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

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In re: :
Delta Air Lines, Inc. :
and :
Air Line Pilots Association :
International :
- - - - - - - - - - - - - - - - x

Washington, DC
Tuesday, March 21, 2006

REPORTED BY:
CARMEN SMITH

Arbitration on Tuesday, March 21, 2006, in Washington, DC, at The Grand Hyatt, 1000 H Street Northwest, Washington, DC 20001, at 9:47 a.m., before CARMEN SMITH, a Notary Public within and for the District of Columbia, when were present on behalf of the respective parties:

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P R O C E E D I N G S

MR. BLOCH: Mr. Simon?

MR. SIMON: Two preliminary matters just to make sure we're all on the same page. We were both informed, and I believe the panel was as well, that notwithstanding our understanding that the confidential portions of the transcript would be isolated, in fact, they were not.

ALPA has stopped the transmission of the transcript onto the net as it usually does it, so that the confidential testimony of Friday and yesterday have not gone out. I don't know that anyone else has taken the transcript on the assumption that the confidential material was excluded.

But just to report, and I believe the reporter has now worked out a new protocol so that the confidential material will be not included in a stream of pagination, so there would be a block of pages, if there are any confidential information going forward.

The second matter is one of the fine

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manifestations of Murphy's law, particularly with regard to pension material. We discovered last night that our Exhibit 49-B was itself flawed, and so that we are in the process -- we have informed Mr. Gallagher of this. We had this discussion with him before the hearing this morning.

We are in the process of having yet another iteration of 49 -- Exhibit 49 entered, it will be C. We've given Mr. Gallagher the information. He's vetting it now.

Rather than tender it now, I thought, given our prior experience, we'd wait for Mr. Gallagher to have an opportunity to vet it. We believe it will not change either the substance or the message or the material that was designed to be presented, but we'll attach it to the right human being.

The problem with iteration number B was that there was confusion between the date of hire and pension credit because the individual had come over from Pan Am, more than either you or I suspect anyone else in the room wants to know about

actuarial ledger domain.

With that, we are ready to proceed.

MR. BLOCH: Thank you, Mr. Simon. We will maintain your credibility until you get to 49-L.

(Laughter.)

MR. SIMON: Robin said there are 26 letters to the alphabet.

MR. DECHIARA: The Air Line Pilots Association calls as its next witness Ms. Ana McAhron-Schulz.

Whereupon,

ANA MCAHRON-SCHULZ

was called as a witness and, having first been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. DECHIARA:

Q By whom are you employed?

A Air Line Pilots Association International.

Q What is your position?

A Director of ALPA's economic and financial analysis department.

Q And how long have you worked for ALPA?

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A It will be 20 years in July.

Q Can you describe your educational background?

A I have a BA in international studies in economics and an MBA from the American University in Washington, D.C.

Q What is the function of ALPA's economic and financial analysis department?

A We provide support to our negotiating committees on everything that has to do with the economic portions of negotiating a new contract. The analysis comes in various forms, including analyzing the ability to pay, analyzing the value of various proposals, and providing general industry analysis.

Q What are your job responsibilities?

A Well, as director of the department, I oversee that, to make sure that we provide all the support to our negotiating committees, that they are properly staffed, in addition to working on some negotiations myself, and then I work on general association issues, like -- involving various other

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things like IFALPA or any other type of issue.

Q Have you been involved in ALPA's negotiations with Delta?

A I have.

Q And when did you first start working on Delta issues?

A I first started working on Delta negotiations back in 1992.

Q Okay. Were you involved in the negotiation of the 2004 pilot concessionary package?

A I was.

Q And have you been involved in the 1113 negotiations?

A I have been, yes.

Q Let me draw your attention to the 2001 pilot working agreement, sometimes referred to as

contract 2000. Are you familiar with that?
A Yes.
Q Are there any provisions or were there any provisions in that contract that provided for the company to give ALPA periodic financial presentations?

A Yes, one of the provisions was for us to have quarterly meetings, along with ALPA pilot representatives and my department, have quarterly meetings with senior management of Delta to review not only financial results but also projections and generally their business plan.
Q Did there come a point during the term of the 2001 pilot working agreement that the company sought concessions from the pilots?
A Yes. The Delta pilots were first approached for concessions in the spring of 2003.
Q Okay. And along with that request for concessions, did the company at that time provide ALPA with financial projections?
A Yes, as part of our process, when a company claims an inability to pay, we have a three-step process that begins with an analysis of the business plan to determine whether there is a need for concessions and whether it's part of a

viable business plan that will carry the airline
forward.

We did request a significant amount of

information from the company. We received their projections at that time, and we analyzed that.

Q Do you recall what those projections showed?

A Yes, what they provided us in the spring and into early summer of 2003 showed that the company would be breaking even in 2004 and return to profitability by 2005. And obviously, that did not require the level of concessions that they were seeking at that time.

Q Who is Delta's current CEO?

A Gerald Grinstein.

Q When did Mr. Grinstein take office?

A It was late 2004, early 2005.

Q Late 2004?

A Yes. I'm sorry, 2003, early 2004.

Q Did the company's position regarding the concessions or the negotiations change after Mr. Grinstein took office?

A Well, we -- they did. We had -- through part of our negotiations and our discussions with the company, we had stated that their results did

not show the need for the level of concessions they were requiring. When Mr. Grinstein took over, he initiated what was called a strategic review to develop a whole new business plan for the company.
Q And how did you know about that strategic review?
A Well, it was not only publicly announced, but it was also explained to ALPA representatives.
Q Okay. Did the company actually make a presentation at some point to ALPA of its strategic review?
A Yes, we received that presentation in terms of the process, it was in June of 2004 that they presented to us what they were doing at that time.
Q Okay. And were you present to hear that presentation?
A I was.
Q Okay. And who -- did the company bring in any outside help in formulating the strategic review?
A Yes, it was a combination of, I guess,

groups that were involved. Besides several company people, they hired McKenzie Consulting, who has done work for Delta in the past, and they also hired -- I think he was a Harvard Business School professor, Carl Sloane, to oversee that whole process.

Q And in this presentation in June 2004, to what extent did the company explain what it believed were the structural challenges that it was facing in the industry?

A I guess the goal of the whole strategic review was to develop a business plan for Delta, to bring Delta forward and be able to compete successfully in the industry. Part of the process was to identify what challenges they faced in the industry and what Delta itself needed to do to meet those challenges and become a viable competitor.

And in the presentation to us in June of 2004, they identified several challenges that they were facing or they felt that included increased competition from the low-cost carriers, the decline in yields in revenue for the industry and their cost -- relative cost structure vis-a-vis what other

carriers were undergoing at that time.

And their goal in June had been to identify what those challenges were and then to develop a plan that would meet those challenges and carry the airline forward.

Q And did the company at some point after that June 2004 presentation present ALPA with a business plan?

A Yes, they did.

Q Okay. I'd like to show you a document I will ask to have marked as ALPA Exhibit 51.

(ALPA Exhibit 51 identified.)

MR. SPAN: Mr. Chairman, we're just taking a moment, if we might, to review the document to see whether there's anything that might be considered confidential.

MR. BLOCH: Surely.

BY MR. DECHIARA:

Q Can you identify what's been marked as ALPA Exhibit 51?

A Yes, that's the Delta Air Lines five-year plan that they presented to us in September of 2004,

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and this was a plan that resulted from their strategic review that they had initiated and undertaken in early -- in the first half of 2004.

Q Okay. Is this five-year plan that's been marked as ALPA Exhibit 51, is it your understanding that this is what the company has referred to in its papers as the 2004, five-year, $5 billion transformation plan?
A Yes, it is.
Q What is your understanding about whether and to what extent this five-year business plan that was presented in September 2004 was intended by the company to address the structural challenges it was facing in the industry?
A That was the whole purpose. After going through the strategic review and identifying what challenges they faced, this was their answer to those challenges. And the $5 billion plan was to place Delta in a competitive position in the industry. And that included the pilots' participation in it as well.
Q And how much, under this five-year

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business plan, was the company seeking in concessions from the pilots?
A A billion dollars a year, $5 billion for the five years.
Q And how much did the pilots agree to give the company in concessions?

A That same amount, a billion dollars a year for five years.
Q 100 percent of the ask?
A Yes.
Q And you testified that this was presented in September 2004 to ALPA?
A That's correct.
Q And when did the pilots enter into a tentative agreement to provide that level of concessions?
A Well, negotiations picked up considerably after this, and we reached a tentative agreement in late October. That agreement was ratified on November 11 of 2004.
Q Between the time that ALPA entered into letter of agreement 46 -- and letter of agreement 46

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is the concessionary package that you just testified to?
A Yes.
Q Okay. So between the time that ALPA entered into letter of agreement 46 and the following summer, the summer of 2005, did you attend periodic presentations by the company regarding its financial conditions?

A Yes, we continued to have the regular meetings as per the contractual requirement, and given the significant investment we made in the airline, we wanted to see the progress of the plan.

Q And what was the progress, if any, that the company reported regarding its ability to achieve the goals it set forth in the five-year business plan?

A Well, in the first quarter the meetings we had with the company, we did meet with their senior management, which included their CFO at the time, Michael Palumbo, included representatives from the labor relations department, Scott Kruse, Geri Carolan and others, and other people from their

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financial planning or their comptroller, I believe -- I don't remember what his title was.

But what we were told during that time was that the five-year business plan was on track except for fuel, so that they were accomplishing everything they had set out to do. The only offset was fuel.

Q And in that same time frame, between the fall of 2004 and the summer of 2005, in those presentations that you attended, to what extent did the company discuss problems such as -- that it cited earlier, such as low-cost carriers or declining yields?

A No, they didn't discuss those at all.

Q Okay. Did there come a point in time when the company told you that it was considering filing for bankruptcy?

A Yes.

Q And when did it make that -- did it say that?

A Yes, leading up to the summer, part of the discussions in terms of the plan being on track except for fuel, part of the discussions we had was

that the company was pursuing what they call some liquidity initiatives to generate additional liquidity to weather, I guess, the fuel cost increase.

In July, it was shortly -- two days after Ed Bastian took over, and he testified to that, was the first time we heard that the initiatives were not working out as planned, and the company was considering a Chapter 11 filing.

Q And who from the company made that statement?

A Ed Bastian, who was the new CFO.

Q Okay. And what, if anything, did

Mr. Bastian at that time, in July of 2005, say were the problems that might cause the company to file for bankruptcy?

A It really stemmed around liquidity. They had not been able to achieve some of the liquidity initiatives they were looking at, and the cash was being burned by higher fuel costs, so they needed to look at other options.

MR. DECHIARA: I would move the admission

of ALPA Exhibit 51.

MR. GALLAGHER: No objection.

MR. BLOCH: Thank you.

(ALPA Exhibit 51 received.)

BY MR. DECHIARA:

Q Did you prepare a set of slides for your testimony here today?

A I did.

Q I've distributed a deck of slides which I will mark as ALPA Exhibit 52.

(ALPA Exhibit 52 identified.)

BY MR. DECHIARA:

Q Are these the slides that you prepared for today's testimony?

A Yes, they are.

Q In Mr. Bastian's presentation to this

panel last week, he stated in his slides that Delta is -- let me backtrack. Let me ask you first to turn to the first slide and tell us what that shows.

A Okay. The first slide really shows who Delta's largest competitors are in the industry. We've looked, there's been a lot of discussion who

the competitors really are. And we believe Delta's largest competitors are the other network carriers.

This slide shows what you called a percent overlap in origin and destination revenue in competitive markets, and it's for the year ending September 30, 2005.

And by competitive markets, we look at markets where the other airline has at least 5 percent of the combined Delta and airline revenue for any origin and destination market there. And we use 5 percent because anything less than 5 percent would not be significant, both in terms of frequency or presence in that market, but also in terms of having an effect on fares in that market.

And you will see from the slide that the largest competitors of Delta are really the other network carriers, American, United, USAirways and America West combined, Continental and Northwest.

All these carriers have -- American has almost 60 percent, in terms of overlap, and all the other carriers are close to 50 percent, as opposed to the low-cost carriers, Air Tran, Southwest and JetBlue,

which have very small percentage overlap in those -- in terms of revenue in those competitive markets, Air Tran with about 18 percent, Southwest at less than that, and JetBlue at under 10 percent.

Q Okay. Mr. Bastian testified in his presentation that Delta is uniquely impacted, and I think those were his exact words from his slides, by low-cost carrier competition. Would you agree with that statement?

A No, I won't. I don't, actually. I think that other carriers have significant more competition with the low-cost carriers.

Q Okay. Let's turn to the second slide on your presentation, and if you could tell us what that shows.

A One of the big differences in terms of the competitive overlap is that the previous page showed system overlap, in terms of origin and destination revenue, because the network carriers all have large international operations as opposed to the LCCs, which are only domestic.

So the second slide shows the competitive

overlap with LCCs. And you see there that this is percent of carriers domestic O and D passengers, in LCC competitive markets, for the same time period. And you see here that United, USAirways and America West, Continental and American all have over 75 percent of domestic overlap, competitive overlap, with the LCCs. Delta's are lower than that, with 64.6 percent, and only Northwest is slightly below that.

Q And I see in the footnote you use a 5 percent share of market threshold. Can you explain that, why you did that?

A Yes. For the same reason we did in the previous page, anything less than 5 percent is not meaningful, both in terms of presence and in terms of having an effect on the prices in those markets, or the fares set in those markets.

Q Okay. If you could turn to your third slide. Can you tell us what that shows?

A This adds to the point about the difference between network carriers and the low-cost carriers. And a lot of it really has to do with their network and what they offer a passenger. A lot -- a big portion of it is international capacity. This particular slide shows that Delta has the greatest transatlantic capacity of any U.S. airline. For 2005 they had almost 12 billion ASMs outbound, versus a little less, American had 11.8, United 9.6, Continental 9.5, Northwest 6. And USAirways was at the other end of the spectrum at 4.3.

The low-cost carriers don't appear here because they don't have any transatlantic capacity.

Q So to what extent on these transatlantic routes does Delta face low-cost carrier competition?

A None.

Q Without revealing any specific numbers from the company's current five-year projections, can you tell us -- can you describe for us your understanding of the company's plans regarding international flying?

A Yes. The company is pursuing significant additional growth in international capacity, and by the end of their plan year, by the end of 2009, they

will have attained a significant amount of
transatlantic capacity, further differentiating
themselves from the LCCs.
Q Okay. Are LCCs a new phenomenon in the
industry?
A No, they have been around for a long time.
Q Were they a substantial presence in the
late 1990s?
A Yes, they were.
Q And do you have any knowledge of how Delta
performed financially in the late 1990s?
A They recorded -- they had record profits.
Q If you could turn to the fourth slide.
What does the fourth slide show us?
A Well, this shows where Delta's total CASM,
excluding fuel, is among the network carriers. And
we've heard a lot of testimony about the need to be
cost competitive in the industry.
What this CASM ex-fuel which is for the
third quarter of 2005, stage length adjusted, shows
that Delta among the network carriers already has
the second lowest CASM ex fuel. All the other

carriers, beginning with Continental at 8.12, United
at 8.08, American at 7.95, are much higher than
Delta, which comes in at 6.85.

We have two numbers there for Northwest. One was Northwest as it was in the third quarter, and that was 7.85, and then it was adjusted to 7.52 for the interim agreement that they reached in the fall. And USAirways is slightly below Delta in terms of CASM at 6.65.

Q Okay. The red bar, the figure for Delta, does that include any of the pilot concessions that Delta is currently seeking?

A No, this was in the third quarter, so it was before any -- obviously no concessions had been negotiated. But then the cost reductions were implemented.

Q I'm sorry?

A Before any cost reductions were implemented.

Q To what extent, if you know, have the other carriers that are listed here on this chart, to what extent have they gone through a

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reorganization process?

A Most of these carriers have already gone through restructuring. Continental undertook several efforts, some were nonlabor cost related, some were cost related, and those were finalized with most of their unions in March of last year. So a year ago, United, of course, exited bankruptcy in February, and they went through their restructuring. American went through a restructuring in 2003. Northwest is the only one that is still pending in terms of -- and USAirways and America West. USAirways went through two bankruptcies and now merged with America West.

Q In your mind, what's the significance of the fact that these other carriers have already gone through a reorganization processes?

A Well, this really shows that Delta has been very successful with their 2004 business plan, in terms of achieving already one of the lowest CASMs among the network carriers, and very close to USAirways.

Q Given these other carriers have gone

through reorganization processes, to what extent can we expect that they will have substantial reductions in their overall CASM?

A At this point it's not expected that they will have any changes. The only one, as I mentioned, is Northwest at this point. But they have already achieved their sort of goal in terms of a cost structure.

MR. BLOCH: Could I just inquire? I just want to back up just a bit, just make sure that I'm following the line here.

You have identified what you believe to be the more, I suppose, effective competitors, if I understand your testimony, based on their presence in the market; is that correct?

THE WITNESS: It's based on their presence in the market in terms of competition and also in terms of where they serve. I've differentiated the network carriers because they are unique in the sense that all of them serve -- fly internationally and have extensive international operations, they have multiclass -- multitypes of aircraft to provide

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for those passengers and those different routes.

They offer a lot more amenities, they're part of global alliances. So all of that differentiates them from the LCCs.

MR. BLOCH: And by extension, I take it what you're saying is that the company's business plan is misguided in terms of its having identified the low-cost carriers as being a meaningful challenge? Is that accurate?

THE WITNESS: Well, I'm not going to call it misguided, but I'm just saying that Delta should be considered as a network carrier, not as a low-cost carrier, because of its unique operation, and that they should really focus on competing with -- while the low-cost carriers are competitors on certain routes, their largest competition are the network carriers.

MR. BLOCH: All right. We'll pursue this.

Please continue.

BY MR. DECHIARA:

Q Just to follow up on the chairman's question, to what extent, in your mind or in your

understanding, did the 2004 transformation plan position Delta to face industry challenges such as low-cost carriers?

A Their strategic review identified the growth of the LCCs in the industry, and their goal was to become competitive, I guess, within the whole marketplace, including the LCCs. So part of that five-year plan that we just put in as an exhibit was to address that competitive position, both through their cost structure as well as through other revenue -- revenue enhancements they were doing at that time.

MR. BLOCH: Well, was that a good idea or a bad idea?

THE WITNESS: No, we -- that's the plan we signed onto, so we thought it was a good idea that they needed to be competitive in the industry. And they had recognized where their position was, and they believed that plan was to address and keep them viable and competitive in the marketplace.

But I guess I'm differentiating them from the LCCs because I don't consider Delta a low-cost

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carrier. And there's always a discussion about how network carriers should have LCC costs in the industry, and it just -- the structure of those airlines at the network carriers does not allow them to have or be exactly like an LCC, because of the uniqueness of their operation.

MR. BLOCH: Okay. I was just picking up, I thought you had said earlier that you differed with Mr. Bastian's assessment of where the competition lay; is that right?

THE WITNESS: Yeah, I think the biggest competitors for Delta are the other network carriers, because they provide the same level of service, the same type of operation. And so what you're looking at, how to compete, that's what they

should look at.
MR. BLOCH: All right.
BY MR. DECHIARA:
Q And to what extent relative to its network -- other network carrier competitors does Delta face low-cost carrier competition?
A They faced less, as described in slide 3,

I think it was, or 2. They faced less competitive overlap in the domestic market than the other network carriers.
Q So their exposure to that competition is relatively less?
A It's less than the others, yes.
Q Okay. Given what we see on page 4, the total CASM slide, what's your view of the extent to which Delta already has competitive overall unit costs?
A Well, slide 5 shows the significance -- the success, I guess, of the five-year plan that was implemented in 2004, when between the third quarter of 2004 and the third quarter of 2005, Delta's total CASM declined by over 17 percent, versus the industry average of 5 percent. That's a huge number, in terms of total cost reductions. And it shows that they did much better than the rest of the

industry.

Q So slide 5 shows the rate -- the relative rate of the decline of Delta's costs?

A Right. And then slide 4 shows the

competitive position in terms of where they are versus their other prime competitors.

Q Okay. And focusing on slide 4, what's your understanding, based on slide 4, of whether Delta already has competitive overall unit costs?

A Well, my view, given that all these other carriers for the most part have completed restructuring, Delta has already achieved very competitive costs in the industry and has achieved that goal.

Q Okay. Let's now turn to slide 6. And if you can tell us what this slide shows.

MR. HARRIS: I'm sorry, we're skipping 5?

MR. DECHIARA: No, I believe we've had testimony on 5. If you could just repeat for the panel what it is we see in slide 5.

THE WITNESS: Yes. That slide 5 just shows how successful Delta has been in terms of numbers with their 2004 business plan. Quarter over quarter, third quarter '05 versus third quarter '04 shows CASM ex fuel decline of over 17 percent versus a 5 percent decline for the industry average.

BY MR. DECHIARA:

Q So what does this show about the rate at which Delta is reducing its costs relative to the rest of the industry?

A Oh, significant.

Q Okay. Turning now to slide 6. Can you tell us what this shows?

A This is a comparison of the company proposal versus the ALPA proposal, in terms of CASM ex-fuel for 2007. And it shows the company proposal would put --

Q Let me just stop you. In case there are any concerns about confidentiality, the panel has --

A I won't read the numbers.

Q -- the numbers, but you can address the percentage difference, I think.

