looking at a cash burn of  
21 around 500 million, about 5 million a day over the  
22 next 90 days?

1 A That's right.

2 Q Do you recall that testimony?

3 A I do.

4 Q Did that, in fact, eventuate?

5 A It moderated a bit, but we absolutely had  
6 a cash burn during that time frame. It was a  
7 forecast in terms of the next 90 days, but we  
8 absolutely had a cash burn, yes.

9 Q But can you tell us order of magnitude as  
10 compared with the \$5 million a day that you were  
11 forecasting that you actually burned through?

12 A I could get back to you. It was less, it  
13 was not substantially less.

14 Q And do you recall what the cash burn was,  
15 for example, in February of '06?

16 A I would be happy to compute it. I don't  
17 know off the top of my head.

18 Q If I were to suggest to you that you had a  
19 positive cash of about \$2-1/2 million a day, would

20 that refresh your recollection?

21 A For February?

22 Q Yeah.

1 A I think I testified that we closed out at  
2 about \$2 billion, so, you know, you can do the math.

3 Q But you'll check for us?

4 A We'd be happy to check.

5 Q And that 90-day period is probably as bad  
6 a period of time for the air line business for Delta  
7 as any, right, December, January, February?

8 A It traditionally is. We've, because of  
9 the nature of our credit card hold-backs, our tough  
10 period of time is now stretched out more towards the  
11 spring, as the hold-back is filling up, if you will.  
12 So I'd say that period of time has elongated a  
13 little more than the traditional dip that we have in  
14 the January/December time frame.

15 We don't get cash receipts now on our visa  
16 Mastercard passengers fly, so all the advance  
17 bookings you would get for January, February, March  
18 for spring and early summer travel is going in to  
19 fill the hold-back, it's not going into our pockets.

20 So it's not necessarily a great time. It's not the

21 worst time.

22 Q When you left Delta in January '05, did

1 you believe that the pursuit of the out-of-court  
2 plan was the correct company strategy?

3 A I had significant doubts.

4 Q And have you expressed those significant  
5 doubts during the company discussions, management  
6 discussions, that led up to the decision to pursue  
7 the out-of-court rather than in-court strategy?

8 A I was supportive of the decision to try to  
9 stay out. I think we owed it to our employees and  
10 our company to do our best to preserve the company  
11 out of court, if we could.

12 So I was supportive but skeptical as to  
13 whether it would be successful.

14 Q And did you express your skepticism in  
15 management confabs on the subject?

16 A I don't think we had management confabs.  
17 I don't think it was a democracy that we would take  
18 a vote as to whether to stay out or not. It was an  
19 executive decision at the time.

20 Q There were no discussions?

21 A There were plenty of discussions. I'm not

22 sure if there was a right or wrong answer.

1 Q Did you participate in those discussions?

2 A Some of them.

3 Q Did you articulate in those discussions

4 your --

5 A I certainly allayed my opinions on the risks

6 of both of those, staying out or going in.

7 Q The word was relayed, not allayed?

8 A Relayed. Thank you.

9 Q Were you aware in 2004 during the

10 development of the out-of-court plan that there was

11 an August '05 credit card hold-back issue that was

12 coming down the pike?

13 A In the August '0 -- which --

14 Q In the '04 discussions --

15 A Yes.

16 Q -- leading to whether or not there should

17 be an in-court or out-of-court strategy pursued.

18 A Yes. We were aware that the credit card

19 expiration date in August '05 was there. There was

20 a belief with our finance leadership at the time  
21 that we were able -- we would be able to extend that  
22 with a minimal hold-back.

1 Q Did you share that belief?

2 A That wasn't my belief. That was our CFO  
3 at the time.

4 Q Belief turned out to be wrong?

5 A I am not debating that. That was not my  
6 area of responsibility.

7 Q And turned out to be wrong because, as you  
8 testified this morning, the credit card holders  
9 didn't want to be left holding the bag; correct?

10 A That's correct.

11 Q Instead, it's the pilots that are left  
12 holding the bag, wouldn't you say?

13 A I would not say that.

14 Q You testified that Delta first suggested  
15 to ALPA in March of '03 that they discuss cuts in  
16 pilot cost benefits; correct?

