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

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7 In re: :

8 Delta Air Lines, Inc. :

9 and :

10 Air Line Pilots Association :

11 International :

12 ----- x

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15 Washington, DC

16 Thursday, March 23, 2006

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19 REPORTED BY:

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20 CARMEN SMITH

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1 Arbitration on Thursday, March 23, 2006, in
2 Washington, DC, at The Grand Hyatt, 1000 H Street
3 Northwest, Washington, DC 20001, at 9:36 a.m.,
4 before CARMEN SMITH, a Notary Public within and for
5 the District of Columbia, when were present on
6 behalf of the respective parties:

7

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1 P R O C E E D I N G S
2 MR. BLOCH: Mr. DeChiara.
3 MR. DECHIARA: Good morning, Mr. Chairman.
4 One quick order of business.
5 The parties have stipulated to the
6 admission into evidence of the revised cash
7 flowchart from Mr. Weil's deck of slides, and I
8 would like to provide that to the panel.
9 I would ask that this document, which I'm

10 about to offer, will be marked as ALPA Exhibit 55-A,
11 and that it be substituted for page 22 of Exhibit
12 55.

13 (ALPA Exhibit 55-A identified.)

14 (ALPA Exhibit 55-A received.)

15 MR. BLOCH: Okay. I think the ball is
16 still in your court, gentlemen.

17 MR. SIMON: Captain Moak is available for
18 cross-examination.

19 MR. GALLAGHER: The company has no
20 questions, Mr. Chairman.

21 MR. BLOCH: Like I said. Anything further
22 from the union?

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1 MR. SIMON: There is an extremely slim
2 possibility that we would have an additional witness
3 that we would ask to call out of order, it would
4 take no more than five minutes. I think the level
5 of likelihood of it occurring is 5 percent. But
6 with that sole reservation, the Air Line Pilots
7 Association rests.

8 MR. GALLAGHER: Can we have the name of
9 that?

10 MR. SIMON: No, you may not.

11 MR. GALLAGHER: Is it a name we have been
12 previously given as a witness?

13 MR. SIMON: No, it is not.

14 MR. GALLAGHER: Mr. Chairman, there is a
15 procedural agreement between the parties that says
16 we will advise each other the names of witnesses.

17 MR. SIMON: And if we have a witness that
18 appears that we believe will appear, I will provide
19 that name to you. I think it's extremely unlikely,
20 and I am not in a position to reveal the
21 individual's name, and I will not do so, and I will
22 make an appropriate application to the panel if and

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1 when the matter arises. And I have a high level of
2 confidence that the panel, upon such an application,
3 will grant it. But I recognize it may not.

4 MR. BLOCH: And we will entertain any

5 objections at that point.

6 MR. GALLAGHER: I understand that,
7 Mr. Chairman.

8 MR. BLOCH: Anything further from the
9 company?

10 MR. GALLAGHER: The company will have a
11 rebuttal case, Mr. Chairman. I anticipate three
12 witnesses, Ms. Carolan for approximately, I believe,
13 five minutes; Mr. David Watson for perhaps a half an
14 hour; and Mr. Bastian for perhaps a half an hour to
15 45 minutes.

16 It would help me greatly if we could break
17 between now and 10:00, simply to get our exhibits
18 together in order to proceed very efficiently. But
19 in terms of our direct testimony, I would envision
20 being able to conclude it -- at least certainly the
21 direct this morning, subject to the amount of time
22 for cross.

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1 MR. BLOCH: That will be fine. Let's
2 reconvene at 10:00. Is that what you said?

3 MR. GALLAGHER: Yes. Just to be on the
4 safe side, why don't we make it 10:15.

5 MR. SIMON: No objection.

6 MR. BLOCH: Thank you. 10:15 it will be.

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

8 (Recess from 9:39 to 10:23 a.m.)

9 MR. BLOCH: I think we're ready to
10 proceed. Mr. Gallagher?

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

12 The company will call Ms. Geraldine Carolan.

13 Whereupon,

14 GERALDINE CAROLAN

15 was called as a witness and, having previously been
16 duly sworn, was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. GALLAGHER:

19 Q Good morning, Ms. Carolan.

20 A Good morning.

21 Q I have placed before you a document marked
22 for identification as Delta Exhibit 99.

□

1 (Company Exhibit 99 identified.)

2 BY MR. GALLAGHER:

3 Q Do you have that in front of you?

4 A I do.

5 Q Can you identify this document for the
6 panel?

7 A Yes. These three documents were sent to
8 me in an e-mail by -- these three documents were
9 sent to me in an e-mail by ALPA's counsel on or
10 about August 18. The first is a draft of an alert
11 to the MEC about the bankruptcy protection letter.
12 The second is a cover letter to the MEC, explaining
13 that the lists of questions and answers that is
14 enclosed was reviewed by ALPA legal. And the third
15 is questions and answers about the liquidity
16 shortfall notice and the bankruptcy protection
17 letter.