A I guess the basic difference between the company proposal and ALPA's proposal is that there is only a 2.2 percent difference in terms of where CASM will be in 2007.

Q Between what and what?

A Between the company's proposal and the company's projected CASM under their proposal and between our proposal. This was based on the company's projections for ASMs.

Q And that 2.2 percent difference between where the company would be in total CASM in 2007, under their proposal, versus under our proposal, can you put that in some context for us? How significant a difference is that?

A In our view, it's not a significant difference. I mean, it will still make them significantly competitive in the industry, and they will achieve sort of their continued goals of being cost competitive.

Q Okay. Well, let's look back at slide 4, the third quarter total CASM slide, and let's look at the bar for Delta.

A Yes. And you can see --

Q Let's assume --

A Without using any numbers, you can see there, if you look at where Delta was in the third quarter versus where they are, it's not going to change their relative position where they are today,

from where they were in the third quarter of '05.
Q If you took on slide 4 Delta's position and you varied it one way or the other by 2.2 percent, how much would that change Delta's relative position?
A It wouldn't change it at all.
MR. HOROWITZ: Counsel, without going into the numbers on slide 6, is there an order of magnitude in terms of dollars that this 2.2 difference represents? If it's confidential, I don't want the number now.
MR. DECHIARA: I don't know either whether it's confidential or what the number would be. I'd have to get back to you on that.
MR. HARRIS: I just figured it, and I told him.
MR. SPAN: I'd actually like to hear what you figured. Actually, I don't think that number would be confidential, the difference between the two in terms of dollar amounts.
MR. DECHIARA: That's fine, it's not confidential. But I still don't have the number,

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but we can get you that.
BY MR. DECHIARA:

Q Given your view that Delta already has low
overall unit costs, in your view, how significant
are the level of Delta's pilot unit costs?
A Well, pilot costs in general are only
about 8 to 10 percent of total operating costs, so
it would not have a significant impact on the total
unit cost.
Q Okay. Nonetheless, there has been a fair
amount of discussion in this hearing to date about
pilot unit costs, and we've heard one way to measure
it is through pilot CASM, another way is through
pilot cost per pilot block hour.
In your view, which is the more
appropriate measure, given this proceeding?
A I guess, given the company's current plan,
in my view, it should be pilot CASM. Their whole
goal is to be competitive on a CASM basis, and an
airline unit of production is an available seat
mile, not a block hour, but an available seat mile.
That's what they sell.

Their goal, as we just went through, is to
remain competitive on a CASM basis as well as on a
RASM basis. So my view, we should be looking at
pilot CASM and where -- and how competitive pilot
CASM is.

Q I think you testified earlier that you've been participating in the 1113 negotiations?
A Yes.
Q Did you attend last fall's bankruptcy court hearing?
A I did.
Q And did you hear the company's presentation at that hearing?
A I did.
Q And you've heard the company's presentations in the negotiations?
A Yes.
Q Okay. Since the company's bankruptcy filing in September of '05, when did you first see an analysis by the company of pilot cost per block hour?
A The first time we saw an analysis of pilot

cost per block hour was in the company's submissions for this particular proceeding that we're at now.
Q I'd like to show you an excerpt from the second declaration of Mr. Edward Bastian that was submitted to the bankruptcy court hearing, and that was also included in ALPA's exhibits to this panel. And it's ALPA Exhibit 13.

MR. BLOCH: That numbering is this proceeding's numbering, 13?

MR. DECHIARA: Yes. Yes.

MR. BLOCH: Thank you.

BY MR. DECHIARA:

Q Are you familiar with this document?

A Yes, I am.

Q Let me refer you to page 19 of this document, ALPA Exhibit 13. And there's a chart that appears on page 19. Do you see that?

A Yes.

Q Okay. And --

MR. GALLAGHER: If I may, my copy has pages missing. I don't know if that's true of all copies.

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MR. DECHIARA: It's excerpts. Obviously, the company -- it's the company's document, and you have the entire document. And for purposes of this line of questioning, I'm solely focusing on this one chart.

BY MR. DECHIARA:

Q First let me ask you, and perhaps it's obvious, is this analysis by the company an analysis of pilot CASM or an analysis of pilot cost per pilot block hour?

A Pilot CASM.

Q Okay. And what does this chart show, as far as you understand it?

A Well, this was pilot labor CASM stage length adjusted for the June 2005 quarter and shows, I guess, Delta's position and other carriers' position at that time. And then where Delta's goal was, in terms of what they were seeking from the pilots, where they were looking to position the pilots CASM.

Q We see that arrow from the first Delta bar, the third one on the left, to the other Delta

bar in the middle. Is that where Delta said it would end up with its section 1113 --

A Yes.

Q -- request?

A The second quarter of June 2005, Delta's pilot labor CASM was 1.05 cents. And in that proceeding, they were seeking 325 million from ALPA. And with that, they would be positioned at 0.82, right between United at 0.86 and higher than America West and Southwest at 0.81.

So it's a tad higher than America West and Southwest, in terms of pilot CASM.

Q Do you know whether this analysis on page 19 of Mr. Bastian's declaration takes into account the net savings from termination of the pilot pension plan?
A No, up to this proceeding, it was just 325 million.
Q Okay. Let me now turn your attention to page 7 of your slides and ask you whether or not you've done an analysis of where Delta's pilot CASM would end up if one took the company's proposal and

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included the net savings from termination of the pilot pension plan.
A Yes, I have. And this is a similar slide to the one we just saw. It's pilot CASM, in this case it's third quarter 2005, stage length adjusted. And we've adjusted it for various proposals. It starts out with American with the highest pilot CASM at 1.13 cents, Northwest as of the third quarter was at 1.12, and that was before their interim agreement, and then Delta came third at 1.03, followed by Continental, 0.9 cents, United 0.81 cents. Southwest was at 0.79 and USAirways at 0.70. At the other end of the spectrum, it was Air Tran, 0.63 and JetBlue at 0.59.
We've made various adjustments for the

proposals. Under the company's proposal, which is at 305, plus the termination of the defined benefit plan for the pilots, the Delta pilot CASM would now be at 5.64. That is below USAirways and America West and just one -- a tad higher than Air Tran, a little higher than JetBlue, which is at the far end of the spectrum, and which is way below what they

had thought they would achieve back in -- was not what they were looking to do back in November.

Q Does this chart, your slide 7, indicate where the company would wind up in terms of pilot CASM with ALPA's proposal?

A Yes. There's a couple of other lines here to note. We have put in here where Northwest would be with the tentative agreement they have with ALPA right now, and that would put them at .77.

Under ALPA's proposal, which includes the termination of the defined benefit plan, but receiving half the savings in return, it would put Delta's pilot CASM at .79, which is below United and at the same rate as Southwest, which, of course, is one of the premier LCC carriers.

Q And that .79 where your chart shows ALPA would be under its proposal -- I'm sorry, where this chart shows Delta would be in terms of pilot CASM under ALPA's proposal, can you compare that to where the company said it would be last fall when it gave its analysis of where it would end up in terms of pilot CASM with its proposal?

A It would actually be lower. When we were looking at the prior exhibit, we were looking at a pilot CASM target of 0.82. Now we're looking at 0.79.

And I guess I should note that the red bar just to the left of that is the company's 305 million proposal, absent termination of the defined benefit plan.

Q Okay. There's been a fair amount -- there was a fair amount of discussion in the company's papers about the Northwest tentative agreement. First of all, can you tell us how tentative that tentative agreement is?

A Yes. It's still very tentative. On Friday the Northwest MEC voted to send out the tentative agreement to membership for ratification but without an MEC recommendation. There will be road shows, the ballots will open April 6, and then the ballot for the ratification will not close until April 30.

Q Nonetheless, despite the fact that it's a tentative agreement, can you walk us through an

analysis -- the analysis that's set forth on page 8?

A I guess it's a couple of things to note about the difference between --

MR. SPAN: Excuse me, Mr. Chairman. If we're going to move on from 7, I do have a little bit of voir dire on 7, and it might be useful to do it right now while we have that slide in mind.

MR. DECHIARA: Mr. Chairman, my understanding is that typically, voir dire is appropriate when the admission of a document is moved. We have not yet moved this admission.

I think it would help the flow if I went through the slide presentation and then counsel could raise any voir dire that he had at that time.

MR. BLOCH: I agree with Mr. DeChiara's observation, Mr. Span. Is there some particular reason why we should do voir dire now?

MR. SPAN: No, as long as I have the opportunity, I can wait.

MR. BLOCH: Certainly you will.

Please continue.

BY MR. DECHIARA:

Q Let's turn to slide 8. And if you could walk us through the points that you make there regarding Delta and the Northwest tentative agreement.

A I guess at this point, as we saw in the previous slide, that the company's proposal would reduce Delta's pilot CASM below the level of Northwest's tentative agreement. We saw that the pilots' CASM -- that Delta proposal would reduce pilot CASM to 0.64 cents versus the Northwest TA at 0.77 cents.

But a couple differences to note. One is regarding the status with the defined benefit plan. Delta is assuming in their proposal the termination of the defined benefit plan by January 1 of 2007. The Northwest DB plan has not been terminated, it's been frozen. So that's one difference.

In addition, before the bankruptcies, as you know, both Northwest and Delta filed for bankruptcy on the same day. Before the bankruptcy, both pilot groups did do concessions. However, the Delta pilots gave a comprehensive five-year deal worth a billion dollars a year. That was their participation. The Northwest pilot agreement was what was called a two-year bridge agreement, and that was worth about $250 million a year.

In addition, when Delta filed for bankruptcy, they were successful in obtaining debtor-in-possession financing, a significant amount, and Northwest is unable to obtain any kind of DIP financing because of its lack -- it does not have any unencumbered assets, so they're burning cash quicker.

Q Okay. We've talked about costs. Let's turn to the revenue side. If you could turn your attention to slide 9 and tell us what that shows regarding Delta's revenue.

A Well, we heard testimony regarding RASM, or revenue per ASM. And this shows that Delta has a significant revenue premium versus low-cost carriers, in terms of the revenue they generate per their available seat mile.

Q Why is it that a network carrier would have a revenue premium over a low-cost carrier?

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A Well, some of what I've mentioned earlier. It's the difference in their system, in terms of the network that they have, both domestic and international, their participation in global alliances. They offer more classes of service, more amenities, so then they can generate higher fares on certain markets and obtain higher revenue.

This slide is for the third quarter of 2005. It's length of haul adjusted, which measures more on the revenue side. And you see here the RASM for Delta versus the other low-cost carriers. And Delta, you see, has a 24 percent -- 24.2 percent RASM premium over the LCC average.

Q And we've heard some testimony about how Delta shares a hub in Atlanta with Air Tran. What's Delta's revenue premium over Air Tran?

A Over Air Tran, Delta's revenue is -- RASM was 9.58. Air Tran is 7.37 for premium of over 30 percent.

Q Have you had an opportunity --

MR. HARRIS: Can I just interrupt to ask one question here?

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MR. DECHIARA: Sure.

MR. HARRIS: Ana, do you have any figures or do you know of any figures of what other carriers' difference in RASM is between them --

THE WITNESS: And the low-cost carriers?
MR. HARRIS: -- and the low-cost carriers?
THE WITNESS: They would be at least this amount, if not higher, some of them. I don't know the figures, but I can get those for you.
MR. HARRIS: I'm under the impression that at least some business plans are considerably lower than the 24 percent.
THE WITNESS: We can look at the break and get those to you.
MR. HARRIS: That's fine, thank you.
BY MR. DECHIARA:
Q Have you had an opportunity to look at the general outlook going forward for the airline industry?
A Yes, I have. There has been a lot of discussion, and I guess we can turn to slide 10.
Q Okay. And before we get into the details,

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what's the general picture?
A There's a lot of talk about when the industry is going to turn around. Fortunately, we're going to see trends of that happening. We see that we're back to pre-9/11 capacity and traffic levels. In fact, on the capacity side, we're actually seeing a little more discipline, in terms

of that.

The projection for this year is that capacity is actually going to decline about 1 percent, that LCCs continue to grow, but they're growing at a smaller rate than they did in the past couple of years.

On the traffic or passenger side, the projections right now is for about 7 percent industry growth year over year for both '06 and '07.

And after the loss that the industry has been experiencing, the outlook right now is to break even this year and to hopefully achieve 2 billion in pretax profits by next year.

Q Okay. Let's turn to the next slide, slide 11. And if you could tell us what that shows us

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about the trend in revenues for the industry.

MR. BLOCH: Before we get into that, Mr. DeChiara, why don't we just take a brief break, okay? Take 10 minutes.

(Recess at 10:40 a.m. until 10:57 a.m.)

MR. BLOCH: Mr. DeChiara, on the record, I want to apologize for mispronouncing your name. You would think with Bloch and a hard C-H I would have known.

(Laughter.)

MR. DECHIARA: No apologies needed. You're not the first one to mispronounce my name.

BY MR. DECHIARA:

Q I think before the break we were discussing slide 11, entitled "revenue has been trending upward." Could you describe what that slide shows for us?

A Yes. We were talking about the improvements in the industry and the fact that we are seeing things turn around. Slide 11 shows this upward trend in revenue. It's industry system passenger revenue per available seat mile for the

last two years and then beginning of 2006. And it shows this improvement that we are seeing in the industry. In 2004, January of 2004, industry PRASM, system PRASM, was at 8.12, and you can see there what it did throughout the year, ended up pretty much where it began. That's the red line.

And then in 2005, January of 2005, industry PRASM was at 8.19, and you can see that it trended higher year-over-year than 2004. And then by January of 2006, industry PRASM is at 9 cents, so that's almost 10 percent higher than it was last year.

Q Do you know -- it's not on this chart. Do you know what the year-over-year percent increase is for February of '06?

A Yes. In fact, it just came out last night/this morning. Industry --

Q What's the source for that information?

A Various reports, the ATA, and then other Wall Street analysts including Merrill Lynch and Jamie Baker and others have reported it. But the RASM improvement systemwide year-over-year was 15

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percent.

Q How significant is that?

A That just shows how well the industry is doing in term of revenue, and we are seeing this sort of upward trend.

Q Those industry reports that just came out last night or this morning, did they contain any February year-over-year figures for domestic RASM increase?

A Yes. If I recall correctly, the domestic RASM was increased year-over-year. For February it was close to a 19 percent improvement.

Q And did the industry reports indicate when the last time there was such an increase of that

magnitude?
A According to Merrill Lynch, this was the
faster growing year-over-year change in 25 years.
Q Okay. Let's turn to the slide 12, the one
that -- the slide entitled "yield has been trending
upward." First of all, what is yield?
A Yield is revenue per revenue passenger
mile, so from the seats that are sold as opposed to

from any seat.
Q Is that a close proxy for ticket prices?
A Yes. And this shows on the yield side, it
again shows we've been seeing this improvement. And
again it shows for 2004, yield started at 11.62,
they did decline throughout the year, ending below
11 cents.
2005, which is the blue line, in January
of 2005, system yield was 11.04 cents, but it did
improve year-over-year, and then the green dot for
2006 shows yield was 7.7 percent higher than last
year, at 11.89 cents.
Q Do we now have the February numbers?
A I don't remember what the number is, but
the year-over-year improvement is something like 12
percent. So again, it's showing a big improvement
in industry performance.

Q Okay. Let's now turn to the issue of equity between pilots and nonpilots. And I'll ask you to describe what we see on slide 13.
A Slide 13 depicts the pay cuts that are being asked of the pilots and how that compares to

the nonpilots of Delta Air Lines. If you look at 2004 transformation plan, which is the viability plan we discussed earlier, the pilots' pay rate reduction was 32.5 percent versus a nonpilot pay rate reduction of 10 percent.
Under the company's current business plan and proposal, the pilots were being asked to take an additional 18 percent pay cut versus 9 percent for the nonpilots.
So the total pay cut that pilots will be experiencing since 2004 is almost 45 percent versus nonpilots of 18 percent.
Q Okay. Just perhaps to state the obvious, the first two columns, do they add up to the third column?
A No. This is compounded in terms of what it was before.
Q And what about the nonpilots?
A The same.

Q And what would be the -- if you can compare under the 2004 transformation plan pay cuts and the pay cuts under the company's current

business plan, can you compare the compound total pay cuts for the pilots versus the nonpilots, as set forth on slide 13?

A Yes. It's almost 45 percent for the pilots and 18 percent for the nonpilots.

Q Okay. Let's look at where some of those proposed -- or that proposed pilot pay cut would leave actual -- where that would put actual pilot pay rates. Can we turn to slide 14, and can you walk us through that?

A Yes. This shows where Delta's proposal would put pilot pay rates, in terms of the industry average. And we have 12-year captain hourly pay rates, top of scale pay rates, for various aircraft. Boeing 747, Boeing 767, Boeing 757 and the 777.

The first line is the average rate of the other carriers, and we looked at carriers that fly the same type -- the same equipment type. And those are identified below in footnote 1.

So, for example, 737 rate, the average of the other carriers is $157 an hour. The other carriers would be American, Continental, Southwest and USAirways.

Southwest would not be in any of the others since they don't fly any other aircraft type.

Under the 18 percent company proposal, in terms of pay reduction, the line items there would show that the Delta pay rate would be, in the case of the 737, it would be $142 an hour, and that is 9.6 percent below the industry average.

In the case of the Boeing 767, the pay reduction would be -- the new pay rate would be $148, and that's 9.4 percent below the industry average.

Q Could you put that --

MR. HARRIS: Can I just ask one quick question? This is average, not median?

THE WITNESS: Average, yes.

MR. HARRIS: Thank you.

BY MR. DECHIARA:

Q That $148 rate for the B-767, can you put that into some context for us?

A Yes. We went back to look, when a Delta pilot earned this rate. And the last time that this rate existed in the Delta contract, it was back in 1983, approximately, when a 12-year Delta captain on a 767, the rate at that time was $146.76. And, of course, the purchasing power of the dollar is half of what it used to be, half of what it was in 1983.

Q If I can ask you to turn to the next slide, slide 15, can you tell us what this shows?

A Yes, this is an index of pay for pilots and nonpilots in terms of growth since 1995. We indexed it back to 1995. This is earnings, and projected that to include 2005.

The blue line is nonpilot pay. And what this shows is if you go back to 1997, nonpilot pay has increased at 37.1 percent in the last 10 years, versus pilot pay has increased 23.9 percent through 2005 for the last -- for that 10-year period.

MR. HARRIS: Again, what is nonpilot pay? Who is nonpilot, in the definition that you're using?

THE WITNESS: It's all other labor categories at Delta Air Lines. So --

BY MR. DECHIARA:

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Q Maybe it would help if you could explain to us the source of the information and how this was derived.

A This is from the DOT data, form 41 data. And it breaks down labor costs. From the data you can extract pilot costs in particular, so we extracted pilot costs, and it's all other labor categories within the airline.

Q Did you take this analysis and extend it out to see what it would look like under the company's proposal?

A Yes, I did.

Q Is that what appears on the next page?

A Yes. And I won't reference the footnote, because it does contain some confidential information which the panel can see there.

But we projected this through 2010 based on the company's proposal, as well as their plans going forward for both -- in terms of pay increases for both the pilots and the nonpilots. And it shows that if you go back again to 1995 through 2010, nonpilot pay will have gone up 30.9 percent, whereas

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the pilot pay in those 15 years would only have gone up 4.7 percent.

Q Okay. Can I ask you to turn to page 17 and explain what we see there.

A This is in terms of the disproportionality of what the pilots are being asked to give versus what the nonpilots' piece has been. Similar to what we saw before, if you go back and look at the 2004 transformation plan, the pilots' annual concession was a billion dollars versus $413 million for nonpilot employees.

Under the current business plan, the company's current proposal is 305 million for the pilots, 605 million for nonpilot employees. So the total proposed combined concessions are $1,305,000,000 for the pilots and 1.18 billion for the nonpilots.

So a share of the combined concessions is that pilots are giving significantly more, they're being asked to give 56.2 percent of the total concessions versus 43.8 percent for the nonpilot employees.

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Q And that 56.2 percent for the pilot give, how does that compare to the pilot's share of total employee costs?

A It's a lot higher, in terms of pilot share of payroll -- or of labor cost is about 30 to 35 percent.

Q Did you do an analysis similar to what we see on page 17 but adding in expense savings from termination of pilot pension plan?
A Yes. Slide 18 shows that the pilot share becomes even more disproportionate when you include the termination of the defined benefit plan. The first column, again, has the transformation plan concessions, a billion for the pilots, 413 million for the nonpilots.
And then it has the company's current proposal, which is 292 million for the pilots versus 605 million.
However, as a result of the termination of the defined benefit plan, the company will achieve a significant expense savings, and we have put that in there, 118 million. And, of course, the nonpilot

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plan doesn't -- they're not contemplating terminating the defined benefit plan of all other employees.
So the total combined concessions are 1,410,000,000 for the pilots and 1.18 billion for the nonpilots. So the pilots' share of combined concessions will now go up to 58.1 percent versus 41.9 percent for the nonpilots.
Q Are you familiar with the profit-sharing

plan?

A Yes, I am.

Q When was the profit-sharing plan negotiated for the pilots?

A It was part of letter of agreement 46 that was negotiated in late October 2004.

Q And is it your understanding that the company is, as part of its section 1113 proposal, proposing an improvement in that plan for the pilots?