17 A What I testified is I believe in  
18 early '03, certain members of the executive  
19 management Delta approached ALPA at that time to

20 discuss adjustments to the contract. Again, I was

21 not party to that discussion, but that's my

22 understanding.

1 Q Did Delta have in place in March of '03 a  
2 long-term business plan?

3 A I'm sure we did.

4 Q You're sure you did?

5 A Well, we've always had a business plan.  
6 I'm not sure the length of it. I can't recall what  
7 our business plan in March of '03 stated.

8 Q If I were to suggest to you that until the  
9 negotiations leading up to '05 and the securing of  
10 debtor in possession financing, that the one thing  
11 Delta did not have was a long-term business plan,  
12 would that shock you?

13 A I think we had our business plan. I don't  
14 know the length of it. I think it was either two or  
15 three years at the time.

16 Q And it wouldn't help refresh your  
17 recollection if I suggested to you it was basically  
18 year by year?

19 A Well, there's a year-by-year budget, but I

20 do recall every year we update a long-term plan or  
21 forecast or whatever vernacular we would use at the  
22 time.

1 Q You described -- I don't remember if you  
2 used the term "scrambling," but if it wasn't, it was  
3 a functional equivalent, to put together a long-term  
4 business plan to take to the debtor in possession  
5 lenders in August of '05; correct?

6 A That's correct.

7 Q Before creating that long-term business  
8 plan in August '05, was there in place a long-term  
9 business plan at Delta?

10 A There was.

11 Q And what business plan was that?

12 A There was a -- I forget the length of  
13 time, whether it was three years or five years, but  
14 there was a long-term plan that was reviewed with  
15 ALPA and certainly reviewed by our board that  
16 supported the out-of-court restructuring at the end  
17 of '04. I think it might have been referred to as  
18 the viability plan, but I can't recall specifically.

19 Q And that was the result of the choice of

20 strategies in '04 between pursuing the out-of-court

21 and the in-court plan?

22 A That was one of the reasons that -- things

1 it was used for, yes.

2 Q You testified that in March of '03, both  
3 United and American had secured pilot cost  
4 concessions from their pilots union; is that  
5 correct?

6 A That's my recall, yes, by that -- around  
7 that time.

8 Q And do you recall or do you know whether  
9 or not at that period of time either or both of  
10 those carriers had long-term business plans in  
11 effect?

12 A I would not know.

13 Q The business plan that was in effect  
14 in '05 up until the creation of the new business  
15 plan that formed the base for the debtor in  
16 possession financing arrangements and the  
17 negotiations with ALPA in '05, was an out-of-court  
18 business plan that had been developed in '04;  
19 correct?

20 A I have to admit, you lost me with your

21 different turns and trails on that.

22 Q Let's back up. In '04 you developed an

1 out-of-court business plan?

2 A Yes.

3 Q Okay. And that plan was the \$5 billion  
4 plan?

5 A Yes.

6 Q And that plan was in effect through 2004,  
7 up until the point when in August '05, you developed  
8 an in-court business plan?

9 A That's correct.

10 Q And were there discussions with ALPA in  
11 earlier '04 with regard to requests for pilot cost  
12 cut concessions?

13 A Earlier '04?

14 Q Yeah, earlier than --

15 A I mean, there were certainly discussions  
16 some point in '04, midyear, I can't remember more  
17 than that.

18 Q How about '05, were there discussions with  
19 ALPA before the August '05 development of the

20 business plan?

21 A There were discussions -- you mean prior

22 to the August '05 business plan being developed?

1 Q Yes.

2 A I'm unaware that there were discussions  
3 about concessions at that point in time. But again,  
4 there could have been. I went the -- I wasn't here  
5 at the company for the first six months of the year.

6 Q But you said even though you weren't at  
7 the company, when you looked, you saw that the  
8 company was in deep trouble and would likely have to  
9 file an 11, correct, while you were somewhere else?

10 A Well, when I came back, I was aware that  
11 the company was suffering, you know, just had to  
12 look at fuel prices and what was going on in the  
13 marketplace to realize this is a company that's in  
14 trouble.

15 Q And did you look to see when it was that  
16 the company began suffering in '05? When did the  
17 rather extraordinary cash burn that you have  
18 described begin?