18 And ALPA's counsel sent them to me and
19 asked me if I saw any surprises in the document or
20 if I had any corrections to make to the document.

21 Q And did you communicate a response to
22 ALPA's counsel?

□

1 A Yes, I did. I told him that I did not
2 have -- did not see any surprises and did not have
3 any corrections to make to the document.

4 Q And page 1 of this exhibit is very
5 similar, almost verbatim, to Captain Malone's letter
6 to the Delta pilots, which is already in evidence as
7 Delta Exhibit 55; correct?

8 A Yes, it is.

9 Q And the last two pages, the Q&A on the
10 liquidity shortfall notice, is identical to the
11 document already introduced as Delta Exhibit -- the
12 Q&A is Delta Exhibit 71. Is that correct,
13 Ms. Carolan?

14 A I don't have the company exhibits in front
15 of me.

16 Q Delta Exhibit 71 is a document that we did
17 review with Captain O'Malley on the witness
18 yesterday afternoon. The Q&A --

19 A Yes, it --

20 Q -- on the liquidity shortfall notice?

21 A Yes, it appears to be the same as the last
22 two pages of the Company Exhibit 99.

□

1 Q Excuse me. 71?

2 A 71 and 99 contain the same -- part of the
3 same information.

4 Q All right. Now, Ms. Carolan, is your
5 understanding of the bankruptcy protection letter
6 consistent with ALPA's view of the bankruptcy
7 protection letter as set out in these documents that
8 ALPA counsel -- ALPA's counsel provided to you?

9 A Yes, my understanding is the same as the
10 position set out in Exhibit 99.

11 Q When was the first time that you heard
12 anyone from ALPA argue that the bankruptcy
13 protection letter limited the remedy Delta could
14 obtain in a section 1113 motion?

15 A The first time I heard that ever was when
16 Mr. Bruce Simon made his opening argument to the
17 bankruptcy court last November in New York.

18 MR. GALLAGHER: No further questions,

19 Mr. Chairman.

20 MR. BLOCH: Any questions for Ms. Carolan,

21 gentlemen?

22 MR. WINSTON: Just one minute. We have no

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1 questions.

2 MR. GALLAGHER: Mr. Chairman, I would move

3 to admit Delta Exhibit 99.

4 MR. WINSTON: No objection.

5 MR. BLOCH: It will be admitted.

6 (Company Exhibit 99 received.)

7 (Witness excused.)

8 MR. GALLAGHER: And the company's next

9 witness, Mr. Chairman, would be David Watson.

10 Whereupon,

11 DAVID WATSON

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

13 sworn, was examined and testified as follows:

14 MR. GALLAGHER: Mr. Chairman, we'll pass

15 out a bunch of exhibits at once just for the sake of

16 efficiency, if you will bear with us.

17 MR. BLOCH: Absolutely.

18 MR. GALLAGHER: While that is being done,

19 Mr. Chairman, I can review with the witness his

20 personal background and job duties.

21 DIRECT EXAMINATION

22 BY MR. GALLAGHER:

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1 Q Welcome, Mr. Watson. Where are you
2 employed?

3 A Delta Air Lines.

4 Q And what is your position at Delta?

5 A I'm the director of crew resources and
6 scheduling and flight operations.

7 Q Now, can you tell the board what is --
8 first of all, in Delta's organizational structure,
9 what is flight operations?

10 A Flight operations is the division that
11 manages the pilots and establishes their operating
12 procedures and policies for the aircraft.

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13 Q And what does the director of crew
14 resources and scheduling position do? What are your
15 responsibilities?

16 A Briefly, I'm responsible for managing the
17 logistics of the pilot group, so that would include
18 the short and long-range manpower planning, and
19 scheduling.

20 Q All right. And do you have a staff of
21 people who work for you?

22 A I do.

□

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1 Q And how large is that staff?

2 A Shrinking every day, but approximately 85.

3 Q All right. And that includes crew
4 schedulers who do the day-to-day crew scheduling?

5 A It does.

6 Q And it also includes planners who are more
7 concerned with long-term staffing and training?

8 A Long and short-range staffing, yes.

9 Q How long have you been employed at Delta?

10 A For a little over 14 years.

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11 Q And has it been all in flight operations?

12 A No. I started in an area called methods,
13 which was an -- in essence, an internal consulting
14 department at Delta, and then went to work in the
15 personnel area, and then from there I joined flight
16 operations in 1996.

17 Q And what is your educational background?

18 A Mr. Chairman, if you wouldn't mind, can
19 you direct that side of the room to avoid making any
20 wisecracks based on my response to this question?

21 (Laughter.)

22 MR. BLOCH: Can't promise it.

□

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1 THE WITNESS: Any help that you can give
2 would be deeply appreciated.

3 I have a bachelor of science degree from
4 the University of Georgia and an MBA from the
5 University of South Carolina.

6 BY MR. GALLAGHER:

7 Q Thank you. Have you played a role in

8 Delta's negotiations with ALPA at any time in your

9 career?