A Well, it's for all employees, yes.

Q And did you do an analysis of the extent of such an improvement?

A Yes, I did.

Q Can you show us that analysis on slide 19?

A Yes. This compares the profit-sharing plan, what it was contemplated under the current plan, which is the current contract, versus their 1113 proposal. Under the -- a big change, I guess, in the first couple of columns and really -- under the original plan, the company before any payout could take place, the company had to achieve a pretax income level of at least 500 million to 1.5 billion, and the payout would be a 10 percent, over

1.5 billion for 20 percent.

Under their 1113 proposal, payout is now on first dollars if they have anywhere between zero, I guess 1, and 500 million of pretax profits, the payout would now be 15 percent, and it would stay at 15 percent through 1.5 billion and then go to 20 percent on anything over 1.5 billion. Maximum possible improvement to employees there would be 125 million; for the pilots it would be 37.5 million.

Q 37.5 million would be the maximum possible payout for the pilots?

A Yes.

Q Okay. And there's a number there, I won't ask you to reveal it in case it contains confidential information, but there's a number there on the bottom line of under the company's current projections for 2007, what the pilots would receive under this profit-sharing plan.

Just order of magnitude, how does that number compare to the amount the pilots are being asked to give?

A Well, it's 1.3 billion, if you don't include the defined benefit plan, versus the number here, it's significantly different.

Q Significantly lower?

A Lower.

Q Okay. There have been some discussion in prior testimony by ALPA witnesses about benefits that were provided to Delta management officials, and we have some slides on those. If you could walk us through those slides.

A Sure. The first slide, 20, just summarizes a former CEO's retirement package, if you

will. 1996, when the Delta pilots agreed to a concessionary agreement, Ron Allen was the CEO. He retired the following year.

This slide lists the various benefits he retained, including a $500,000 per year consulting contract for eight years, a lump sum cash payment, that's severance payment, of $4.5 million, a pension of $765,000 per year. He received stock options, memberships to various clubs in Atlanta, a company car, a residential security system, and even had received legal fees to prepare his retirement agreement.

Q And so how much in legal fees did he receive to have this golden parachute prepared?

A It says here 210,000.

Q Can you tell us what the next slide shows?

A After 9/11, when the company was recording losses as a result, this shows another CEO's compensation in 2002. In 2002, the company's pretax loss was 1.59 billion. Leo Mullin, who was the CEO at that time, earned a salary of $795,000, but he also received a bonus of $1.4 million, for a total

compensation of $2,196,188.
Q And the next slide?
A In addition, during that time, the Delta management did set up what they called supplemental executive retirement plans for their top executives. It was for the top 33 executives, and this was at a cost of over $25 million. Those retirement plans were fully funded by 2004, which was the time that we negotiated the letter of agreement 46 for $5 billion.
Q Do you have any understanding of whether these special retirement plans will be affected by the bankruptcy filing?
A I understand they're not.
Q Let me just back up for a minute to slide 18. I may have misspoken -- I'm sorry, slide 19, the profit-sharing plan slide.
The last column, where the maximum indicates $37.5 million, is that the total possible

payout for the pilots or the total possible
payout -- improved payout?
A It's a total improvement.

Q Let me now turn to the last slide of your presentation, page 23. What is that about?
A Yes, this talks about -- this highlights the repurchase of common stock that Delta Air Lines undertook between 1996 and 2000. They spent almost $2.5 billion on repurchasing their common stock. This was money that they could have well used, come 9/11, in terms of liquidating and having that available. They used it in the repurchase of stock.
MR. DECHIARA: I move the admission of this slide deck, which has been marked as ALPA Exhibit 52.
MR. SPAN: Mr. Chairman, I will have some voir dire, as I indicated, on one of the slides, plus there are some questions I have about assumptions on some of the other slides. So I'd like to reserve my objection to the admission of this slide until after I finish my cross, actually.
MR. BLOCH: We'll mark it for identification at this point and rule on its admissibility when you finish doing that.

Does that complete your questioning of the

witness, Mr. DeChiara?
MR. DECHIARA: On direct it does, yes.
MR. BLOCH: Off the record for a moment, if we may.
(Discussion off the record.)
CROSS-EXAMINATION
BY MR. SPAN:
Q Good morning, Ms. McAhron-Schulz.
A Good morning.
Q I'd like you to look at slide 1 in Exhibit 52. I have a few questions on the assumptions you used in creating this slide.
First of all, is this a measure of domestic and international?
A This is system.
Q This is the entire system. And as you indicated earlier, the LCCs are not in the international markets; correct?
A Correct.
Q Now, what -- I'm not clear what the point of this slide is. Wouldn't you expect to see this type of relationship, just given the size of

these -- of the network carriers versus the LCCs?
A Well, Southwest is a pretty large carrier, in terms of fleet. So they could approximate some of these other network carriers. Basically, what this shows is that the -- differentiates the network carriers from the LCCs, as I stated earlier, and that they have larger operations, they have international operations and so on.
Q And, in fact, the network carriers on the slide are much larger, certainly, than -- in terms of size, capacity, passengers carried, any measure you want, certainly much larger than AirTran and JetBlue?
A Yes.
Q And so you would expect to see more overlap between those network carriers and Delta; correct?
A Yes.
Q Now, who sets the prices in markets where LCCs have at least a 5 percent presence?
A I think it varies by market.
Q Are you suggesting that the competition

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that Delta faces on price comes from network carriers rather than LCCs?

A I'm suggesting that the largest competition for Delta, in terms of revenue, is the network carriers, in terms of the overlap on O and D markets.

Q Right. But I want to ask the question about competition in terms of pricing and, if you want, the threat in the future and the current threat. Who poses the greatest threat to Delta's revenues? Is it the LCCs or the network carriers?

A I think it depends on the market. We just heard Delta actually implemented a fare increase that was matched by JetBlue in some of the markets, so it really depends on the particular market.

Q Now, what assumption did you make on slide 1 with respect to defining a market? Is that an airport, or did you include sister cities, for example, Baltimore/Washington airport in the same market as National Airport, or how did you define the markets?

A It's an origin and destination market, so

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we did not include sister cities in this.

Q Okay. So, for example, if Southwest was flying into Baltimore instead of National, you

wouldn't show it as competing with Delta in that particular market, if Delta were flying into National but not Baltimore?
A That's correct.
Q Wouldn't you agree that using that assumption understates the actual effect of LCC competition?
A I guess it depends, again, on the market.
Q Well, isn't it true that LCCs, as a pattern, very often, particularly Southwest, have used sister airports instead of the major city airports to compete with the network carriers?
A Well, Southwest has done that, but AirTran and JetBlue don't necessarily do that.
Q AirTran actually competes directly with Delta at the hub in Atlanta; correct?
A They both fly out of Atlanta, yes.
Q And you mentioned earlier that you didn't think that Delta was uniquely impacted by LCC

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competition; correct?
A I'm not sure those were my words.
Q Well, you were asked whether you agreed with Mr. Bastian's statement that Delta was uniquely impacted by LCC competition, and you said you disagreed.

A Well, I said they were not unique. I said that they had less exposure than some of the other carriers.

Q Is there any other network carrier that has an LCC carrier with a hub at the network carrier's principal hub?

A I know ATA has a big hub in Chicago.

Q ATA Airlines?

A Yes.

Q They still have a big hub in Chicago?

A Well, they had one. I don't know how big it is now.

Q Is there any network carrier -- and is that at -- let me ask you this. Is there any network carrier other than Delta that has an LCC with a hub at the network carrier's principal hub?

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A I'm not aware of any.

Q Now, isn't it true that the LCCs generally don't overlap with each other, they pick different markets?

A I think that was true in the past. I think we're beginning to see overlap beginning to pick up.

Q That certainly has been the pattern in the

past?
A It had been.
Q And so if you wanted to look at the effect of LCC competition on Delta, you could take the three bars, AirTran, Southwest and JetBlue, and stack them up, couldn't you?
A You could. You could also stack the others up, too, in terms of that.
Q Well, I'm asking you to -- in order to get a true picture of the LCC competition, you could stack those bars; correct?
A Yes, they were stacked -- they were identified as separate airlines here.
Q Because they don't overlap with each

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other, certainly, to the extent that the network carriers overlap with each other?
A Well, I know that it's beginning to change. I haven't looked at that particular piece.
Q Okay. Now, in slide 1, you're considering USAirways and America West to be a network carrier?
A Yes.
Q Not an LCC?
A That's correct.
Q Even though the combined USAirways and America West has announced the intention to operate

as an LCC?

A They have. But I think, for the reasons I stated earlier, USAirways is an international operator as well, so that's one of the criteria for network carrier, and they're part of the global alliance.

Q Okay. Let's look at slide 2, please. I notice that in slide 1, you used as your metric O and D revenue, and in slide 2 you used percentage of passengers. Is there some reason you used different metrics for these two slides?

A I just think passengers -- to show what we wanted -- what we were looking at, in terms of the competition for passengers.

Q Would the bars on slide 1 look any different if you used passengers as your metric rather than revenue?

A I don't know.

Q And conversely, would the bars on slide 2 look any different if you used revenue instead of passengers?

A I don't know.

Q And again, here in defining the markets, did you include sister airports?

A No.
Q So again, to the extent that Southwest, for example, uses sister airports rather than the major airport that Delta might use, you have understated the amount of overlap with LCCs; correct?
A If you were going to do an analysis like that, yes.
Q Now, have you looked at recent trends,

let's say, over the last two, three, four years, to see whether Delta's exposure to LCCs is growing at a faster rate than the other network carriers?
A We followed the industry. I'm not sure what you've mean, whether I've done an analysis for this? No, I haven't.
Q Well, do you have any view on that question?
A Well, I think the LCC carriers, and we've heard testimony, have been growing in industry and the exposure for the other network carriers has also been significant.
Q But do you know whether the Delta exposure to LCCs has grown over the last three years at a faster rate or slower rate than the exposure of the other network carriers to LCCs?

A I don't know.
Q But looking at slide 2, you conclude that Delta has less competitive overlap with LCCs than United, USAirways, Continental and American; correct?
A Yes.

Q And, again, you're not counting USAirways/America West as an LCC?
A No, I'm not.
Q And so one point I assume -- I guess we can take away from slide 2 is that Delta has more risk in the future to LCC expansion, because their current overlap is less; correct?
A No, I wouldn't agree with that.
Q Why not?
A Because Delta is pursuing to be more competitive under its current plan, so that doesn't mean the risk will be higher. It may mitigate some of that risk through their current revenue plans.
Q But certainly as a mathematical proposition, you'd agree that based on these numbers you're using, there's more room for growth in LCC overlap with Delta than there is with the other network carriers; correct?

A Well, there is probably some. I can't say how much.
Q As a mathematical proposition, can't you say exactly how much?

A Well, again, it depends on both carriers, both the LCC and Delta, what they're doing in the marketplace.
Q Now, you stated on direct that Delta faced LCC -- or that there was LCC competition in the market, I don't want to misstate this, so let me be sure I get it right. That there was LCC competition in the 1990s, and yet Delta had record profits in the late '90s. Is that an accurate reflection of what you stated on direct?
A Yes.
Q Wouldn't you agree that Delta's exposure to LCC competition has increased since the late '90s?
A I don't know if I would characterize it. I know that Delta was concerned about LCC competition, in particular Southwest, in the mid-1990s, and took steps to address how to compete with Southwest during that time. And they have continued to look at and they have taken steps to compete with the LCCs.

Q Were you here during the testimony of

Daniel Kasper?

A The direct testimony I was.

Q Did you see Exhibit 103 that Mr. Kasper presented? And I'll ask if we can get that put in front of you. Exhibit 103 shows that Delta's share of passengers, I believe, exposed to LCC competition has tripled since 1998. Am I reading that slide correctly?

A In Delta's largest 50 domestic markets. So it's in a certain number of markets, yes.

Q And do you have any quarrel with the analysis presented on that slide, Exhibit 103?

A Well, we'd have to do the same analysis to duplicate it. We haven't tried.

Q You haven't tried?

A No.

Q Okay. And back to the point on LCC expansion in the future, isn't it true that LCCs are moving now to thinner routes, as part of their growth?

A I can't say exactly thinner routes. They are growing.

1475

Q And JetBlue, for example, has announced plans and has already started plans to increase service in the northeast with smaller aircraft?
A Yes, they're getting another type of aircraft.
Q And has AirTran now acquired aircraft that can -- that will enable it to fly from Atlanta to the West Coast?
A I believe so.
Q Let's look at slide 3, please. Why did you select only the transatlantic market to show on this slide?
A Well, it's the most significant international operation of Delta's.
Q Of Delta's. What would this slide show if you used transpacific?
A Well, USAirways wouldn't be in there, and Northwest, Continental, United would have more ASMs.
Q And where would Delta be?
A Well, they would be on the other end.
Q On the right end?
A Right.

1476

Q Down at the bottom?
A Yes.
Q And isn't the transatlantic market the most competitive international market?
A It is competitive, and I guess Delta has -- but there's revenue to be generated, and I think the airlines, including Delta, are all planning to continue to expand there, because those yields and those revenues have improved.
Q Which will make it even more competitive?
A But I guess the airlines feel that there are opportunities there. So -- including Delta.
Q Now, you would agree, would you not, that Delta overall, as a percentage of its total system, has a lower percentage of international versus domestic than American, United and Continental?
A Today they do, but they're looking to change that by 2010 significantly.
Q And Northwest, too, I should add to that list; is that right?
A Today, yes.
Q And do you know what the plans for the

1477

other carriers, American, United, Continental and Northwest, are with respect to international expansion?

A I do but --

MR. DECHIARA: I would object to the extent that it requires the witness to reveal any information that she may have obtained through confidentiality agreements with the other airlines.

MR. BLOCH: Certainly, that should not happen.

BY MR. SPAN:

Q Yes, and I'll just ask you based on any publicly available information.

A I'm not sure I can differentiate it at this point.

Q Okay. Would you turn to slide 4, please. This is based -- this slide is based just on third quarter '05; is that correct?

A Yes.

Q Is there any reason why you didn't use full year '05?

A Well, we've been using third quarter for

1478

most of the other slides, so we wanted to be consistent.

Q Do you have any sense of what this chart would show if you used full year '05?

A I don't know the numbers. I don't think

Delta's relative position would change.
Q Now, I notice that you did not include on this chart any revenue comparison; correct?
A Well, because this is CASM.
Q This is CASM. And you're just looking at CASM with Delta compared to the network carriers; correct?
A Correct.
Q And you don't have any CASM numbers on this chart for the LCCs; correct?
A Correct.
Q Would you agree that in isolation CASM, without considering RASM, is a somewhat unhelpful number?
A No, not necessarily. There's a lot of industry analyses that focus on CASM at a certain point.

Q Do you agree that the carriers listed on slide 4 to the left of Delta all have a RASM advantage over Delta?
A Yes, they do. But I believe Delta is addressing that through their plan right now to reduce that advantage significantly.
Q Now, let's flip to slide 9, if we might, for a moment. Slide 9 you're showing kind of the

other end of the picture, revenue premium. On this one you have the LCCs and not the network carriers; right?

A That's correct.

Q And you're not showing the CASM disadvantage that Delta suffers against the LCCs on slide 9; right?

A I'm not showing the difference in CASM between Delta and the LCCs, no.

Q Would you agree that all the carriers listed on slide 9 have a lower CASM than Delta?

A Well, because of their nature of their operation and their mission, they would have a lower CASM, and their size in many cases, in terms of --

Q So the answer is yes?

A Yeah, because they're a different type of carrier.

Q Would you turn to slide 5, please. Slide 5, as I understand it, is a snapshot of the difference in Delta's CASM year-over-year third quarter '05 versus third quarter '04; is that correct?

A That's correct.

Q Now, by choosing the third quarter of '04

versus the third quarter of '05, you've -- this slide omits the -- much of the restructuring efforts at United and USAirways; correct?
A I don't know what you mean by that.
Q Well, those restructuring efforts had already been accomplished by third quarter '04; correct?
A They -- United's were mostly in place.
Q Okay. And what about USAirways?
A They were in bankruptcy at that time.
Q And had much of their restructuring already occurred?

A Well, they had -- it was their second bankruptcy, so they had undertaken some in the first -- in the first bankruptcy, and they were going through another reorganization during that time.
Q And with respect to American, had its restructuring occurred earlier than the third quarter of '04?
A Yes, theirs was in 2003.
Q And what about Northwest, had Northwest accomplished any cost-cutting efforts by third quarter of '04?
A No, they had not.

Q Now, this -- again, by choosing third quarter of '04 versus third quarter of '05, you have captured the full amount of the Delta pilot concessions from late '04; correct?

A Well, it does show the difference between the two quarters in terms of the concessions the pilots gave.

Q Right. By selecting third quarter of '04, that was the time before the 2004 con -- pilot

concessions at Delta; correct?

A Yeah, the agreement was reached in late October.

Q So this analysis, which purports to compare Delta to the industry, by omitting the restructuring efforts at other carriers but including the Delta pilot cuts, overstates the effect of Delta's CASM cuts versus the industry, doesn't it?

A I wouldn't agree with that. This is to show that the 2004 plan was quite successful, that by the third quarter of 2005, it had already achieved a 17 percent reduction, versus the industry. And we were looking, again, at one point in time.

Q And I agree, and you selected a point in time to make this comparison as favorable to ALPA as possible; correct?
A We selected this point in time because it goes along with the previous slide, and everywhere else that's third quarter of '05.
Q Now, in calculating the industry average,

you included -- here you included the LCCs; right?
A Well, because the number came from Goldman, Sachs, which -- and the list there was from Goldman, Sachs' third quarter scorecard. That's who they identify as the industry.
Q Would you agree that by including the LCCs in this average, it would somewhat skew the industry average upwards?
A I'm not sure I follow you.
Q Well, have the LCCs done the same kinds of cost-cutting that the network carriers have engaged in?
A No, they haven't. But they have grown, so as they grow, their cost per ASM could go down.
Q Would you turn to slide 6, please. Without getting into the specific numbers, are these numbers based on mainline only or consolidated for Delta?

A I believe they're mainline.

Q And we can get a calculator, but as an order of magnitude, we saw a slide from Mr. Kasper that indicated that a penny of CASM, based on the

2006 ASMs, was roughly a billion and a quarter dollars overall for the mainline system. Do you remember that slide?

A I remember that.

Q And would you agree that order of magnitude, that's a rough approximation?

A I haven't done the math, but --

Q So if we use that rough approximation, the 2.2 percent difference here would translate to roughly $187 million? Does that sound right?

A Approximately.

Q And that's an annual difference?

A Yes.

Q Would you turn to slide 7, please. With respect to the bar which is labeled "Delta company proposal plus DB termination," did your cost assumptions for that bar come from the assumptions that Mr. Johanning testified about yesterday?

A This is the company's valuations of the company proposal, plus the DB termination, is the

292, plus the savings for 2005. It would not have
incurred -- I mean the expenses they would not have

incurred for the pension for 2005. But it's the 292
million.
Q Okay. Let me -- could you repeat that,
please? The -- let me just ask you what assumptions
you used in arriving at the 0.64 pilot CASM number.
A Well, it's the $292 million that the
company's proposal is, if the defined benefit plan
is terminated, plus in this case it would be a
quarter of the savings for 2005, in terms of the
pension expense.
So I take total 2005 pension expense
divided by four, so it would be in here.
Q Sorry if I didn't quite follow that. Are
you saying that you take the 2005 pension expense
for the defined benefit plan?
A Yes.
Q And take one quarter of that?
A Yes, since this is a quarterly number.
Q Where does that 292 million number come
in?
A That's the company's proposal.
Q So are you taking a quarter of that

number?

A Yes.

Q And you're assuming that that is the 2005 expense for the pilot DB plan?

A Yes.

Q Did you see -- were you here during the testimony of Mr. Bastian?

A Yes, I was.

Q I'd like you to look at exhibit -- or slide 43 in the Bastian Exhibit 90.

MR. BLOCH: Give us just a moment, please. 90, I take it, was admitted after the notebooks; right?

MR. SPAN: Yes. It's a spiral-bound set.

MR. BLOCH: Got it.

BY MR. SPAN:

Q And again, slide 43. And you'll notice that the company's number for the proposal with DB plan termination shows a 0.71 pilot CASM; correct?

A I see that.

Q Have you tried to reconcile that number with your number to see why you come to different results?

A No, we'd have to talk to them about it.

Q So you have not made any attempt to see if there are different assumptions in your numbers versus Mr. Bastian's numbers?

A No.

Q So I take it that in your calculation of the 0.64 number on your slide 7, you did not add back in as a cost any of the -- for example, the costs of the note or any of the other things that have been proposed, if the DB plan terminates?

A Well, the cost of the note would be interest expense, and that would not be part of CASM. Under our proposal, which puts Delta pilot CASM at .79, that would include our proposal of additional 6 percent in a defined contribution plan.

Q Let's turn to slide 8, please. What -- based on publicly available information, what will happen to the Northwest pilot defined benefit plan if no pension reform legislation passes?

A I don't know.

Q Has the company -- has Northwest said

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anything publicly about what will happen to its plan in that event?