19 A I returned to the company in late July.

20 Quite honestly, I spent my time trying to get this  
21 company ready for the future rather than trying to  
22 go back and recreate history. So it was irrelevant

1 to me as to when. It's what we had to do going  
2 forward that was important.

3 Q But it's obvious, is it not, that the cash  
4 drain did not begin the day you arrived back in the  
5 company, but, in fact, had been aggressive  
6 during '05?

7 A My recall when I got back is the company  
8 had roughly \$1.6 billion at the end of June. So is  
9 that -- I can't recall what it was at the start  
10 of '05, but yeah, there was certainly some cash  
11 burned, but the issue more was the forward-looking  
12 projections, in terms of how to fund the credit card  
13 hold-back or deposit, whether the ASA transaction  
14 was going to conclude or not, as well as how you  
15 were going to deal with the price of fuel.

16 So I was more concerned with finding out  
17 cash solutions for the future than I was trying to  
18 figure out what the projections should have been  
19 back when. It was totally irrelevant to me.

20 Q Am I, then, incorrect in my assumption  
21 that part of the message you were trying to convey  
22 to the panel was that ALPA was dragging its feet in

1 granting concessions that were necessary in '05?

2 A At what point in '05?

3 Q Well, let's start up to August of '05.

4 A Up to August of '05, I'm unaware, but  
5 there could have been discussions with ALPA of  
6 concessions. But I'm unaware of any discussions.  
7 And I certainly didn't imply they were dragging  
8 their feet prior to August of '05, no.

9 Q Because it was --

10 A I wasn't here. How could I have implied  
11 that?

12 Q If you weren't implying it, you've  
13 corrected the record or you've satisfied my  
14 curiosity as to whether or not you were implying it.  
15 Were you implying that ALPA's agreement  
16 in '04 was the result of dragging feet, as compared  
17 with nonpilot employees?

18 A I think it took quite a long period of  
19 time before the final billion dollar concession was

20 arrived at, yes. And I think had the concession

21 been arrived at earlier, the company's chances of

22 survival out of court would have been greater.

1 Q And when was it that ALPA was provided  
2 with the out-of-court business plan that eventuated  
3 in '04, do you know?

4 A I don't recall.

5 Q Would it refresh your recollection if I  
6 suggested to you that it was September of '04, not  
7 long after the company itself had made the strategic  
8 direction decision to pursue the out-of-court  
9 strategy that the company provided ALPA with that  
10 out-of-court business plan?

11 A I do recall an out-of-court business plan  
12 being produced and presented in the first part of  
13 September of '04. I don't recall if there were  
14 earlier versions or discussions prior to that time.

15 Q And you do not recall that ALPA  
16 repeatedly, through the summer of '04, was asking  
17 the company to produce a business plan so that it  
18 could evaluate the need for any additional cuts?

19 A It's entirely possible those requests were

20 made. They certainly weren't made to me, and it  
21 wouldn't have been my area to receive the requests.  
22 I mean, I recall in '04, the summer of '04, working

1 on that and taking a couple months to finish it.

2 But I can't recall at what point in time the

3 requests started.

4 Q Do you recall when in '04 the internal

5 company debate or discussions about whether to

6 pursue an out-of-court or in-court strategy took

7 place? It was an iterative process?

8 A I think it took several months to look at,

9 sure.

10 Q And was there a contemporaneous internal

11 management strategy direction discussion that was

12 going on?

13 A Yeah.

14 Q And does it help refresh your recollection

15 that it was the company's determination to pursue

16 this strategic direction enterprise with retreats

17 and what have you before it confronted the decision

18 as to whether to pursue an out-of-court or in-court

19 business plan?

20     A   There was a strategic review that started  
21 in the first part of '04, when the change in CEO was  
22 made. And it took, I think, roughly 90 days to

1 complete.

2 Q And do you recall whether or not ALPA said  
3 how do you expect us to deal with your request for  
4 cuts, unless and until, A, you decide whether you're  
5 going in court or out of court and, B, show us a  
6 business plan that reflects that decision?