A I don't know.
Q Did Northwest seek any DIP financing when it entered bankruptcy?
A I'm not aware that they did because they had no unencumbered assets.
Q Well, do you know whether they even sought any financing?
A I do, but --
Q All right. Well, let's -- let's stay on what's publicly available. Did Northwest ever make any public statements about whether it was seeking DIP financing or not?
A I don't know.
Q Now, you stressed earlier that the Northwest TA is still just that, a TA; correct?
A Correct.
Q But it has been endorsed by the MEC chair at Northwest?
A By the chairman of the MEC, yes.
Q And endorsed by the negotiating committee

1489

at Northwest?
A And by the negotiating committee, yes.
Q And that agreement, if ratified, would establish lower pay rates at Northwest than at Delta, under the Delta proposal; correct?

A I believe so.
Q And that tentative agreement, if ratified, would also -- would permit 76-seat RJs to be used?
A I think so.
Q And does that tentative agreement also include a defined contribution plan at a 5 percent contribution level in '06 and '07?
A I don't know what it is.
Q And would you also know whether that level changes after '07?
A I don't know.
Q Let's turn to slide 9, please. We talked about this a little bit earlier. Have you -- let me ask you a different question. I don't think I asked you this earlier.
Have you calculated Delta's cost disadvantage versus the LCCs?

1490

A I've seen that there's a cost difference. I don't know what the percentage is.
Q Have you as part of your analysis done that calculation?
A It wasn't included in any of these, no.
Q No, I know it's not included in these. That's quite clear. The question is, have you ever

done that analysis?

A In the past we've looked at it.

Q And do you recall what it shows?

A As I stated earlier, there is a cost differential between Delta and the LCCs, a lot of it because of their difference in networks and aircraft types and so on.

Q Do you know -- do you recall what Delta's cost disadvantage is versus AirTran?

A No, I don't.

Q Wouldn't that number help to put in perspective the statement you made at the bottom of slide 9 that Delta has a 30 percent revenue premium over AirTran?

A I'm not sure it would. As I've testified,

1491

there are different types of operations, so there's going to be differences both -- on both sides.

Q And again, you only used third quarter '05 here; correct?

A Yes.

Q And that's to be consistent with your other charts?

A Yes.

Q Would you turn to slide 10, please. The first bullet point says that traffic is predicted to

grow roughly 7 percent for 2006 and '7; correct?
A Yes.
Q Does that tell you anything about profitability?
A Traffic is a reflection of passengers, or RPMs, so it's -- people are traveling more and more. It could -- if fares do go up, as we were seeing, people are willing to pay more, which could certainly have an impact on profitability.
Q You would agree that traffic grew year-over-year from 2002 to 2003; correct?
A From 2002 to 2003?

Q Yes.
A I don't remember what that number is, but I assume it did grow.
Q Okay. And did traffic grow again in '03 to '04?
A It did.
Q And did traffic grow again '04 to '05?
A Yes. Since we're back to pre-9/11 levels, yes.
Q And Delta lost a lot of money in each of those years, didn't it?
A They did.

Q And in fact, the industry lost a lot of money in each of those years?
A They did.
Q Now, looking at the next bullet, have you calculated what the $2 billion in pretax profits in '07 would be for -- what kind of profit margin that would be for the industry?
A No, I haven't looked at it.
Q If I told you that the Goldman, Sachs report you cite indicates that that's a 1.8 percent

1493

profit margin, does that sound about right?
A I will take your word for it.
Q Well, I'll actually a little later introduce that report, so you can see it. But $2 billion over the entire industry is not that big a number, is it?
A But it shows the turnaround in the industry and improvements we're seeing.
Q And that's by '07?
A Right.
Q In '06, by your own bullet, the U.S. industry is approaching breakeven; correct?
A Yes.
Q So the report you cite indicates that the industry is going to still lose money in '06; is

that right?

A I don't remember the dollar amount, but generally, they're going to get to breakeven or near breakeven by the end of this year.

Q Okay. So while that is an improvement, I would agree with you, over the past, we're talking about money losing in '06 and a 1.8 percent margin

in '07. That's not exactly boom, is it?

A I don't think I ever said it was boom, but I did say it was an improvement based on where we've been as an industry.

Q Now, your third bullet says, "Industry capacity is expected to decline 1 percent year over year in '06," and you cite that as a good thing?

A I said there's some capacity discipline, and we're seeing that, along with the fares going up.

Q Isn't it true that the report you cited states that that capacity decline is coming from the network carriers?

A Yes.

Q And the network carriers, their capacity is declining roughly 7 percent in '06?

A I've seen different forecasts. I've seen

3 percent and others. So I don't know exactly what
it will be.
Q So if the entire industry is declining by 1 percent and the network carriers are declining by 3 or 4 or 6 or 7, whatever number it is, the LCCs

must be growing in '06; right?
A Well, I think I testified that they were growing, but at a slower rate than in the past.
Q But given the relative size of the LCCs to the industry, to offset that capacity decline of the network carriers, you're going to see a significant capacity increase in '06 with the LCCs; correct?
A You're going to see a capacity increase with the LCCs as they take delivery of aircraft, yes.
MR. BLOCH: Mr. Span, I am assuming that your cross will continue a bit, and I would propose this as a time to break, if that's convenient for you.
MR. SPAN: That's fine, Mr. Chairman.
MR. BLOCH: All right. And off the record. See you at 1:00.
(Whereupon, at 12:02 p.m., the hearing was recessed, to be reconvened at 1:00 p.m. this same day.)

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AFTERNOON SESSION (1:07 p.m.)

Whereupon,

ANA MCAHRON-SCHULZ

resumed the stand and, having been previously duly sworn, was examined and testified further as follows:

MR. BLOCH: Let's proceed, please.

CROSS-EXAMINATION (Continued)

BY MR. SPAN:

Q Good afternoon.

A Good afternoon.

Q I want to go back to a couple of points that I asked you about before lunch. On the international markets, isn't it true that with respect to Mexico, Canada and Caribbean, that there is LCC presence in those markets?

A They have a handful of markets, very little presence.

Q JetBlue and AirTran to Caribbean, for example?

A Yeah. I don't know the exact markets. It's two or three.

1497

Q So your testimony is just two or three in the Caribbean?
A Well, of each carrier, I don't know how many markets they serve.
Q And what about Mexico?
A I don't know the number. It's very limited.
Q And would you agree that AirTran has the youngest fleet right now in the industry?
A I don't know what the average age of their fleet is. But it is young.
Q Would you agree that AirTran's fleet is much more fuel efficient than Delta's?
A I don't track fuel efficiency, but it is a younger fleet.
Q I asked you earlier about slide 6, and I think we agree that in rough numbers, the 22 percent difference would translate to roughly $187 million?
A It was plus $187 million. I don't know the exact number.
Q Would you agree that that gap will get larger in the years beyond 2007?

1498

A I haven't looked at that.
Q Well, as a general prospect, do you agree that the difference between the company's proposal and ALPA's proposal in years beyond 2007, the difference gets larger?
A I believe it does, some.
Q Do you know the order of magnitude?
A I don't know off the top of my head.
Q And then I'd like to go back to slide 7 for a moment, because I think I misunderstood your answer. This was with respect to how you calculated the pilot CASM. Do you remember that discussion?
A Yes.
Q Okay. And particularly with respect to the bar that you show as 0.64 cents, the Delta company proposal plus DB termination. Just so I understand your methodology, you took one quarter of the $292 million, which is the -- assuming the value of the company proposal?
A Yes.
Q And you took one quarter of that because this is a one-quarter look?

1499

A Yes.
Q Right. 292 was the annual cost?

A Right.

Q And then you added on to that -- or I'm sorry, you subtracted from that some number for the pension expense savings; correct?

A Well, you don't -- this is -- reduction in cost of one-quarter of 292 million, plus a reduction of one-quarter of the DB expenses that they incurred in 2005.

Q And what was the amount of the DB expense in 2005 that you took a quarter of?

A I can't remember the exact number. It was order of magnitude 200-plus million, but I don't remember the exact number.

Q And I was asking you this morning about the spread of low-cost competition to thinner markets, smaller markets. Do you recall my question on that?

A Yes.

Q I'd like you to look at Exhibit 63. This is Company Exhibit 63. I've got some more copies

here.

MR. HARRIS: I was going to say, could you give us a hint as to what it was, but this is easy.

BY MR. SPAN:

Q Is Exhibit 63 a document that was prepared by ALPA?
A Yes, it is.
Q And it's a situation assessment March 1, 2005?
A Yes.
Q This is a look at the industry from ALPA's perspective?
A Well, it's a look at a variety of issues, the industry and ALPA's response to it.
Q Okay. And I'd just like to draw your attention to page 2, the bottom of the page, where it says, "Despite the narrowing of wage differences, the impact of low-fare airlines continues to spread, declines in yields of revenue have not been limited to high-density markets, as heightened fare competition has spilled over to medium and small markets." Do you see that --

1501

A Yes.
Q Do you agree with that statement?
A Yes.
Q And do you agree that that is a trend which you believe will continue in 2006?
A Well, I haven't done a projection for 2006. I think we've seen that, but we've seen

carriers begin to counter the effect of that.

Q Now, I think we in this morning ended at slide 10. Can we move to slide 11, please. I believe you testified earlier this morning on direct that year-over-year revenue for February was up, what did you say, 19 percent?

A I think that was domestic revenue, and it was RASM domestic revenue was up close to 19 percent.

Q Now, the revenue trend that you see for 2005 is a significant portion -- a significant portion of that trend was due to the increased price of fuel; correct?

A I don't follow you.

Q Well, weren't revenues up in 2005 partly,

1502

at least, and perhaps a significant part, because the price of fuel had risen?

A Well, there were more fare increases that took place in 2005.

Q And you don't expect to see 19 percent year-over-year gains in RASM as we get to the summer months, do you?

A No, we expect to see continued RASM improvements, maybe not at the 19 percent level, but

in the domestic market, that's pretty significant, given where we've been.
Q For February?
A Yes. But overall as a trend.
Q Would you turn to slide 13, please. This slide 13 only looks at pay cuts since 2004; correct?
A Yes.
Q So it does not take into account the pay cuts -- any pay cuts suffered by nonpilots prior to 2004; correct?
A If there were any, yes.
Q Do you know whether there were?
A I don't recall at this point.

1503

Q And this number -- this analysis starting in 2004 also does not take into account the very large pilot pay increases that took place under the 2000 -- or under contract 2000; correct?
A This deals with the 2004 transformation plan when Delta decided to restructure, and then going forward, when they entered into bankruptcy.
Q So the pilots on this chart, the pilot number starts from the peak of the 2001 contract; correct?
A The contract that was agreed to between Delta and ALPA was in 2001, yes.

Q And that contract gave the pilots very significant pay increases; correct?

A They received pay increases as a result of that contract, yes.

Q Roughly 32 percent?

A I know it was annual pay increases of approximately 4-1/2 percent and then an initial pay increase to bring them up to industry standard.

Q And what was that initial increase?

A I -- about 20 percent.

Q But you're not quibbling with me that the pay increases in the 2001 contract were roughly 32 percent, are you?

MR. DECHIARA: I would just object to the form of the question.

MR. BLOCH: In what sense? Why?

MR. DECHIARA: Asking the witness whether or not she's quibbling with counsel.

MR. BLOCH: Are you differing with counsel?

(Laughter.)

MR. BLOCH: However slightly that may be.

THE WITNESS: No.

MR. SIMON: Another objection could lie

for tedium. I mean, asking the witness about whether this slide or the previous slide contains anything other than what the title describes, and asking it not once but a series of times begins to wear.
MR. GALLAGHER: Mr. Chairman, at the risk of imitating Mr. Simon's conduct, everyone knows that this was the richest contract in aviation

history.
MR. SIMON: Imitation is the sincerest form of flatter, SO I'm perfectly prepared for Mr. Gallagher to imitate me.
MR. BLOCH: Speaking of tedium, let's move on.
(Laughter.)
MR. SPAN: I think we can stipulate this chart is a selective reading of history.
MR. DECHIARA: No such stipulation.
MR. BLOCH: Thank you. Let's move on.
BY MR. SPAN:
Q Would you look at slide 14, please. In your analysis of comparative pay rates, you have limited your analysis to the specific equipment types; correct?
A Correct.

Q And so if another carrier, instead of flying a 737, flies a similar size aircraft but not the exact same 737, you're not including it in this chart; correct?

A Yes. I mean, here we're including

737-800, which is what Delta has, versus other carriers that have 737-800s.

Q But, for example, an 83-20 being flown by JetBlue, that wouldn't be on this chart?

A No.

Q And your 757 comparisons, you don't include America West?

A No.

Q Do they fly 757s?

A I believe they do.

Q And does AirTran fly 737s?

A No, they don't.

Q Did you see the charts that were of the various pay rates that were put in by the company at Exhibit 9?

A At some point I did.

Q I can show them to you. It's a collection of pay rates. Do you have any quarrel with the data shown on those charts, as to the accuracy of those

charts?
A I'd have to go back and check, and I don't
recall.

Q And in comparing pay rates, isn't it
common in negotiations to look at similar equipment,
not just identical equipment, at other carriers?
A It varies.
Q You've certainly seen that done in
negotiations?
A I've seen that done, and I've seen that
not done.
Q Has ALPA ever used that kind of
comparison, looking at similar equipment but not
identical equipment at other carriers to establish
comparative pay rates?
A We've used a variety of comparisons, so --
Q Including that one?
A Including that one.
Q But those comparisons are not on your
slide 14?
A We looked at just the actual aircraft
types.
Q And again, if you had included the similar
but not identical aircraft types, for example, flown
by JetBlue or AirTran, America West, these pay rate

averages would have come down quite a bit, wouldn't they?

A It depends. The 737 probably would not have changed, since that does include Southwest, which has the highest pay rates for the 737 now in the industry. So that one would probably not have changed. I'd have to go back and run the numbers and see where that comes through.

Q Would you turn to slide 15, please. Why did you select 1995 as the base year for this slide?

A Because it was a 10-year span. We thought that was -- to show what the trends in pay have been over the last 10 years.

Q Just because that was a nice round number?

A Yes.

Q Did you look at what this chart would look like if you picked any other base year other than '95?

A No.

Q Isn't it true that you picked 1995 as the base year because that was the low point for nonpilot pay, thus making nonpilot pay increases

look greater in the years following?
A No, we looked at just going back 10 years, just because it's a good span of time.
Q So it's just a coincidence that if you had used any year other than 1995, from 1990 forward, the results would have been different?
MR. DECHIARA: Objection. It assumes facts not in evidence.
MR. BLOCH: I agree.
BY MR. SPAN:
Q Let me ask you this. Do you know whether, if you had done this analysis for any year other than 1995 as a base year, the results would have shown that pilot pay has grown faster or more than nonpilot pay?
A I don't know, because we didn't do another analysis. We went back 10 years.
Q Now, your analysis also -- the one you did do omits the nonpilot pay reductions in November '05; correct?
A Correct.
Q So by cutting this off at September '05,

1510

you didn't have to factor those nonpilot pay

reductions in; correct?
A Well, because the form 41 data is -- this is actual form 41 data, and fourth quarter hasn't come in. So we factored those in into the next slide that goes forward.
Q Okay. Let's look at the next slide. Just a question of methodology, and this might apply to both 15 and 16. Did you include furloughed pilots in the calculation?
A I don't follow you, what you mean by "furloughed pilots."
Q In the --
A In terms of the denominator?
Q In terms of the denominator, yes.
A Not after they have been furloughed, no. It's average head count.
Q Okay. Would you turn to slide 17, please. This is a snapshot of what has happened since 2004; is that right?
A It's the 2004 transformation plan plus the current business plan, yes.

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Q And is it correct that the numbers shown for nonpilot concessions do not include any concessions prior to the 2004 plan?
A It's the 2004 transformation plan that was

presented to us.

Q Okay. And do you know whether there were nonpilot benefit reductions in the years between 2001 and 2004?

A Well, I believe in the company's submissions, there's been some documents to that effect.

Q Did you see the company submissions that the losses suffered by the nonpilots prior to 2004, including head count reductions, benefit reductions and pay cuts, totalled about $1.8 billion?

A I saw that.

Q Do you have any reason to quarrel with that number?

A Well, I can't agree or disagree with it. We haven't seen it substantiated in any form.

Q And that $1.8 billion is not reflected on slide 17; correct?

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A I have --

MR. SIMON: With all due respect, this is a classic example of what I expressed earlier as to my tedium objection. The slide makes clear that it's talking about the 2004 transformation plan. The witness testified now twice that it has reference to the 2004 transformation plan.

The counselor has inserted material that he deems relevant, but certainly not applicable to this slide, much more appropriate for redirect, if he chooses.

And simply in terms of the time available to us, I respectfully request that counsel be directed not to ask questions that have been answered and are clear from the face of the document and are obviously designed for argument, rather than factual -- factual examination.

MR. SPAN: I didn't hear a legal objection in that speech, so I don't think I need to respond.

MR. BLOCH: Well, I am tempted to say that if tedium were the basis for objections, but I won't. And I will say that I don't think it's

inappropriate to ask this witness whether various company presentations were considered in the conclusions that she has drawn.

I do agree that to the extent it becomes a rehashing and representation of company positions, then it's argumentative, and I would urge that we not get into that.

BY MR. SPAN:

Q Now, I'd like to ask you some questions that are not related to your slides. You said on direct, I believe, that there is a -- that you have a three-step process for analyzing a company's proposal or plan, and you mentioned the first step, which was to review the business plan, but I don't think you had a chance to mention the other steps. So could you explain -- first of all, am I correct that you have a three-step process?

A Well, our three-step process is the first one -- yes, you are correct, it's analysis of basically the situation in terms of the request for concessions, the business plan. The second step -- I would present that analysis to the MEC leadership,

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basically to the MEC and the negotiating committee, and they decide whether they want to enter into negotiations, and they give direction, which is a second step, to the negotiating committee, and then the third step is negotiations.

Q Now, you -- when I'm referring to you, I'm referring to the E and FA department at ALPA. Do we have that understanding?

A Yes.

Q Is part of the standard analysis process that you perform that is to test the company's

assumptions and run different scenarios?
A That would be a part of it.
Q And do you run what you call the realistic view and the optimistic view and the pessimistic view?
A At different times we've done that.
Q And the optimistic view is what? How would you characterize that?
A Well, it depends on each analysis that we do. Not all of them have that, but it depends at the time with the industry, and if we see

1515

improvements in the industry, what kind of impact that might have on the company's business plan and their results. And so if there's improvements in areas such as revenue, then that would yield -- that would result in different profitability levels and could result in different need levels.
Q And with respect to the pessimistic view, what do you look at there?
A Well, it's similar, except it's the other way around. So if there's changes in industry conditions that would result thereto.
Q And do you have any sort of standard practice in terms of a range you would assume between your pessimistic view and your optimistic

view, or does that change with every analysis?
A It changes with every analysis.
Q But you do this, you run these different scenarios, in order to get kind of an expected range of where the company might be performing, depending on what might happen in the industry?
A Well, and to get a sense of what -- if we believe there is a need for concessions, what that

need may be. But it depends on the industry at the time. It depends on the company's own business plan at the time. So it really varies significantly from airline to airline.
Q Now, did you run a -- did you run these three scenarios with respect to Delta's request for concessions?
A Well, we did an analysis of the company's request for concessions. We did not look at it in those terms, in terms of scenarios.
Q So did you not prepare a pessimistic scenario --
A No.
Q -- for -- and I'm referring now to Delta's request in what we've been calling these 1113 negotiations.

A No.
Q Did you run an optimistic scenario?
A We ran what we thought was a realistic scenario and took a look at that.
Q And is the presentation that you've given today based on that realistic scenario, as you call

it?
A Well, the part that I dealt with, yes.
Q And so you have not attempted to run a scenario which would kind of show the what-ifs, if, for example, revenue assumptions are not as positive as they are in the company plan?
A Well, I'm not sure -- I'm going to say that -- you know, we've run scenarios in terms of where the revenue may be. We certainly haven't run scenarios that go to the point where the company says they might not get 50 percent of the revenue, given the trends of what we're seeing in the market.
Q Well, have you run any scenarios that are more pessimistic than the company's business plan?
A We've -- it's hard to phrase. We don't have them all listed out 1, 2, 3, 4, 5. We ran various scenarios and came out with what we thought was the most realistic view of where the company was going and the industry was going.

Q And how did that analysis match up with the company's business plan?

MR. DECHIARA: Objection as to form. What

analysis?

MR. SPAN: The realistic analysis that the witness has just mentioned.

MR. DECHIARA: I believe the witness has testified that what she presented today was the realistic scenario.

MR. BLOCH: Are you asking about the scenario that was presented today, Mr. Span?

MR. SPAN: Yes. Well, I'm -- let me go back and see if I can make it more clear.

BY MR. SPAN:

Q Is the assessment that you've presented today more pessimistic, more optimistic, or right on with the assessment that the company presents in its forecast?

A What I have testified to today is where we believed the pilot CASM should be and where the pilots should fit into the company's plan as they have presented it to us, and where we think they need to be on a cost competitive basis, combined with what they're doing on the revenue side.

So we think this is the realistic case,

and it's the proper place for the pilot CASM, in terms of what I had described in my earlier slide, I can't remember the number. But in that slide. So I would say that's the result of our analysis.

Q You testified earlier about Exhibit 51. Do you still have that?

A Which was that?

Q That's ALPA Exhibit 51, the five-year plan from 2004.

A Yes.

Q And I think you said you -- I think you used these words, you signed on to that plan?

A Well, the Delta pilots did.

Q Right. And you, as part of your duties, analyzed this plan, Exhibit 51?

A Yes.

Q And did you conclude that this plan was sound?

A At that point, we concluded the company was addressing the challenges and that they had identified what they needed to do to stay competitive.

Q And so did you believe that -- or did you conclude at the time that what the company was presenting in Exhibit 51 was necessary for its long-term viability?
A Yes.
Q Would you turn to page 3. Looking down at the fourth bullet, that plan in September '04 had as a target operating margins in the outer years of 10 to 12 percent; correct?
A Correct.
Q And if you look at the next page, page 4, the specific operating margins are listed. For 2006, the operating margin was 9.1 percent; correct?
A I see that.
Q And 2007, 11.2 percent; correct?
A Correct.
Q And so on. I won't be tedious and read all the numbers.
Do you know whether the operating margins in Delta's current forecast approach anything near those operating margins that were in the '04 plan?
A I don't remember the specific numbers.

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Q But you agreed in 2004 that operating

margins in the range of 9 to 12 percent were
necessary for Delta's long-term viability; correct?
A We agreed that this plan would get Delta
to a competitive, viable position. I don't think we
were sort of going line-by-line and saying whether a
certain metric was necessary. It was the plan as a
whole.
Q Now, at the risk of stating what is
obvious, the operating margin is a measure of the
difference between RASM and CASM, correct?
MR. DECHIARA: I'd like to interpose an
objection. This is beyond the scope of this
witness's direct. The next witness for ALPA will be
a financial expert who will be testifying at length
about financial metrics. And I would suggest that
this cross-examination may be more appropriate at
that time.
MR. SPAN: Actually, it's not beyond the
scope. The witness on direct put in this exhibit.
MR. BLOCH: I agree. There was testimony
as to Exhibit 52. I don't know how far we need to

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take it with this witness, but I don't see any
objection to your pursuing it a bit.
BY MR. SPAN:

Q Do you remember the question?
A No, I'm sorry.
Q Let me rephrase it. Operating margin is basically the measure of the difference between RASM and CASM; correct?
A It's total operating profit, divided by total revenues.
Q And I'm sorry, that's the margin. The operating profit would be the difference between RASM and CASM; correct?
A Between revenues and costs, yes.
Q And in order to evaluate the profitability of any airline, including Delta, you'd have to look at the RASM compared to the CASM; correct?
A Or you hope that they generate more revenues than they incur costs, yes.
Q I'd like you to go back to slide 10, I think it is.
Oh, before we do that, let me just ask

you, you testified on direct in response to counsel's question, and it was, I think, a very carefully worded question, that prior to the bankruptcy process, you had not had -- I'm sorry, after the bankruptcy filing, you did not have any discussions with the company about pilot costs per pilot block hour until the presentation here. Is that accurate?

A We had not seen an analysis done by the company, or they did not raise an analysis done by the company, on pilot block hours.

Q But you weren't meaning to say in that answer that you had not seen analyses from the company on using pilot costs per pilot block hour as a metric in years past, were you?

A I testified that in these negotiations, it had not come up.

Q Right. But now I want to turn your attention to prior to these negotiations. Isn't it true that you have seen the company use pilot costs per pilot block hour as a metric in negotiations with ALPA prior to, let's say, September of '05?

A I can't recall whether they were used in 2004.

Q What about before that?

A Now you're asking me to go back a long time. I can't recall.

Q Okay. So you can't recall any presentations from the company before September of '05 in which the company used pilot cost per pilot block hour as a metric?

A They may or may not have. I just don't remember.

Q Do you recall any statements from any representatives of the company that the company thought that pilot costs per pilot block hour was the appropriate metric to use in comparing pilot costs?

A I don't remember.

Q Have you or any members of E and FA ever used pilot costs per pilot block hour as a metric?

A In the past we have.

Q Okay. Now let's turn to slide 10.

MR. BLOCH: Of ALPA 52?

MR. SPAN: Yes. Thank you.

BY MR. SPAN:

Q The third bullet point on your slide 10 refers and cites to a Raymond James and Associates report dated January 26, '06; is that correct?

A Yes.

Q I'd like to have that report marked. This will be Company Exhibit 96.

(Company Exhibit 96 identified.)

BY MR. SPAN:

Q Would you take a moment and look at

Exhibit 96, please? And you can read as much of it as you'd like.

I first want to ask you whether this is the report that you were citing on slide 10.

A Yes.

Q Draw your attention to the third text paragraph on the first page, where it says, "Therefore, following increases in capacity in the total domestic market of 1 percent, in 2003, 7 percent in 2004 and 2 percent in 2005, it appears that capacity should decline 1 percent

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year-over-year in 2006."

Is that the source of the quote you have for the cite you have on slide 10?

A Yes.

Q The next sentence says, "This is primarily being driven by the legacy carriers' anticipated decrease of 7 percent year-over-year." Do you see that?

A I see that.

Q And do you have any reason to disagree with that analysis?

A I've heard different numbers recently in terms of what the anticipated decrease is, but --

Q Now, would you turn to page -- the third page, top of the page, where it says, "The rapid expansion of LCC capacity should continue as leading U.S.-based LCCs are increasing their total aircraft fleet 42 percent from the end of 2005 to 2008." Do you see that?
A Yes.
Q Do you agree with that statement?
A I don't know if that number 42 percent is

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correct, but they are increasing their fleet significantly.
Q And do you think that's, at least order of magnitude, a correct statement?
A Probably.
Q Next sentence, "The healthiest airlines in our opinion are the growth airlines, the LCCs and the regional airlines, since they have lowest costs." Do you agree with that statement?
A No, not necessarily.
Q Why not?
A Well, I think when they mention healthiest airlines, they're talking considerably about the stock performance, is what the analysts usually focus on. And I think there's a lot of different ways to measure health and profitability, given

their exposure and so on.

Q So you wouldn't necessarily rely on the conclusions of analysts to determine the health of an airline?

A Well, I think that they mostly focus, again as I said, on stocks and how well the stock

value is doing in comparison. I wouldn't disagree that LCCs are healthier airlines, but that doesn't mean that the network carriers are generally unhealthy.

Q Do you think there's necessarily a connection between the performance of the stock and the health of the airline?

A Sometimes there is; sometimes there isn't in the stock market. So --

MR. SPAN: I would like to now mark as Company Exhibit 97 a one-page document from Goldman, Sachs, entitled U.S. Airline 4Q scorecard."

(Company Exhibit 97 identified.)

MR. GALLAGHER: Is that 97?

MR. SPAN: 97.

BY MR. SPAN:

Q Now, I notice you have cited in slide 10 of Exhibit 52, you have cited to a Goldman, Sachs

report; correct?
A Yes.
Q And this is not that report, I'll state right at the outset, but is this -- have you seen

this particular report from Goldman, Sachs?
A It may have come across my desk for the fourth quarter.
Q This is the kind of thing you typically look at; correct?
A Yes.
Q Directing your attention under the heading "operating margins," the first section, the line that says "Delta," where it says, "Worst performing airline but momentum building. Progress on costs offset by widening revenue gap."
Do you agree with that statement?
A Well, in terms of the worst performing airline, if you're looking at the fourth quarter results, based on the airlines that are listed there, yes, they had the worst performance.
I think that in the case of Goldman, Sachs, in terms of the margin gap -- I'm sorry, the widening revenue gap, I think they're not aware of all the efforts that Delta has undertaken under their new business plan to go the other way. So

that's what they were looking at, just the fourth

quarter.
Q Would you go down to the third section where it says "unit revenues," and it says again, on the line labeled Delta, "Delta's low-cost carrier exposure and mismatched fleet (too many 767s, RJs), caused its 15 percent revenue gap."
First of all, do you agree that those are at least some of the causes of the revenue gap?
A Well, I'm not sure what they mean here with revenue gap. If it's revenue gap versus other network carriers, they are, again as I said, they are addressing that through -- some of that. They do have a positive RASM vis-a-vis the low-cost carriers. And I know that through the bankruptcy process and even before, they started to simplify their fleet. So that certainly is going to help whatever negative effect it's had.
Q Would you please -- I'd like you to look now at Company Exhibit 53. That should be in the binders.
MR. HARRIS: Which binder?
MR. GALLAGHER: Volume 2.

MR. SPAN: Did I say 52? 53.
MR. GALLAGHER: You said 53.
MR. SPAN: Thank you. That's what I meant.
BY MR. SPAN:
Q And before we actually get into Exhibit 53, I'm sorry to do this, but I have one more question about Exhibit 97, the one-page exhibit we just talked about.
I'd like to draw your attention to the unit revenue section and the numbers for AirTran and Delta. I believe you testified that Delta in the third quarter of '05 had a 30 percent revenue premium over AirTran?
A Yes.
Q Would you agree with me that in the fourth quarter of '05, the revenue numbers were different?
A Well, the revenue numbers are different because these are the actual unit revenues, they're not length of haul adjusted, as they were in my slide.
Q And do you think that length of haul

adjusting would create a 30 percent revenue premium
for Delta versus AirTran in the fourth quarter
of '05?
A I'd have to go back and run those numbers.
I have no idea.
Q All right. Do you have Exhibit 53 in
front of you?
A I do.
Q And have you ever seen Exhibit 53 before?
A I think it was e-mailed to me at one
point.
Q Did you read it when you received it?
A I think I glanced through it quickly.
Q And did you understand that this was a
report prepared at the request of the Allied Pilots
Association at American Airlines?
A That's what my understanding is, yes.
Q And by the way, you spoke earlier about
the fact that at American they completed their
restructuring in 2003. Are you aware that there are
discussions going on at American with respect to
possibility of further pilot concessions?

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A There were discussions going on whereby
the company was seeking additional productivity
concessions only from the pilots, but those

discussions stopped when the pilot -- I guess all
the unions became aware that management had received
some bonuses during the course of that time.
Q So do you know whether there -- at this
point, you don't know whether or not there will be
further concessions at American by the pilots?
A Well, the last I heard is that the
discussions had broken off, so I'm not sure what the
plan is now.
Q If there are further concession by the
pilots at American, that would then lower their
pilot costs; correct?
MR. DECHIARA: Objection; argumentative.
MR. BLOCH: I think so. It's speculative,
anyway. Perhaps not very speculative, but enough so
that I think we can move on.
BY MR. SPAN:
Q I'd like to draw your attention to the
first page, the page numbered 1 in Exhibit 53.

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A Executive summary?
Q Yes. And just to go down to the fifth
paragraph, the paragraph that starts off "It is
important to note." Do you see that?
A Yes.

Q Okay. Let me just read the first two sentences. "It is important to note the, true quote, profitability, closed quote, requires more than profits at the operating level. An airline must generate net profits large enough both to service debt and to reinvest in the business."
Do you agree with those two sentences?
A Yes.
Q And do you agree that Delta will have to make investments in its fleet in the future?
A Yes, they're planning to do that.
Q And does the current business plan allow for some reinvestment in the fleet?
A Yes, it does.
Q In your opinion, is it adequate?
A I don't know what you mean by "adequate," I guess. I'm not sure what you mean by adequate.

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Q Okay. Well, based on the competitive situation in the industry and the financial -- and the need to compete in the future, do you think that the level of capital reinvestment in the Delta business plan is a prudent and appropriate level?
A I don't -- I don't think we've ever said that it isn't.
Q Do you know how much capital expenditure

is in the plan for -- don't give me any numbers just yet, but do you know the numbers of capital expenditure for '06 and '07?

A Yeah, they presented the plan to us a few weeks ago. I just can't remember the exact numbers right now.

MR. SIMON: I don't understand. Is the company suggesting that their new five-year projection does not provide for adequate capital expenditures in order to produce a viable airline, that the new five-year projection is for an airline that, in Mr. Coleman's view, is doomed to failure and is going to bleed to death as well? Is that the suggestion that's being made by counsel, that he's

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seeking ALPA's agreement to?

MR. SPAN: I have made no such suggestion. I'm just asking questions. And if counsel will confine himself to objections, we might move things along.

MR. SIMON: Withdrawn.

MR. BLOCH: Mr. Span, why don't we just take a brief break at this point.

(Recess from 2:04 to 2:28 p.m.)

MR. BLOCH: I think we're perilously close to starting.

MR. SPAN: I'm ready. I would like to have marked as Company Exhibit 98, and this will require a bit of explanation, so let me state it for the panel.

There's a document entitled "Delta Air Lines, Inc., Financial Review," prepared by ALPA's E and FA department. This is in -- this is on the 1903 plan.

(Laughter.)

MR. SPAN: I know, that's -- I'm back with Bruce Simon and the Wright Brothers.

(Laughter.)

MR. SIMON: I said it's generational, and you may join the generation.

MR. WINSTON: And that plan was successful; right?

MR. SPAN: I remember hearing something about how they started -- if the Wright Brothers had started an airline, Orville would have started a low-cost carrier or something. But that's different.

MR. BLOCH: It would be the first time you'd see an ASM of 1.

(Laughter.)

MR. SPAN: This is a review of the 2003 plan, and I originally had intended to just offer the last few pages as an exhibit so we wouldn't have to put the whole thing in the record. But in the interest of completeness, I will offer the whole document, but it's in two chunks. That's my explanation. We can do this 98 and 98-A, if that will work.

(Company Exhibits 98 and 98-A

identified.)

BY MR. SPAN:

Q Have you had a chance to look at Exhibit 98?

A Yes.

Q Is Exhibit 98 -- and have you had a chance to look at Exhibit 98-A?

A Yes.

Q Okay. And --

MR. GALLAGHER: For the record, can you tell us which pages are 98-A?

MR. SPAN: Yes. 98-A --

BY MR. SPAN:

Q First of all, let me ask the witness, do you recognize these documents?

A Yes, I do.
Q And what are they?
A It's a presentation of a financial review that we gave, I guess it must have -- there's no date on here, but it must have been 2003, 2004.
Q Do you recall this was in May of 2003?
A That sounds about right, the summer.

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Q And the last three pages, which are Exhibit 98-A, pages 73, 74 and 75, were they actually part of the presentation?
A Yes.
Q And did you prepare Exhibit 98 yourself?
A This was done as a group with my department and another committee, a committee of pilots that worked with us on this.
Q And this was done under your direction?
A Yes.
Q And turning to page 73, which is the first page of Exhibit 98-A, did you reach the conclusion in 2003 that the strategic -- Delta's strategic plan at that time was sound?
A Yes, we said the general strategic plan is sound.
Q And did you reach the other conclusions that are listed on page 75?

A Yes.

Q Turning your attention to page 31 -- I'm sorry, no, that's not it. Let me find my notes, excuse me.

Do you recall that in the plan, the '03 plan that you were analyzing, that the -- that Delta's plan was to achieve a RASM versus CASM advantage of 1.2 cents?

A I don't recall the exact numbers of any of this.

Q I'll find it later.

Did you conclude in -- with respect to the 2003 plan that the targets that Delta had for profitability were appropriate?

A I can't recall specific -- all the specifics about that. I mean, that was three business plans ago, at least for Delta, not to mention all the others we've done since then.

Q Okay. Please focus on page 43 of Exhibit 98. Looking at the last bullet there, does that refresh your recollection that Delta's goal in that plan was to generate a 1.2 cent surplus of RASM over CASM?

A Yes, that's what it says.

Q And is that -- do you now recall that that's what the plan called for?

A Well, if it says that, I assume that's what it said.

Q Now, let me change -- shift gears a little bit. When lenders are making a decision whether to provide financing to an airline, would you agree that they focus not just on any one metric of performance of the airline but the overall competitiveness of the airline, revenue, costs -- in revenue and costs?

A They focus on a plan as a whole and how competitive the airline will be, yes.

Q And you can't -- would you agree that in judging the health of an airline, you can't -- or should not look at one metric in isolation, that you have to look at the whole picture?

A Yes.

MR. SPAN: I have no further questions.

MR. BLOCH: Thank you very much, Mr. Span.

Anything else, gentlemen?

MR. DECHIARA: Yes. I have some redirect.

REDIRECT EXAMINATION

BY MR. DECHIARA:

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Q Before I begin my redirect, let me renew my motion for the admission of ALPA Exhibit 52, which are the slides of the witness.

MR. BLOCH: May we admit that now, gentlemen?

MR. SPAN: No objection.

MR. BLOCH: Thank you.

(ALPA Exhibit 52 received.)

MR. SPAN: And I would move admission of, I think, Exhibits 96, 97, 98 and 98-A.

MR. DECHIARA: No objection.

MR. BLOCH: Thank you, sir.

(ALPA Exhibits 96, 97, 98 and 98-A received.)

BY MR. DECHIARA:

Q Let me direct you to your first slide. In this slide you looked at the percent overlap in O and D, which is origin and destination, revenue in competitive markets. Do you see that?

A Yes.

Q How typical or standard a measure when looking at overlap between -- in markets between

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carriers is it to use such an O and D measure?
A It's very typical.
Q To what extent in both slide -- your slide 1 and your slide 2, which look at the overlap of markets of different carriers, to what extent do those slides -- in those slides did you include, when you looked at a particular market, sister airports, such as, for example, in this area, BWI, Dulles and National?
A I went back at lunchtime and double-checked, and we had included the sister airports in this. So it was not understated. It does include BWI, DCA and Dulles as one market.
Q I believe you testified on cross that JetBlue is getting another type of aircraft equipment?
A Yes.
Q Okay. What effect would that have on JetBlue's training costs or maintenance costs?
A Those will go up. Typically, when you have more than one aircraft type, both maintenance and training costs will increase.

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Q Okay. Let me refer you to your slide 6. That's the slide with the 2.2 percent difference in

2007 overall CASM between the company and ALPA
proposals.
A Yes.
Q And I believe you put a -- or you estimated on cross-examination a dollar figure for what that difference would be. Do you recall what you said?
A Well, it was suggested by counsel for Delta it was in the 180-plus million range or so.
Q Okay. To put that number in context, do you have any sense of the overall revenue of Delta Air Lines?
A It's over $12 billion.
Q 12 what?
A Billion.
Q Let me turn your attention now to page 7, the pilot CASM slide. You testified that to determine where the company's pilot CASM would be under the company's proposal with termination of the pilot pension plan, you used the pilot plan expense

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from the 2005 -- from the plan as it existed in 2005. Do you recall that?
A Yes.
Q Why did you do that?
A Well, because these are -- everything else

was 2005, so we needed to look at the same year as what was incurred.

Q Okay. I believe there were some questions regarding why did you use third quarter versus fourth quarter numbers. Do you remember questions to that?

A Yes.

Q Let me direct you now to -- again to the pilot CASM chart, slide 7. What's the source of the data for that?

A It's DOT form 41.

Q And are the fourth quarter 2005 DOT form 41 data available?

A No, they're not available yet.

Q Do you know Delta's -- Delta's length of haul compared to the length of haul of AirTran? And I'm not looking for an exact number, but order of

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magnitude?

A Delta's is going to be longer.

Q Okay. Everything else being equal, is there a relationship between length of haul and fuel efficiency or fuel usage?

A Well, the length of haul adjusts for -- especially on the RASM side, adjusts for the revenue

in terms of how far a passenger goes.
Q If -- let's call one airline, airline 1
has shorter -- flies shorter trips than airline 2.
Everything else being equal, which airline would
have more efficient fuel usage?
A The one that flies the longer trips.
Q Let me direct your attention to slide 17.
And in the column under 2004 transformation plan,
under the nonpilot annual concessions, there it says
$413 million. Do you see that?
A Yes.
Q And I believe on cross-examination you
were asked questions about whether you agree that
between 2002 and 2005 there was a $1.8 billion
reduction in nonpilot costs as the company has

asserted. Do you recall that testimony?
A Yes.
Q Have you or your department done anything
to -- looked at any source of data, publicly
available data, to try to confirm or not confirm the
veracity of that -- or the accuracy of that $1.8
billion figure?
A Well, we looked at form 41, going back to
2002, to see what the level of change was between
nonpilot costs between 2002 and 2005, and that

reduction was about, if I recall correctly, about 700 million. I assume there's probably some accruals that were built into 2002, but it certainly wasn't close to the $1.8 billion that the company discussed.

Q And that -- what was that number, about 700 million?

A About 700 million.

Q That was from the form 41 data?

A Yes.

Q And form 41 data is the data that Delta reports to the federal government?

A Yes.

Q When was the first time, if you can recall, that you saw that $1.8 billion number from the company?

A I think it was with the filings, 1113 motion that they filed in bankruptcy court in New York in the fall.

Q Prior to that, had you ever seen that number?

A No.

Q You were questioned on cross about the health of low-cost carriers. Do you remember

questions along those lines?
A Yes.
Q Okay. I'd like to direct your attention to an Exhibit 103 from Mr. Kasper's testimony, and let me just hand it up to you.
I apologize to the panel, I don't have copies handy. But it's going to be fairly simple.
Do you see that footnote on Exhibit 103?
A Yes.
Q And there's a list of low-cost carriers?

A Yes.
Q If you know, if you could go through that list and tell us which of those low-cost carriers still exist.
A Southwest, AirTran, ATA --
Q Or which ones no longer exist? Let me put it that way.
A Okay. Access Air, East Wind, KIWI, National, Value Jet actually became part of AirTran, ProAir, Reno, Vanguard, Western Pacific, Air South, Morris Air and Independence Air.
Q All of those are no longer with us?
A That's correct.
MR. GALLAGHER: Counsel, shouldn't we stipulate that Reno became part of American and

Morris became part of Southwest?