7 A I wasn't privy that I can recall to those  
8 conversations.

9 Q And isn't it clear to you that if they  
10 didn't say that, they should have?

11 A I would expect that request to have been  
12 made, yeah. It just wasn't made to me.

13 Q Well, to the extent -- let's make an  
14 assumption. Let's make an assumption that the  
15 request was made and wasn't granted until September  
16 of '04, so that it wasn't until September of '04  
17 that ALPA understood --

18 MR. GALLAGHER: Mr. Chairman, I'm going to  
19 object to rank speculation. If Mr. Simon has a

20 witness who can testify to these facts, so be it.

21 But he's trying to get this witness to suppose or

22 acknowledge an assumption, and I don't think that's

1 appropriate.

2 MR. SIMON: Well, we have been making the  
3 assumption, which it seems to me any damn fool would  
4 make, so the next question is, given that  
5 assumption, whether anyone in their right mind would  
6 proceed to discuss concessions until the necessary  
7 predicate had been provided.

8 Now, that may be rank speculation, but I'd  
9 suggest to you, it's also common sense.

10 MR. GALLAGHER: It all depends on labels,  
11 Mr. Chairman. When thousands and thousands of pages  
12 of financial documents have been provided and they  
13 ask for one more, is that the --

14 MR. SIMON: Oh, please, Jack.

15 MR. GALLAGHER: Is that the linchpin?

16 MR. SIMON: Oh, please. There was no more  
17 critical decision for this company, as this witness  
18 knows, because he left because of a wrong decision  
19 was made, and he knows it, and he argued against it,

20 he left because a wrong decision was made. Until  
21 that decision was made, right or wrong, what union  
22 responsibly, owing an obligation to its members,

1 would dare sit down and talk about concessions until  
2 they knew what the hell the business plan was and  
3 whether they were dealing with a company in or out  
4 of bankruptcy? Please.

5 MR. GALLAGHER: Objection.

6 MR. BLOCH: I think we get the drift of  
7 your yes.

8 (Laughter.)

9 MR. BLOCH: Do we really need an answer  
10 from the witness?

11 MR. SIMON: No.

12 MR. GALLAGHER: But, Mr. Chairman, there  
13 was an inference there, not just an inference, an  
14 overt statement about Mr. Bastian's reasons for  
15 departure, and I would insist -- and I will tell you  
16 now if you don't, I will, ask the witness if that's  
17 a correct assertion.

18 BY MR. SIMON:

19 Q Is that a correct assertion, Mr. Bastian,

20 in whole or in part?

21 A There were a lot of reasons I left.

22 Q I'm content with that answer. You want to

1 take it further, Jack, you go right ahead.

2 (Laughter.)

3 THE WITNESS: 50 percent pay increase  
4 helped.

5 MR. SIMON: I realize we said we were  
6 going to quit at 5:30. I have another area that's  
7 going to take -- go beyond that. I would suggest it  
8 may make more sense to quite right now.

9 MR. GALLAGHER: Well, we do have time  
10 pressures, Mr. Chairman.

11 MR. SIMON: I don't think we have time  
12 pressures. We will accommodate -- we will  
13 accommodate Mr. Coleman, as we accommodated  
14 Mr. Kasper, and make whatever adjustments we have to  
15 make, so that he can get on and off tomorrow.

16 MR. GALLAGHER: We would prefer to run to  
17 the scheduled time. But obviously, we're at the  
18 disposal -- discretion of the board.

19 MR. BLOCH: Well, is Mr. Coleman prepared

20 to take the stand first thing in the morning?

21 MR. GALLAGHER: Yes.

22 MR. BLOCH: All right. Let's do that.

1 We'll recess now. And my understanding is we're  
2 beginning at 10:00 tomorrow morning. Thank you very  
3 much.

4 MR. SIMON: Thank you.

5 (Whereupon, at 5:09 p.m., the hearing was  
6 adjourned, to be reconvened at 10:00 a.m., on  
7 Wednesday, March 15, 2006.)

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1                    C O N T E N T S

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4 WITNESS                    D I R E C T   C R O S S   R E D I R E C T   R E C R O S S

5 E D W A R D   B A S T I A N

6    by Mr. Gallagher    288

7    by Mr. Simon            454

8

9

10                    E X H I B I T S

11

12    N U M B E R                    I D E N T I F I E D    R E C E I V E D

13    Company Exhibit 90            291        454

14    Company Exhibit 91            452        454

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