MR. DECHIARA: I'm not in a position to so stipulate.

MR. GALLAGHER: Well, the witness has just testified as to one carrier that was merged into another, but if she knows the answer to that question, it could clear up the record.

MR. DECHIARA: Well, I believe there will be an opportunity for redirect, or recross, I should say.

BY MR. DECHIARA:

Q But perhaps to forego any unnecessary recross, can you answer counsel's question?

A Yes. Reno was acquired by American, and Morris Air was acquired by Southwest.

Q Let me now refer you to Company Exhibit 97, which is the one-page Goldman, Sachs U.S. airline fourth quarter scorecard.

A Yes.

Q Okay. You were asked about -- you see there are three charts on this one-page document?

A Yes.

Q And I believe you were asked on cross about the top and the bottom, but you weren't asked

about the middle one. Let me ask you about that middle chart.
What does that middle chart show us, if you can tell?
A That's unit cost changes between the

fourth quarter of '03 to fourth quarter of '04 and fourth quarter of '05.
Q And in the comments next to the Delta line, does it say how much Delta's costs were down ex-fuel?
A Yes, they were down 7 percent.
Q And then if you go to the bottom of that chart, does it indicate what the total industry reduction was?
A Yes, it says ex-fuel industry unit cost fell 3 percent year-over-year.
Q What does that tell you about whether or not Delta's costs are still falling faster than the industry's?
A Well, they continue the same trend, where they have had a greater decline than the industry.
Q Let me now refer you to your slide 9, the revenue premium slide.
A Yes.
Q Okay. Actually, before I get to that,

going back to Exhibit 97, that bottom chart compares
unit revenue for various airlines?

A Yes, it does.
Q And you were asked about Delta versus
AirTran?
A Yes.
Q Okay. Does this chart adjust for length
of haul, do you know?
A No, it doesn't.
Q Okay. Let me refer you to your slide 9,
the revenue premium slide.
A Yes.
Q Does that adjust for length of haul?
A Yes, it does.
Q How typical or standard is doing such an
adjustment?
A That's a very common standard in industry.
Q Was there any communication from the
company to ALPA or to you in this case about the
company's view about whether or not when comparing
RASM of different airlines, one should adjust for
length of haul?
A Yes, they have been adjusting for length
of haul as well. They believe it should be done

that way.

Q They said it should be done that way?

A Yes.

MR. DECHIARA: No further questions.

MR. BLOCH: Anything else, Mr. Span?

MR. SPAN: Nothing further.

MR. BLOCH: Thank you very much for your assistance.

(Witness excused.)

MR. SIMON: Further housekeeping matter.

You will recall that Mr. Gallagher asked about the webcasting the tape of the Atlanta Convention Center road show. We have, in fact, late this morning received that tape. We have reviewed it. There is no mention in the direct portion of the road show regarding the bankruptcy protection letter, but the question and answer portion of the road show was not transcribed.

MR. GALLAGHER: We accept counsel's representation, Mr. Chairman. And just for the board's clarification, this is the road show for the ratification of letter of agreement 46, which included the bankruptcy protection letter.

MR. BLOCH: Thank you, gentlemen.

MR. DECHIARA: Yesterday afternoon during Mr. Johanning's testimony, the panel asked if we could provide a costing by ALPA of the company's latest proposal broken out by year. We have done that, and we would like to offer it into evidence.

I would note that the items are all the same, as on Mr. Johanning's first two slides, and the four-year averages are the same. This document -- these two pages simply break out, as the panel requested, the costing for each year.

MR. BLOCH: Thank you very much.

MR. DECHIARA: That would be ALPA Exhibit 53.

(ALPA Exhibit 53 identified.)

MR. DECHIARA: Additionally, this morning during Ms. McAhron-Schulz's direct testimony, the panel asked if we could provide a dollar figure for the 2.2 percent difference between Delta's pilot -- estimated or projected pilot CASM in 2007 between the company's proposal and ALPA's proposal.

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We have re -- prepared the same slide, simply inserting that dollar figure, and we're prepared to offer that as well. That's ALPA Exhibit 54.

(ALPA Exhibit 54 identified.)

MR. DECHIARA: And I would note the number is not different from the number that was estimated during the examination. ALPA moves the admission of Exhibits 53 and 54.

MR. GALLAGHER: No objection, Mr. Chairman, subject to our review of 53 and the possible need to discuss that with Mr. Johanning. But I have no objection to them going into the record, and we can recall him if necessary.

MR. BLOCH: Thank you. These will be admitted.

(ALPA Exhibits 53 and 54 received.)

MR. BLOCH: Anything else?

MR. DECHIARA: We have another witness, Mr. Chairman.

MR. BLOCH: Let's do that.

MR. DECHIARA: ALPA calls as its next

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witness Mr. Gene Weil.

Whereupon,

GENE WEIL

was called as a witness and, having first been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. DECHIARA:

Q Good afternoon, Mr. Weil.

A Good afternoon.

Q By whom are you employed?

A Milestone Merchant Partners.

Q What is Milestone Merchant Partners?

A Milestone is a merchant bank that provides investment banking, financial advisory and restructuring services to a variety of companies, primarily focused on the financial services industry and the airline industry.

Q What is your position with Milestone?

A I'm a founder of the company and currently the CEO of the company.

Q And what are your duties at Milestone?

A My duties are to oversee the operations of

Milestone in general. More specifically I run our investment banking practice and supervise all the activities there at Milestone and at our NASD broker dealer, Milestone Advisors.

I'm also on the investment committee of our affiliate, Milestone Capital, which is a private equity fund that Milestone Capital manages.

Q What is your educational background?

A I received a BA in political science and economics from the University of Wisconsin and a law degree from the Washington University in St. Louis, Missouri.

Q And can you briefly tell us your relevant professional background before you founded Milestone?

A Sure. Prior to forming Milestone, I was a managing director at the investment banking firm Friedman Billings Ramsey and Company. There I was responsible for running the firm's mergers and acquisitions advisory practice, as well as managing a large part of the financial services practice. I worked at FBR from '96 until late 2000.

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Prior to FBR, I was a managing director at a company called Hovde Financial, which was a mergers and acquisitions firm focused on the financial services industry. And while there I also managed a couple of small hedge funds, where we managed money for high net worth individuals.

Then prior to joining Hovde, I was a corporate attorney focused on mergers and acquisitions, corporate finance and restructuring activities, mostly for the law firm Akin, Gump, Strauss, Hauer & Feld, where I worked from 1986 until 2003 and then for a short time in another firm --

Q 2003?

A I'm sorry. From 1986 until 1993, thank you.

MR. SPAN: It's a generational thing.

(Laughter.)

MR. DECHIARA: At least he didn't say 1903.

BY MR. DECHIARA:

Q Turning your attention now to your work at

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Milestone, can you tell us what matters in the airline industry Milestone has handled recently and on whose behalf it has handled those matters?

A Certainly. We've been quite busy in the industry over the last several years, representing primarily labor unions in connection with both in-court and out-of-court restructuring activities. We represented the Transport Workers Union in the American Airlines out-of-court restructuring. Other out-of-court restructurings would include the work we did at Midwest Express Airlines, some work that we did at America West for the pilots in connection

with the merger with USAir.
The in-court activities that we've been involved in would include Hawaiian Airlines, the work we're doing here at Delta today, as well as work that we've done recently at Mesaba Airlines, which is in bankruptcy.
At all of the airlines that I just mentioned, other than American Airlines, we represented the Air Line Pilots Association.
Q Did Milestone perform work on behalf of

the Air Line Pilots Association during the 2004 transformation plan negotiations?
A We did. We worked extensively on the negotiations leading up to letter of agreement 46. And then I'll just add that other senior members of Milestone have also done work in the industry, primarily for creditors committees, where senior bankers there have represented the creditors committee at USAir in the first bankruptcy, the creditors committee at USAir in the second bankruptcy, and at Independence Air most recently.
Q Those matters that you've gone through that Milestone has been involved in in the airline industry, which of those have you personally worked

on and been involved in?

A I've worked on the American out-of-court restructuring, the Midwest Express out-of-court restructuring, the first Delta out-of-court restructuring in 2004, the Hawaiian bankruptcy, and most recently here at Delta in connection with this bankruptcy proceeding.

Q And can you describe for us the type of

work that you and Milestone perform on behalf of your client in these types of airline matters that you've mentioned?

A Yeah. It's generally the same scope of activities at each one of these various situations, whether it's an in-court restructuring or out-of-court restructuring. Our role is generally to come in, to review the company's current financial situation, their future prospects, to critically evaluate their restructuring plan and look at that plan with a view towards the carrier's viability, how that plan will be embraced by the capital markets, both on a short-term and long-term financing basis.

Obviously, we look at what's being requested of our client, in these cases, both of these cases ALPA, from a concession standpoint, and

evaluate the need for those concessions and the
level of those concessions.
And then as we view those concessions,
really as an investment in the airline, we then work
with our client to structure an appropriate return

package for those concessions.
Q Let me turn your attention to the work you
performed on behalf of the Air Line Pilots
Association at Delta in 2004. Are you familiar with
the bankruptcy protection letter, which is part of
letter of agreement 46?
A Yes, I am.
Q Did you participate at all in the framing
or creating of that document?
A While I did not directly negotiate the
terms of that document, I worked closely with ALPA's
counsel on the language and construction of that
document.
Q Okay. I'm not going to ask you about any
discussions you had with ALPA's counsel, but I will
ask you, what was your understanding at the time
regarding, in general terms, the purpose of the
bankruptcy protection letter?
MR. SPAN: Objection. Unless the

understanding is expressed to someone, it's irrelevant.

MR. BLOCH: Well, I think it's -- it can

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be answered. I do agree that that's a relevant inquiry at some point, but I believe the witness can answer the question.

THE WITNESS: The bankruptcy protection letter is really an instrument that was designed to protect the concessions that ALPA gave under the 2004 restructuring and really was put in place, in my view, to provide a liquidity safety valve, if you will, to Delta in the event something were to happen to decrease the company's liquidity position.

It was not a document designed to allow the company to come in and look at changes that needed to be made from the viability perspective or from an equity perspective. It was simply one that really addressed needs for additional liquidity.

Q Did you prepare a set of slides for your testimony here today?

A Yes, I did.

MR. DECHIARA: I'd like to mark Mr. Weil's slides as ALPA Exhibit 55.

(ALPA Exhibit 55 identified.)

BY MR. DECHIARA:

Q Do you have the set of slides in front of you?
A Yes, I do.
Q Okay. And who prepared these slides?
A I prepared these slides.
Q Did you, in preparation -- well, let me ask you, did you perform an analysis of whether the company's request for section 1113 relief is in accordance with the bankruptcy protection letter?
A Yes, I did.
Q And is that set forth in your slides?
A Yes, it is.
Q If you could, starting at the first page of your slides, walk us through your analysis.
A Okay. On slide 1, I just wanted to provide some of the most material terms of the bankruptcy protection letter, and really this is broken down into two components.
First, the qualification that is contained in the bankruptcy protection letter that says that the company is only entitled to section 1113 relief to the extent, and in conjunction with all other

actions taken or to be taken by the company, it is necessary to remedy a material shortfall.

And then a material shortfall is defined two different ways under the bankruptcy protection letter. First, if total liquidity, which is total liquidity is defined as the company's forecast liquidity for the end of each of a two-month period, is 20 percent less than the forecast total liquidity under the company's September 2004, five-year business plan.

The second definition of a material shortfall defines it as if the material shortfall presents a reasonable risk that the company will be unable to maintain the minimum cash balance required by DIP, or debtor in possession, financing covenants.

What I did on the following page is took a look at the first one of these material shortfall triggers. And on this page we address the question of does the company need the additional pilot concessions it seeks to avoid being 20 percent below the forecast total liquidity from the 2004 five-year

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business plan.

What's set forth in this table, in the first row it says "planned ending liquidity balance under 2004 transformation plan" are targeted liquidity levels that came out of the company's 2004 transformation plan.

Q Where do these numbers actually come from?

A These numbers came from a liquidity shortfall notice that was provided to ALPA back in August of 2005, and at the time had targeted liquidity balances starting, I believe, in either August or September of 2005 and going forward here until June of 2006.

So these numbers that you see in that first row come directly out of that notice that was provided by the company to ALPA.

In the second row in yellow, that is just the mathematical calculation of what that 20 percent below the targeted or planned liquidity level would be. So again, under this definition, if you were -- if the company was going to have liquidity that was below those levels that were in yellow, it would

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trigger its ability to have negotiations with ALPA, and then ultimately if those negotiations didn't produce a desired outcome, to proceed to seek 1113 relief.

In the bottom two rows that says projected liquidity under the company proposal and projected liquidity under ALPA proposal, what we've now done is we've gone in and, based on the company's recent five-year business plan that was provided to us -- I think the most recent draft on March 8 of this year. We went in, and using the company's business plan, first for the company's proposal, looked at the company's most recent proposal to ALPA and invented that proposal as adjusted in the company's business plan.

And you can see the level of liquidity that that produces under the plan. And then we did the same thing in the bottom row for ALPA's most recent proposal.

And so what you can see as a result of this is that in both of those cases, but in particular under ALPA's current proposal, the

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liquidity levels that the company will realize here through June of '06 is well in excess of that minimal balance number.

Q In your view, to what extent under this first definition of material shortfall does the company need the level of concessions it seeks from

the pilots to remedy a material shortfall?
A Based on this analysis, I would say that the company doesn't need anything from ALPA to remedy the liquidity shortfall. And that's due principally to the activities that the company has pursued following the giving of this notice to ALPA. Most importantly, the company went out and secured 2.2 billion of debtor-in-possession financing. They pursued other liquidity measures and obviously started to implement their business plan after they filed for bankruptcy in September and have realized the benefits of that plan since filing up to today.
Q And how have those efforts affected the company's liquidity?
A They have provided the company with very significant liquidity.

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Q Let's look at the next page, page 3. Is this an analysis under the second prong of the material shortfall definition?
A Yes, it is. And under this analysis, we looked at the question of does the company need the additional pilot concessions it seeks to avoid a reasonable risk that it will not be able to maintain the minimum cash balance required by the DIP covenants.

I think, as the panel has heard extensively from Mr. Bastian and Mr. Coleman, there are principally two financial covenants underlying the DIP loan. One is a liquidity covenant, the other is an EBITDAR covenant.

Under the liquidity covenant, the company is required to maintain at any given time cash and cash equivalents of a certain amount, and that's represented on this chart by the bottom line, the green line, I believe, of what that minimum liquidity needs to be.

The red line above that puts an additional $250 million hurdle, if you will, on the liquidity

covenant. And the reason that we've included this is the DIP lenders have allowed the company to use up to 250 million in excess liquidity to satisfy their EBITDAR requirement, and I'll talk about that a little further.

So those are the two bottom lines. What we then have done for the next two lines on the chart is, again, using the company's most recent business plan and the financial model underlying that plan, is to run the company's most recent proposal through that plan as well as ALPA's most recent proposal through that plan, to look at what liquidity levels the company would recognize going forward.

And you can see, as indicated, at the low point, or what we call the cushion between the liquidity covenant with the $250 million cushion and the plan under ALPA's proposal, is about $450 million of liquidity or cushion.

Q In your view, to what extent does the company need the level of concessions it's seeking from the pilots to remedy a material shortfall as it

would be defined under the second prong of the definition?

A Again, as with the first test, I don't believe the bankruptcy protection letter would require any concessions out of ALPA to meet this test as well.

Q Are you familiar with the company's in-court business plan?

A Yes, I am.

Q How much in total annual financial improvements is the company seeking under its in-court business plan?

A The company has identified $3 billion of projected improvements, both on the network and revenue management side as well as on the expense or cost savings side.

Q Can you turn now to slide 4 and tell us what that slide shows?

A Yeah. What is set forth on slide 4 and then on slide 5 following this is an analysis where we looked at the company's targeted $3 billion of revenue enhancements and cost savings and wanted to

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analyze between the company's current proposal and ALPA's most recent proposal, how close these two proposals were together, as far as allowing the company to achieve their full $3 billion of targeted improvements.

Q And what's your conclusion, and how did you get there?

A My conclusion is that under both proposals, the company comes very, very close to achieving that full 3 billion.

So if you would look at the first pie chart on page 4, up at the top, this represents the company's current proposal, including costing of its proposal, as provided to ALPA.

Q What are the very -- if you could walk us through the various elements of that pie.

A Certainly. So you can see starting on the
lower right, the company is anticipating achieving
1.1 billion of net worth --
MR. HARRIS: Excuse me. How much of this
is confidential, since it's all labeled
confidential?

MR. DECHIARA: I don't believe any of this
is confidential. The $3 billion financial
improvement in-court business plan, I think, is
public and was part of the company's presentation.
MR. HARRIS: So this particular slide is
not confidential?
MR. DECHIARA: I don't believe so.
MR. HARRIS: Okay. That's all I'm
reminding you of is we're dealing with a mixed bag
here.
THE WITNESS: I'm going to just keep
talking until somebody tells me to stop talking.
(Laughter.)
BY MR. DECHIARA:
Q Keep talking.
MR. GALLAGHER: Is there a question
pending?
MR. DECHIARA: I think the witness was in
the midst of answering -- it wasn't a question, it

was I asked the witness to identify the various elements of that top pie, and he was in the midst of doing that.

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THE WITNESS: And again, I think a lot of this you've heard from Mr. Bastian in previous testimony, but what the company is targeting is 1.1 billion of network and revenue management improvements, 970 million of in-court savings that the company will realize from various things, restructured aircraft leases, the ultimate conversion, most likely, of the unsecured debt of the company.

And then I think you've heard testimony previously that the company is seeking another 930 million of savings from labor. And the breakdown of that is 605 million from cost reductions for the nonpilot employees of Delta --

BY MR. DECHIARA:

Q Is that the slice of the pie labeled "other employment cost reduction"?

A Yes, it is. And then you can see in the yellow slice of this pie where it says "from pilots, 292 million." And what this represents is the company's costing of the average savings that it would realize from the pilots under its most recent

proposal.
Q Is that average, or is that 2007?
A That's average. 2007, I believe, is slightly over 300 million, I think 302 million.
Q And then there's one very narrow sliver that says "unidentified cost reduction." Can you explain what that is?
A Yeah. What that is is that's the difference from the 292 million to the 325 million that the company was originally seeking from the pilots in order to get the full $3 billion of projected improvements.
Q What has the company said about that piece?
A I believe what Mr. Bastian said is that he felt comfortable that they would achieve that spread between the current costing of their proposal and the 325 million from other means. I'm not sure he identified what those were, though.
MR. SPAN: I'll object to that characterization of the testimony.
MR. DECHIARA: I'm sorry, which

characterization?

MR. SPAN: Characterization of Mr. Bastian's testimony.

MR. BLOCH: I think we'll just let the record speak for itself on his testimony.

MR. SPAN: Thank you.

MR. BLOCH: I'll sustain the objection.

BY MR. DECHIARA:

Q Can you identify the bottom pie?

A Sure. Under the bottom pie chart, we're doing the same analysis, but here we're using ALPA's most recent proposal and the costing that ALPA has indicated. So I won't go through the whole chart again, but you can see in that yellow slice from pilots that indicates 139 million of average annual cost savings.

Again, I think the actual number under ALPA's costing for '07 is slightly above that number. And I still have that $33 million unidentified cost reduction that we just spoke about above, which leaves a difference of $153 million.

So, you know, based on looking at these

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two charts next to each other, you can see that under ALPA's proposal, the company would achieve 95 percent of its in-court business plan target.

Q What would this analysis look like if we used the company's analysis of what the difference is between ALPA's and the company's proposal?

A I believe the company has indicated under their costing that the difference between the ALPA proposal and their proposal is 190 million. That's set forth in the second footnote on this page, which is about 6 percent of the 3 billion. So under the company's costing, they would get to 94 percent of the in-court business plan target, versus under ALPA's costing, 95 percent.

A couple other things of note here. One, in this bottom pie chart, it does not include any additional savings from the pilots defined benefit pension plan termination, which I'll address in a minute, and then just order of magnitude, wanted to indicate that that $153 million difference is less than 1 percent of the company's projected 2007 revenue target of 16.3 billion.

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Can I go to the next page?

Q Please.

A So what we did on the next page, on page

5, is again we did the same analysis, but here we looked at, with the net expense savings from the pilot pension plan termination, what ALPA's proposal would allow Delta to achieve.

As you can see here, if you include the expense of -- the net expense of the pension plan termination, you can see that our analysis shows that the company would recognize 99.6 percent of its $3 billion target improvement amount.

Just a quick analysis of how we got there. Here we come up with a net pilot pension plan termination expense savings of $140 million. The way that we got there was we started with a number, an expense number for the company, for both the qualified and nonqualified defined benefit plan in '07, with an aggregate of $201 million. We subtracted from that just under $50 million to reflect ALPA's most recent proposal, which contains an additional 6 percent defined contribution plan,

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and then we added to that one quarter's worth of interest on the replacement notes that's contained in -- I guess in both proposals, but we're we've used one quarter of interest expense that was approximately $12 million, which gets you to just over a $60 million number.

You subtract that from the 201 million, and you get this net savings to the company of 140 million.

So you can see if you then add that 140 million of additional savings to the 139 million of concessions, costed by ALPA on the previous page, you get to this $279 million number, which is again the yellow slice of this pie chart, which leaves a difference from the $3 billion target of $13 million.

Q I believe you've testified that there are certain financial covenants in the company's DIP financing loans.

A That's right.

Q Is that correct?

A Yeah, that is correct.

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Q Have you reviewed these covenants?

A Yes, I have.

Q To what extent do these covenants require the company to obtain concessions from the pilots?

A They don't contain any requirement to obtain concessions from the pilots. They're simply financial metrics that the company must meet on a monthly basis.

Q Have you done an analysis of whether the company would avoid a breach of these covenants if it obtained no more in pilot concessions than ALPA is offering?
A Yes, I have.
Q Okay. Can you turn to page 6 and explain the analysis that's set forth there?
A Sure. As I mentioned before, the two primary financial covenants under the DIP loans are the liquidity covenant, which we talked about previously; the second is an EBITDAR covenant, which looks at the company's trailing 12-month EBITDAR on a monthly basis as it rolls forward.
So what we've done on this chart is we've

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looked at the company's projected compliance with that EBITDAR covenant, again using the 2006 financial plan that the company provided to us. Again, the most recent draft of that was March 8.
And on top of that plan, we've laid the most recent ALPA proposal and the changes envisioned in that plan from that proposal, as well as the company's most recent proposal.
And you can see on this chart on page 6 that once you do that, you get to a low point or a cushion amount of $321 million under ALPA's most

recent proposal.

Q Looking at this chart, under the company's proposal and under ALPA's proposal, can you describe how close or not close those two lines are at the low point?

A Yeah, certainly. You can see that the lines are very, very close, almost on top of one another, so a fairly insignificant difference.

Q Did you do a -- an analysis of the EBITDAR covenant compliance last fall?

A Yes, I did. We ran a similar analysis to

the one I just referred to on page 6. And if you go to page 7, what I've done is looked at -- under the company's plan as it existed back in September of '05 and compared that to the company's plan as it exists today with its most recent proposal.

So both of the top lines on page 7 represent different versions of the company's plan, or really very similar versions of the company's plan, but at different points in its evolution through the bankruptcy process.

What you can see here is in the middle line, which is an analysis done off of the company's September 2005 plan, you can see there the low point or cushion amount above the EBITDAR covenant is 181 million.

In light of the performance the company has had since filing for bankruptcy, as it's begun to implement its in-court transformation plan, the top line then looks at that same cushion amount under the most recent financial model and the company's most recent proposal. And you can see there that it's a cushion of 322 million.

MR. SPAN: Mr. Chairman, just following up on Mr. Harris's question earlier, I think these last two slides, since they do contain information from the latest forecast, should be considered confidential. I don't think any of the testimony so far has given away those numbers, but I do want to make sure that we are careful on where we go.

MR. BLOCH: Thank you.

BY MR. DECHIARA:

Q Without stating the numbers that are on the page, can you just describe in words what you believe is the significance in the change in the EBITDAR covenant compliance from last fall to now?

A Yeah, I think this is one indicia of the company's success that it's realized under its bankruptcy plan. And you can see there's obviously been substantial additional cushion that the company has recognized under this EBITDAR covenant.

I also think it's interesting to note that if you look at the cushion under the company's March 2006 plan and their current proposal, and you compare that on the previous page to the cushion

under ALPA's most recent proposal, the numbers are virtually identical.

Q Did you hear Mr. Bastian's testimony concerning what the EBITDAR covenant compliance results would be if fuel went up to $2 a gallon?

A Yes, I did.

Q I'd like to ask you some questions about that. But before I do, I'd like to mark a document as ALPA Exhibit 56 entitled "financial Update," dated September 12, 2005.

(ALPA Exhibit 56 identified.)

MR. BLOCH: Counsel, before we get into this area, why don't we just take a brief break, okay?

(Recess from 3:32 to 3:53 p.m.)

MR. BLOCH: Let's reconvene, if we could. I think we're ready to proceed, Mr. DeChiara.

BY MR. DECHIARA:

Q Before the break, I think I had asked you about the company's testimony that if fuel hit $2 a gallon, the company would breach its EBITDAR covenant. Do you agree with the company's analysis?

A I don't agree with the company's analysis.

Q Okay. I've -- before the break, I distributed a document which I marked as ALPA Exhibit 56, and I would first ask you if you can identify this document.

A Yes. This is a financial update that the company provided to ALPA and its representatives, including myself, on September 12, 2005 at the company's offices in Atlanta.

Q Let me refer you to page 23 of this document.

MR. SPAN: Mr. Chairman, just -- I had indicated to Mr. DeChiara that there is confidential information in this exhibit. I think Mr. DeChiara is only intending to look at page 23, which we will agree does not have confidential information or currently confidential information. But I just wanted to state for the record that anything else in here could be.

MR. BLOCH: Thank you.

MR. DECHIARA: I plan to limit the

examination to page 23.

BY MR. DECHIARA:

Q Now, turning your attention to page 23, could you explain what this page shows?

A Yeah. What this page embodies is the company had developed a mitigation strategy in the event fuel were to go up to levels well above where their plan was at the time that this document was produced.

So what this does is it really numerically walks through that fuel mitigation strategy and --

Q Before we get into the numbers, if you could explain, as you understand it, conceptually how it worked, what are the moving pieces, so to speak.

A There's really two components to the mitigation strategy. One is fare increases, where the company believes it can pass on some of those fuel costs, enhanced fuel costs, to the consumer. The second piece is what they call a net capacity reduction, and it's an analysis whereby the company would reduce its capacity, its flying capacity, on its least profitable and unprofitable routes. And as a result, they would lose the revenue from that capacity reduction, but the cost savings that would be realized from that capacity reduction would more than offset the lost revenue.

So what this chart does on page 23, if you'll focus on the middle row numbers, is this looks at a scenario where fuel has gone up just over $2 a gallon. So at the time this was developed, I think the company's business plan had anticipated fuel expenses of approximately $1.72 per gallon. And what this looks at is a $70 cost per barrel.

And then in addition to that $70 cost per barrel there's an additional $15 crack spread, essentially the refining cost to turn that barrel of oil into jet fuel.

MR. BLOCH: Just for my own clarification, do you know, Mr. Weil, whether this sort of assumption, particularly the fare increase, accounts for any elasticity in the market? Does it account for any ability to offset driving people away with a higher fare increase?

THE WITNESS: You know, I really don't

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have an answer to that. I know that the percentage increase that the company believes it can pass on as a result of fuel increases in this analysis is fairly widely held by the industry, which is approximately 30 percent of the increase.

MR. BLOCH: So the assumption, at least, is that there would be no reaction by raising the fare to this level?

THE WITNESS: That's correct. I think it's also probably further cemented by the fact, I don't know if the panel saw last week that Southwest came out with a $10 fare increase and virtually the entire industry followed suit. So I know there was about a dozen carriers that raised prices last week.

BY MR. DECHIARA:

Q If you could -- let me just ask you, you mentioned a $15 crack spread. First of all, for those of us who are less familiar, can you tell us what the crack spread is and where you got that $15 number?

A Sure. As I said before, the crack spread is what it takes to take a barrel of oil and refine

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it to jet fuel that could be used by Delta or other airlines to fuel their planes. The $15 number came out of this presentation, so that's -- it's not on this page, but it is part of the company's assumption going into this middle column of $70, which as I said would equate to just over $2 per gallon fuel cost.

So just to walk through the numbers here, the difference between the assumed fuel cost in the company's plan of approximately $1.72 per gallon and what's set forth in this middle column would equate to $770 million of additional costs that the company would realize annually for that fuel increase.

Their belief is that they could offset approximately 30 percent of that through fare increases that would be passed on to the consumer, which gets you to a net fuel price impact of a negative $549 million.

What their mitigation strategy then anticipates, under this scenario, is just under a 9 percent capacity reduction. So based on that capacity reduction, they would lose $742 million of

revenue, but they would realize on that capacity reduction 1.162 billion of cost savings.

So the net effect from that capacity reduction would be a savings of $421 million. You add that to the $221 million of fare increases, and

what you end up with is the company would only realize on its bottom line 17 percent, approximately, of that increased fuel cost.
Q Turning your attention to page 8 of your slides, could you tell us what page 8 shows?
A Page 8 simply is taking this numerical table on page 23 of the September 12, 2005 financial update and putting it into a tabular format. But it's essentially the same information.
Q And what at the end of this fuel mitigation process is the percentage of the fuel increase that is mitigated?
A It would be 83 percent under this scenario.
MR. DECHIARA: I move the admission of ALPA Exhibit 56.
MR. SPAN: No objection.

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MR. BLOCH: It will be admitted. Thank you.
(ALPA Exhibit 56 received.)
BY MR. DECHIARA:
Q Have you done an analysis on EBITDAR -- an EBITDAR covenant compliance analysis where fuel is at $2 a gallon and the company implements this fuel mitigation strategy?

A We have. We've done an analysis looking at both the EBITDAR covenant and liquidity covenant.

Q Can you walk us through those?

A Yeah. On page 9, we look at the EBITDAR covenant. Again, we've taken the company's most recent business plan, adjusted the plan to contemplate $2 a gallon of fuel costs.

And what we've done here is we've adjusted the mitigation strategy that I just walked through by only capturing 50 percent of fare increase component.

Q Why did you do that?

A The reason we did that is a couple of reasons. One, the fuel assumption for 2006 under

the company's current business plan is $1.74. This takes fuel to $2 a gallon. Fuel, obviously, is very volatile, the price of the fuel. And the panel has heard a lot of testimony about that.

I looked at fuel today, and I think the price of crude is about $60, with the crack spread around 17.50, which gets you to about $1.85, $1.86 per gallon level today. You know, that's roughly halfway between the $1.74 and $2.

Additionally, as I just mentioned before, there was just a price increase that flowed through the industry last week on the heels of Southwest increasing their price $10 per flight. So we thought it would be on the conservative side to only include 50 percent of that price increase component in the mitigation strategy.

Q Okay. So your analysis doesn't assume full implementation of the complete fuel mitigation analysis?

A That's correct. It contemplates half -- 50 percent of the fare increase component and the full amount of the net capacity reduction component.

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So what you can see on this chart, similar to the EBITDAR covenant analysis charts that the panel had seen before, is now the cushion under this scenario would be $214 million, that would be the low point above the EBITDAR covenant line. Again, in my view, plenty of cushion, even under this scenario.

Q Okay. Just to put that in context, if we flip back to slide 7, how does that compare to where the company's cushion would be under its own proposal last fall?

A It's still greater than that analysis, which I believe indicated $181 million cushion.

So then on page 10, we've done the same analysis with fuel being just above $2 a gallon, but we've now looked at it with the adjusted mitigation strategy under the context of the liquidity covenant. And you can see on this chart that the low point or cushion would be $243 million above the liquidity covenant and the $250 million EBITDAR cushion.

So, you know, I think what this

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illustrates is that if fuel gets to $2 a gallon and stays at that level, it's not as though the company doesn't have means to offset the cost of that additional fuel price; we've got the mitigation strategy that I just walked through --

Q Any other tools the company may have available to help it combat that kind of a fuel price increase?

A Yes. I think Mr. Bastian indicated in his testimony that the company had started to hedge, where appropriate, some of its fuel needs. Given the liquidity levels that the company has realized through the DIP financing and under its plan, and I believe with the approval of the bankruptcy court, the company has the ability, when fuel prices dip,

to go into the market and hedge their fuel costs so that they can use that as a mechanism to keep the cost down from future price increases as well.
Q Okay. To the extent that the company had hedged, would it be actually paying $2 for fuel?
A No, whatever the level is that they had hedged at, that percentage of their fuel needs, the

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cost would be locked in at a lower rate.
Q In addition to the scenario where fuel is at $2 a gallon, we also heard from the company's presentation a scenario looking at the covenant compliance if the company realized only 50 percent of its projected RASM growth. Do you recall that presentation?
A Yes, I do.
Q Okay. How likely do you think it is that the company going forward would capture only 50 percent of its projected RASM growth?
A I think it's highly unlikely that the company would find itself in that position for several reasons. I think, first off, as we've seen in some of these slides, and has been, I think, testified at this hearing in the past, since the company's bankruptcy filing, their financial performance has been quite good, you know.

Q Do you recall any testimony from Mr. Bastian indicating how much ahead of target they are?

A I don't have an exact dollar figure, but I

know in testimony I believe Mr. Bastian has indicated that, and he certainly has indicated that in periodic financial update meetings with ALPA and its representatives.

So I think, clearly, the company is tracking very well with respect to its in-court plan.

I think the second thing you need to look at is -- and this goes back to the 2004 transformation plan. You know, the company historically has been very good and very accurate about projecting what its revenues would be and what its expense savings would be. And if you go back and you look at that plan, it's really the only big negative under that plan was the cost of fuel.

And so I think historically, like we have in the current model, the company has done a very good job of meeting its projections.

Q When you were working for ALPA back in 2004, involved in Delta negotiations, did the

company make presentations at which you were present
in which it reported on its success or lack thereof

of meeting its revenue targets under the 2004
transformation plan?
A I was present for several of those
meetings but not all of those meetings.
Q Let me ask you, then, more broadly, what
is your understanding about the company's success or
lack thereof in terms of meeting its revenue
projections under its 2004 transformation plan?
A I think the company has done a very fine
job of meeting its projections under that plan.
I think the last component I would mention
would be -- and Ms. McAhron-Schulz testified to some
of this a little while ago -- is if you look at
where the industry is today and what's projected in
the industry today from the point of view of
passenger RASM growth, it's very, very healthy. I
believe Ms. McAhron-Schulz testified that for
February industry year-over-year passenger RASM
growth was up 15 percent in February. I believe it
was up just under 10 percent in January. And I
think I read one recent analyst estimate that -- I
think it was a J.P. Morgan analyst that estimated

that Delta's February year-over-year passenger --
mainline passenger RASM growth would be right around
20 percent.
So you've got a tremendous trend in the
industry where you're seeing very, very significant
passenger RASM growth. Embedded within that and
within the company's plan, their projections for
passenger RASM growth --
Q And I would ask you not to reveal
particular numbers.
A That's fine, for 2006 are actually below
what the industry estimates are. So I think the
company is being very conservative in its approach
to that passenger RASM growth. And as a result of
that and as a result of the trend line in the
industry, again, I think the likelihood that the
company would miss its projected passenger RASM
growth by 50 percent is extremely unlikely.
Q Are you familiar with the amount of DIP
financing that the company has obtained?
A Yes, I am.
Q Okay. Let me ask you to turn to slide 11

and ask you, first, how much DIP financing has the company obtained?

A As indicated on this slide, Delta had projected back in September that it was going to obtain 1.7 billion of DIP financing. After going into the market, and I think Mr. Coleman testified how happy he was about this, the company was very successful and obtained 2.2 billion of DIP financing.

Q What does that say to you about the level of interest among lenders in lending money to Delta?

A I think it clearly indicates that there was significant interest, and I believe the transaction was oversubscribed by institutional investors willing to lend Delta money.

Q Okay. The title of slide 11 says, "Delta has obtained ample DIP financing which is currently trading at a premium." For those of us who are less versed in this sort of thing, can you tell us what that means, that the DIP financing is currently trading at a premium?

A Sure. You can see in this table there's

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three different issuances or tranches of the company's DIP financing. The first three was a consortium of lenders, led by GE Capital and Morgan Stanley, aggregating 1.9 billion. The fourth piece was the AmEx participation in a DIP loan, which was a very different part of the total DIP financing.

But if you focus on the top three tranches, while GE Capital and Morgan Stanley have led the syndicate of lenders, once the DIP loan closed, pieces of that DIP financing have begun to trade among investors.

And so when we refer to trading at a premium, what's happening is people that are willing to buy portions of that DIP financing from one another are willing to pay a premium in order to own it.

And if you look at the column on the far right side of this table, I believe these numbers are from the end of February, you can see that the current price relative to par is roughly 104 percent.

So what that means is if you've got a note

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that has a par value or face amount of $1000, an investor would be willing to buy that note for $1040. So effectively, what happens is the company still pays the same interest rate that's stated on that note. When they pay it back, they still only have to pay back $1000. But this new investor has paid a premium for it, and so what results from that is the yield that they are going to realize on that is lower than the interest rate that the company is paying.

So if you look at that second column from the right, you can see based on these premium levels, the current investor yield to maturity is much lower than what the company is paying, which is indicated in that middle column.

Q And what does that say to you about lenders' interest in lending money to Delta Air Lines?

A Well, what's interesting about these premium levels is I went in and I looked at where other like types of senior secured financing trades in the airline industry. That I know of right now,

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I don't know of another DIP financing that traded.

What we've looked at is where United's exit financing trades, where USAir's senior secured debt trades, where the Northwest, which is in bankruptcy, their term loan trades.

And what's interesting is at least as of the end of February, Delta's DIP financing trades at a higher premium than anybody else in the industry. What that indicates to me is, obviously, there's two drivers here. One is the yield on this debt, you know, what interest rate the company pays. The second is the credit quality or risk-adjusted analysis of the company.

So the greater the premium is to face value, the greater the argument would be that the company is a better credit risk and, therefore, should be able to borrow money at a lower rate.

Q I would caution you, the next series of questions I ask you not to reveal any particular dollar numbers, even if you know them.

Did you hear Mr. Bastian testify that the company is in the process of trying to renegotiate

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its DIP loan with GE?

A Yes, I did.

Q Okay. If that process were successful, would that affect the interest rate that Delta would pay on its DIP loans?

A It would. You know, I believe the company is looking at a combination of repricing its DIP financing with GE and possibly reducing the aggregate amount of its DIP financing, and I think as a result has the opportunity to realize

significant savings on the interest that it
currently pays under these various DIP facilities.
Q Okay. Now, moving on to the question of
long-term viability and the company's ability to
attract equity investments and exit financing. Have
you formed an opinion, given your work for ALPA in
this case, as to whether or not Delta, with no more
in pilot concessions than the pilots are currently
offering would be able to achieve long-term
viability and attract equity and financing?
A Yes, we have.
Q Okay. Can you give us a general overview

of how you -- the analysis you used to arrive at
that conclusion?
A Sure. What we've done is looked at
comparable network carriers in the market under
scenarios where they have recently accessed both the
equity markets and debt markets and have used those
situations as a way to kind of get a view on where
the market is today and how they would ultimately
look at Delta in the future.
Obviously, capital markets change. It's a
very dynamic market. But this is the best
information that we've got today to sort of have a

view of where those markets would be.
And what we've done is, as you just mentioned, we've gone in and we've looked at, okay, let's assume that the company is on target with their transformation plan, the $3 billion targeted plan, but with ALPA's current proposal. And as I took you through previously, based on ALPA's current proposal and savings that the company would realize from the termination of the pilot pension plans, they would be very close to that $3 billion targeted

number.
What we've done through this analysis is we realize focused in on EBITDAR and the EBITDAR margin. And --
Q Okay. Let's -- if I may, let's look at slide 12, and maybe you can start to walk us through the analysis.
A Sure. If I may, just a quick note about EBITDAR margin.
Q Sure, sure.
A I think Mr. Coleman testified pretty extensively about EBITDAR margin as a primary driver in the industry, where equity and debt investors really look at as kind of the primary method of analyzing the viability and financial health of a

company.

Because what it does is it establishes what the company's operating cash flow is, it approximates that, and also shows, one, where the company is relative to its peers from an operating standpoint and, two, the amount of cash flow that's available to pay for, you know, nonoperating items,

like interest, aircraft rent, taxes, capital expenditures, et cetera.

Q So do you agree with Mr. Coleman that EBITDAR margin is a key metric?

A I do. I think it is really the primary driver that the investors are going to look at.

So what we've done in this next set of slides is we've looked at recent equity offerings in the market for comparable network carriers. And what we've done in the box on each one of these pages is look at what the projected EBITDAR margin was for these companies at the time of the offering.

So I'm going to get here toward the end of my presentation what their EBITDAR margins are projected to be for 2007. But for purposes of this analysis, we wanted to look at what did investors see and what were they thinking about these companies at the time they provided capital to these companies in the form of equity or debt.

So on this first slide, we look at USAir, and you can see that this was immediately following USAir's merger with America West, which I think

closed right around the 27th of September. Immediately thereafter, they did a $180 million common stock offering, and the best estimates for the company at the time of the offering were an EBITDAR margin of 11.3 percent for '06, the next year following the offering, and 12.8 percent for '07.

On the next slide we've looked at the same financial metrics for Continental. They did a common stock offering just over $200 million toward the end of October of last year. And you can see their '06 projected EBITDAR margin was 13.5 percent, and 2000 projected EBITDAR margin was 15.1. Again, these are from research reports in the market at the time of the offerings.

MR. BLOCH: You meant 2007?

THE WITNESS: 2007, I'm sorry.

And then the last equity offering that we looked at is by American Airlines. This occurred at the end of November of 2005, just under 225 million of common stock. And their '06 EBITDAR margin was just under 12 percent, 11.9, and 2007 projected

EBITDAR margin of 12.4 percent.

BY MR. DECHIARA:

Q Since those equity offerings last fall, how has the stocks of these three carriers performed in the stock market?

A Yeah, they have done quite well. What we've done on the next three pages is we've looked at how the stock price has performed since the date of these offerings. And you can see on page 15 that USAirways is up 58 percent. I believe these numbers are as of March 10, by the way.

On page 16 Continental has more than doubled, the stock is up 105 percent since their offering in October of last year. And American is up 51 percent since their offering in November.

Q And in addition to looking at the rise in stock price, did you look at any other indication of the attractiveness of the stocks of these carriers?

A We did. What we've done is we've gone in and looked at a variety of analysts' commentary and recommendations on these three carriers.

Q For those of us who are not familiar with this, can you explain who these analysts are and what sort of recommendations they give?

A Sure. On page 18, you can see that we've indicated for USAirways, Continental and American, in each box the analyst recommendations. What this represents is research analysts come out periodically and will write a report and rate a stock.

The analysts that cover the airline industry are predominantly the major Wall Street banks. I think there was testimony earlier about a Goldman report. But Goldman, J.P. Morgan, Bear Stearns, City Group, Lehman Brothers, Morgan Stanley all cover the airline industry, and most write on these three companies.

In addition to the major Wall Street banks, there typically are a couple of niche boutique banks that are really airline specialists, like Calyon and folks like that, that also cover these stocks.

So what's indicated here on page 18 is Yahoo, Bloomberg, a number of financial

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intermediaries and financial reporters, track where these various analysts are on a particular stock. And you can see under these, they rate the stocks anywhere from a strong sell to a strong buy.

And as indicated on page 18, you can see that the recent analyst recommendations, I think as of last week, all rated these three airlines, USAirways, Continental and American, as either a hold or neutral or better, up to a buy or a strong buy.

So, you know, I think what's indicated by these ratings is clearly, these research analysts believe that these three companies are very viable companies that have great prospects for growth and that their stock is more than likely to go up in the future.

Q In addition to the recommendation themselves, I believe you testified that the analysts produce reports?

A Yes, they do.

Q Did you review any of those reports?

A Yes, I've reviewed several of those

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reports.

Q Can you give us a sense of the sorts of

things that these analysts are saying about these
stocks?
A Sure. You know, I think it kind of breaks down into two components across the board of why these analysts are recommending the stocks in the airline industry right now.
The first is this passenger RASM growth that we've spoke of previously. And it's really driven by capacity discipline. And I think Ms. McAhron-Schulz testified to this earlier. These network carriers, by and large, are at least keeping capacity level or reducing capacity at the same time that they're increasing their prices. So the yield on the seats that they sell is greater, and it's resulted in a very significant revenue acceleration for these companies on a RASM basis.
The other thing that the analysts have focused on is really the cost containment components of these various carriers. And they have kind of looked across the industry and have identified

carriers that have done a good job at maintaining good cost discipline and, as a result, are showing more profitability, particularly from an EBITDAR perspective, than they had in a number of years.

And so it's really those two drivers, even
in the face of increasing fuel costs, that's causing
these analysts to recommend these stocks to their
customers.
Q I'd like to show you a page from Company
Exhibit 92, which was Mr. Coleman's deck of slides.
And I'm showing you page 38.
On page 38 at the second-to-bottom bullet
point, Mr. Coleman says, "Many are buying airline
stocks as a bet on lower fuel prices, unrelated to
long-term viability prospects."
Do you have a comment on that assertion by
Mr. Coleman?
A Yes. I mean, I guess the first thing I
would say is, you know, I don't think I've got the
ability to go in and look at the motivation of these
investors and understand why they're buying these
stocks at a particular time, and I find it hard to

believe that Mr. Coleman would as well.
Q Let me just ask you, there's no source on
page 38. Do you know where Mr. Coleman got the
basis for his assertion?
A I do not.
Q Okay.
A What I would say is, you know, clearly,

these offerings went into the market through institutional offerings. As I testified before, the stocks have continued to trade up fairly significantly since these offerings. So clearly, both the street analysts that I was talking about previously and the investors that are buying these stocks, you know, believe that they're good investments for a variety of reasons.

The other thing I would say is I took the opportunity to go in and look at who the investors were, in particular in USAirways, Continental and American. And institutional investors are required by the SEC to file reports with the SEC about their holdings in particular companies. So you've got the ability to go in and look at, at any given time, who

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these investors are.

And if you look at the investors through recent filings for these three companies, USAirways, Continental and American, while there are some hedge fund investors in these companies, you know, each one of these companies has kind of a who's who list of mutual fund and institutional investors in their stocks, you know, people like Fidelity and Wellington and Oppenheimer and T. Rowe Price and

Capital Guardian, you know, very well-established, long-term investors that clearly are not momentum-driven, minute-by-minute type investors.

So I can't say that Mr. Coleman was all the way wrong, you know, because he does make the case that these hedge momentum investors kind of focus on the airline industry as a hedge, if you will, against fuel going down, it's a good bet for them if fuel goes down.

But I think, more importantly, you clearly have broad investor bases in these companies that believe they're good investments and that they clearly are viable companies, with good, long-term

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prospects.

MR. SPAN: I'm going to object and move to strike the answer. The witness started off by saying that he can't get into the motivation of investors, and he's spent the last few minutes describing what he believes is going on in the minds of the investors.

MR. SIMON: What's good for the goose is good for the gander. Coleman did exactly the same thing.

MR. BLOCH: I'll accept your observations.

(Laughter.)

BY MR. DECHIARA:

Q We've talked about interest of the equity markets in network -- the three network carriers. Let's now turn to exit financing. What is the comparable that he used to look at with exit financing?

A What we've done on page 19 is look at United Airlines recent exit from bankruptcy. This occurred, I believe, the beginning of February, end of January. So it's very recent. And I think it's

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a very good comparable for prospective exit financing for Delta in the future.

Q Can you on page 19 walk us through your analysis of United exit financing?

A Sure. United recently obtained $3 billion of senior secured exit financing. The financing is a six-year -- primarily a six-year term loan with very little amortization. So it provides for a 1 percent amortization of principal per year for the six-year term.

Initially, when United's lenders went out to find participants in the syndicate -- and I think this facility was led, again, by GE Capital and CitiGroup and J.P. Morgan, Chase -- they were looking for financing somewhere in around the 2-1/2 billion dollar level. They received subscription offers at twice the amount or a little over twice the amount that they were looking for, for people interested in participating in the exit financing.

Q And what's the significance of that, in your view?

A Yeah. As a result of that, they upsized

the size of the facility to the $3 billion, and I think most importantly, had initially gone out with a projected spread or a projected cost on this financing of 450 basis points over LIBOR.

Q Can --

A But given the interest that was out there in the market and the demand for this security, when they closed the deal, the actual spread was 375 basis points over LIBOR. So a savings of 75 basis points per year on $3 billion.

Q Okay. Just in case anyone is not familiar with what BPS over LIBOR is, if you could just very briefly give us an English translation of that.

A Sure. 450 basis points is 4-1/2 percent, over LIBOR, which is the London interbank offering rate. It's an institutional debt indicator that's widely used in the financial markets as a benchmark

of interest rate.
I believe that in Delta's current DIP financing, the A tranche, or the most senior tranche that's best secured by collateral in its DIP facility, has an interest rate of 450 basis points

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over LIBOR as well.
So, you know, as an entire facility of $3 billion, 375 basis points over LIBOR is a fairly attractive cost, in my opinion.
Q Okay.
A I also, I think, read recently that USAir is looking to refinance some of its current debt that's outstanding, its senior secured debt. And industry estimates are somewhere in the same neighborhood, that it would price at around 350 to 375 basis points over LIBOR.
Q What is -- the testimony that you just went through so far on United's exit financing, the terms of United's exit financing, what, if anything, does that tell you about the level of lender interest in lending to United?
A It tells me that the interest is quite high. I think you also need to look at what Delta's common stock has done as well, because that has

started to trade since the company emerged from bankruptcy.
Q And what has it done?

A It's gone up nicely. I think here we've indicated that from where it started to trade, it's gone up by 9 percent. This was as of the 6th of March. I looked at it at its close yesterday, and I think it's a little over $40 a share as of the close yesterday. So if you factor that in, it's up about 17 or 18 percent since it started to trade.
MR. HARRIS: I think you said Delta, and I think you meant United.
THE WITNESS: United, I'm sorry. Thank you.
MR. HARRIS: That's all right. I just wanted to make sure the record was right.
BY MR. DECHIARA:
Q It's getting late in the afternoon.
A What I think is not set forth in these numbers is where United stock had started to trade was much higher than the holders of that stock initially thought. So when the creditors at United exchanged their claims for common stock, estimates were given by their advisors of the value of that stock and where the advisors thought that stock

would trade, once it started to trade in public markets.

It started to trade at levels that, I think, were double or more than double of what the estimates were. So you had this run-up, if you will, in the value of that stock even kind of prior to trading. And then, as I said, since it started to trade, it's up about 17 percent.

So I think what -- if you look at United as a proxy, I think it's interesting, because what it says to me is while you've got a senior secured facility with collateral at United, you've got a lot of lenders and, obviously, equity holders as well that are interested in the company and clearly believe that it's viable.

Q Let me show you page 39 from the same deck of Mr. Coleman's slides. Page 39 is Mr. Coleman's slide discussing the United Airlines exit financing. And let me just quote the top bullet point.

He says, "Success largely due to significant collateral coverage."

Do you agree with that?

A Well, I think that the collateral coverage is one thing that investors in United's exit financing looked at, but I don't think it's the only thing. You know, I think what you've got to look at is, you know, first off, again if you look back to the equity, you have clearly got equity investors at United that have no collateral and continue to invest in the stock and trade the stock up, and so they clearly believe that the company is viable and has good prospects for the future.

I think, second of all, that the investors in United's exit financing, they're not just looking at the collateral. You know, they're looking at the company's business plan because they expect to get paid, and they expect this facility to be paid off at the end of six years.

And if I may, just to use an analogy, maybe, to a mortgage loan, which I think everybody has and understands. When a bank makes a loan on the house, clearly, the bank is looking at the appraised value of that home as part of their protection for making that loan.

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But more importantly, what they're looking

at is, you know, does the borrower have the ability to repay that loan, so that the bank never has to come in, foreclose, take the house and sell it.
These investors at United, in my opinion, are the same thing. You know, while they do look at the collateral, none of these investors has any interest in having to liquidate that collateral and determine if they are going to get fully paid out on their loan.
You know, they're looking at United's plan. They're looking at the EBITDAR margin and the cash flow coverage under that plan, determining if they're going to be able to -- if United is going to be able to service the debt and ultimately go back to the capital markets to either replace this debt with equity, pay down this debt, or replace it with additional debt or new debt.
So that, in my mind, is foremost in these investors' minds of why they're making this loan and why they're getting comfortable with this loan.
Q Okay. Just to summarize so far, given the

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foregoing analysis of these four carriers, what's your view about whether these carriers are viable carriers that can attract equity investment and financing?

A Yeah, I think clearly the capital markets have kind of spoken on the subject and have obviously provided equity financing in three scenarios and exit financing for United in the fourth scenario and, in my view, clearly believe these are viable companies.

MR. DECHIARA: Mr. Chairman, if we could go off the record for a second.

MR. BLOCH: Sure.

(Discussion off the record.)

MR. BLOCH: Let's continue.

BY MR. DECHIARA:

Q Turning to page 20, Mr. Weil, if you could tell us what your analysis is on page 20.

A Sure. What we've done on --

Q Concerning the Delta projected economic metrics and the comparables that we've gone through.

A What we've done on page 20, and really

through the remainder of this presentation, is look at a number of financial metrics, at Delta -- both under projected financial metrics at Delta, under ALPA's current proposal and under the company's current proposal, and have compared those to these comparable network carriers, and we've used United, Continental, USAirways and American.

The sole rationale for doing this is what we wanted to do was look at Delta with their projections for '07 and make a determination of did we think that the capital markets would embrace the plan, embrace these financial metrics, relative to comparables in the industry, and as a result of embracing these metrics and the plan, provide the necessary financing for Delta to exit bankruptcy and exist as a viable carrier.

So on this first page, on page 20, I've spoken before about the importance of EBITDAR margin. What we've looked at here is analyst projections for these four comparable companies.

And you can see on the right side of this chart that the 2007 EBITDAR margin average for the

four companies is 13.7 percent. Again, EBITDAR margin is derived from taking projected EBITDAR, dividing it by revenue. And you can see that based on this average of 13.7 percent, under ALPA's current proposal, based on the company's five-year business plan, the company's projected 2000 EBITDAR margin would be 14.2 percent, which clearly is above the average and is above all the comparable carriers except for Continental.

Q Can you tell us what you did on the next slide?

A Sure. On the next slide, we ran the same analysis, the only difference being we've adjusted the costs at each one of these companies for a $2 fuel price. We've gone in, looked at the projections of each of the comparable companies, taken their fuel assumptions and adjusted it to a $2 per gallon fuel cost.

Q By the way, for the Delta numbers, did you assume the fuel mitigation strategy?

A We did not. So for purposes of this slide, to allow us to kind of look at apples to

apples, we've adjusted all the carriers, including Delta, without any type of fuel mitigation analysis.

Again, what you can see on this slide is that with fuel at $2 per gallon, the 2007 EBITDAR margin on average of the other four carriers would be 11.3 percent, and then under ALPA's current proposal and the company's business plan, you'd have an EBITDAR margin of 12.1 percent.

Again, above all these comparables except for Continental.

Q Okay. Before --

A Clearly, if you did have the fuel mitigation strategy, that number would go up from there.
Q The lighter blue line, the ALPA line, would go up?
A Yes. Both the Delta lines would go up, but including that ALPA line.
Q Before we leave the topic or the metric of EBITDAR margin, I'd like to distribute the confidential page from Mr. Coleman's testimony, and I'm going to ask you a couple of questions about

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that.
I don't believe we're going to need to close the room, because I'm going to ask the witness not to mention any numbers that are on this slide. It's really just sort of -- asks for verbal description.
Have you looked at this slide, Mr. Weil?
A Yes, I have.
Q Okay. Now, does this slide -- this slide contains Delta numbers but not numbers for any of the -- any other airlines?
A That's correct.
Q Okay. And it provides a projection of Delta's EBITDAR margin going forward out through

2010, with the company's proposal and with ALPA's;
correct?
A Correct.
Q Okay. How meaningful is this analysis, in
your mind, given the absence of any other airlines?
A I don't think it's particularly
meaningful, because it looks at projected EBITDAR
margins for Delta under its five-year plan under

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these two scenarios, but it doesn't give you any
comparable data to, you know, later data, EBITDAR
margins for other carriers.
So it sort of exists in a vacuum, if you
will.
Q And is it important when one looks at
EBITDAR margin to look at relative to other -- to
the competition?
A Yes.
Q Why is that?
A Well, because, you know, as I've testified
prior to this, what we're trying to look at is how
the capital markets will embrace these particular
carriers and will they provide the necessary
financing.
And so just to look at these numbers on a

stand-alone basis doesn't really tell you where the rest of the industry is going to be and how Delta would fare relative to these competitors in attracting financing.
Q Okay. And this slide goes out to 2010. Given your knowledge about the company's proposal

and ALPA's proposal, how appropriate is it, in your view, to go out to 2010?
A My understanding is that both under the company's proposal and ALPA's proposal, it's a four-year term, under the amendment to the PWA. So to me 2010 is fairly irrelevant to this analysis, that you would only look through 2009.
Q Okay. So let's look at 2009. If an investor or a lender were looking at this chart, what metric would the investor or lender, in your experience, look at?
A Again, you know, I think the primary --
Q Would it be EBITDAR margin or some other line on this chart?
A I think it would be EBITDAR margin and not cumulative EBITDAR difference that Mr. Coleman indicates at the bottom of the chart.
Q Okay.
A First off, I'm not sure I even agree with

these numbers as the difference relative to ALPA's costing of their proposal and the company's costing of their proposal. I think the numbers would be

smaller, but I think, more importantly, my belief is that the equity and debt investors that are going to look at the company are going to look at the EBITDAR margin for a particular year and compare that to the industry and really look at that in connection with the company's entire plan.

Q Okay. Given all the caveats that you've testified to about the significance of an analysis without comparables, let's nonetheless look at the 2009 estimated number for EBITDAR margin under ALPA's proposal. Without revealing that number, can you describe, in your view, whether that's a good number, a bad number, or how would you describe that number?

A Again, I think if you look at that number, because you don't have any comparable projections for other carriers in these out years, I'd refer back to my slide on page 20 and look at what those EBITDAR margins are on page 20.

And you can see at that level under ALPA's proposal, the company would have an EBITDAR margin that's above all of the EBITDAR margins indicated

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for the comparable carriers on page 20, albeit for the year 2007.

Q Okay. Let's now turn to your slide 22, going back to the various financial metrics. Can you tell us what the metric is there and what the analysis is?

A Sure. What I looked at here is projected cash flow net of interest payments for Delta and each of these comparable carriers, again, for 2007 and, again, based on the companies' most recent five-year plan.

Q Why did you use margin, cash flow margin, as opposed to just cash flow?

A Because by looking at margin, what it allows you to do is really kind of look at apples to apples. Because carriers are different size, they have different revenue levels and, as a result, have very different actual cash flow amounts, by looking at it on a margin basis relative to revenue, it allows you to really do a true comparison.

Q And why did you look at cash flow net of interest as opposed to just cash flow?

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A Because what we wanted to look at is really free cash flow after servicing their respective debt for these companies.

Q Okay. And how does Delta with ALPA's proposal line up to the competition?

A Well, you can see, the average for the competition is 1.7 percent projected cash flow net of interest payments margin. If you look at the ALPA proposal, you can see it's a little bit below the average, at 1.4 percent, still well above Continental and USAirways.

What's interesting here is because we're looking at 2007, in the company's plan they have got restructuring expenses, one-time restructuring expenses, that actually impact this number. I believe it's approximately $80 million, $85 million. So if you would add that -- those one-time costs back, because that's actual cash that the company is paying out in 2007, that wouldn't show up here, I believe that 1.4 percent would get up to, you know, roughly 1.8 percent, you know, above the average.

Q But even assuming it were 1.4, would you

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describe that as a significant difference between the average of the competition?

A No, I wouldn't.

Q All right. Let's now look at the last slide, slide 20. What's the metric that's used here?

MR. BLOCH: Slide 23?

BY MR. DECHIARA:

Q I'm sorry, slide 23.

A What we're looking at here is projected net debt at EBITDAR. Here what we do is we take net debt, which is total debt plus capitalized operating leases, and subtract out cash or cash equivalents over EBITDAR. And unlike the EBITDAR margin, where the good news was to have a bigger EBITDAR margin, here because we're looking at leverage, a smaller number is better.

What this really looks at is, you know, what is the operating cash flow that's available to deal with your existing debt service, lease payments and other contingencies.

Q And how does Delta with ALPA's proposal

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stack up to the competition on this metric?

A It stacks up extremely well here. You can see the average of 5.2 times net debt to EBITDAR, and where Delta would be under ALPA's proposal at 2.9.

And I think if I could go back quickly to my mortgage example before to kind of illustrate this point, I think this is an important slide, because think about a homeowner that has $100,000 mortgage and $20,000 of additional debt. And that homeowner makes $20,000 per year, okay. That's their wages. So their net debt in their case to their earnings, their salary, would be 6 to 1, okay. Compare that to another borrower that's got that same $100,000 mortgage and that same $20,000 of additional debt but instead of making the $20,000 salary, they make $40,000.

That second borrower has much more of a capability to deal with problems that might arise in their life, you know. Somebody gets sick and can't work, a kid wants to go to school, a car gets in an accident, they have to buy a new car, things that

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could happen, they have got more cash flow available relative to their debt than that first borrower that I mentioned.

Q And how would you apply that analogy to Delta's situation?

A It's a very similar situation here.

Because Delta has been able to, at the time this is
relevant for, go through the bankruptcy process and
really reduce the debt on its balance sheet and
increase its earnings, its EBITDAR, their ability to
deal with, you know, macroeconomic factors that
might affect the industry, you know, be it huge fuel
cost increases, a terrorist activity, I think
there's been descriptions about potential avian flu,
they're going to be better situated than its
competitors to deal with those problems and have the
cash flow available to them to do so.

MR. DECHIARA: No further questions on
direct.

MR. BLOCH: Well done. Thank you.

MR. DECHIARA: Let me just move the
admission of Mr. Weil's slides.

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MR. BLOCH: Any objection?

MR. SPAN: Again, there are a couple of
slides where I do have some questions on
methodology, so I would like to reserve until my
cross.

MR. BLOCH: All right. Let's recess,
then. We'll reconvene at 9:30 tomorrow morning.

(Whereupon, at 5:00 p.m., the hearing was adjourned, to be reconvened at 9:30 a.m., on Wednesday, March 22, 2006.)

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C O N T E N T S

E X H I B I T S

NUMBER	IDENTIFIED	RECEIVED

ALPA Exhibit 51	1409	1415
ALPA Exhibit 52	1415	1542
Company Exhibit 96	1525	1542
Company Exhibit 97	1528	1542
Company Exhibits 98 and 98-A	1537	1542
ALPA Exhibit 53	1554	1555
ALPA Exhibit 54	1555	1555
ALPA Exhibit 55	1563	
ALPA Exhibit 56	1584	1591