10 A Yes, I have.

11 Q When did you first play a role in Delta's

12 negotiations with ALPA?

13 A In the 1996 agreement.

14 Q And have you had a role in Delta's

15 negotiations with ALPA since that time?

16 A Yes, I have.

17 Q And what role have you played?

18 A Essentially acting as a subject matter

19 expert on scheduling and work rule, changes in

20 proposals, along with being involved in the cost

21 component of the proposals.

22 Q And has that role evolved over time?

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1 A To some degree, yes.

2 Q So you did participate in the 1996

3 negotiations?

4 A I did.

5 Q Were you at the bargaining table?

6 A I was.

7 Q Did you participate in the 2000-2001
8 negotiations?

9 A Yes, and I was at the table.

10 Q All right. And in the 2004 negotiations
11 that led to the letter of agreement 46?

12 A As well.

13 Q All right. And the negotiations that
14 began in 2005, continuing to the present?

15 A Yes.

16 Q And you are a member of the company
17 negotiating committee?

18 A Yes.

19 Q All right. In your experience, has there
20 been -- what has Delta's practice been with regard
21 to sharing information with ALPA related to
22 negotiations?

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1 A That we have shared a tremendous amount of
2 information, essentially an open books policy,

3 particularly relative to how we cost proposals.

4 Q In the 1996 negotiations, was there
5 agreement with ALPA on the costing of the various
6 items that were being negotiated?

7 A Yes, there was.

8 Q All right. In the 2000-2001 negotiations,
9 was there -- did ALPA dispute the costing of any of
10 the items as valued by the company?

11 A The 2000 and 2001 agreement was slightly
12 different than the 1996 agreement, and there were
13 quite a few cost increases associated with the 2000
14 agreement. My recollection is that we would assign
15 a cost to individuals; they generally were not, as I
16 recall it, recognized by ALPA across the table.

17 Q They didn't dispute them, they simply
18 didn't respond?

19 A That is to the best of my recollection,
20 yes.

21 Q In the 2004 negotiations, were there any
22 disagreements with ALPA about the costing of any of

□

1 the company's proposals?

2 A There was clearly a lot of discussion.

3 There was disagreement during the negotiation.

4 Although through a lot of effort on both sides, I

5 think we were able to come to agreement on what the

6 proposed changes were valued -- how they were

7 valued.

8 Q So whatever disagreements there were were

9 resolved --

10 A Yes.

11 Q -- in consultation between the parties?

12 A Yes, they were.

13 Q All right. Who represented ALPA for

14 costing purposes in the 2004 negotiations?

15 A There were several people involved. Rich

16 Harwood, Kevin Day --

17 Q Are they pilots?

18 A They are pilots, yes.

19 Q They are members of the negotiating

20 committee?

21 A They were not directly, as I understand

22 it, they were not direct members of the negotiating

□

1 committee, but they did serve in the capacity to
2 support the negotiating committee. Along with Liz
3 Spear, who was a member of the E&FA group from ALPA,
4 and at the very end, if I recall correctly, a
5 gentleman named Bob Christy became involved from the
6 E&FA group as well.

7 Q All right. And E&FA is the ALPA economic
8 and financial analysis department, headed by
9 Ms. McAhron-Schulz?

10 A That's correct.

11 Q Now, in the 2005 negotiations, who has
12 represented ALPA on costing issues?

13 A Kye Johanning and Randy Worrall.

14 Q Have either of those individuals been
15 involved in the costing of any prior Delta/ALPA
16 agreements?

17 A Kye has not. Randy I'm not entirely clear
18 about. I don't recall meeting with Randy during the
19 2004 agreement on costing. He may have been there,
20 but I'm not sure.

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21 Q In past -- in the past negotiations, prior
22 to the 2005 round, did you share your methodology

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1 and assumptions on costing with ALPA?

2 A Yes.

3 Q And did you do that as well in the 2005
4 round?

5 A Yes, we have.

6 Q And in the 2005 round, have you been using
7 the same methods that you used previously?

8 A Yes, certainly in the 2004 round, we -- we
9 have used almost the identical model that we used in
10 the 2004 negotiations. Clearly, there are different
11 proposals which require different analyses, but the
12 basic framework of the model is the same.

13 Q All right. And have you shared that model
14 with ALPA?

15 A Yes.

16 Q And have you shared the underlying data
17 with regard to pilot demographics, expected
18 schedule, expected block hours --

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19 A Yes, we have.

20 Q Have you shared all of that information?

21 A Yes, we have.

22 Q And have you also shared the actual

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1 historical data on the company's costs?

2 A Yes.

3 Q Did ALPA agree with you on how to value

4 pilot pay rate changes in the 2004 negotiations?

5 A Yes, they did.

6 Q And have you used the same method in the

7 2005 round of negotiations?

8 A Yes, we have.

9 Q Has ALPA agreed to that valuation method

10 in the current round?

11 A Not -- not as of yet.

12 Q And do you know why?

13 A Not particularly. I mean, there's clearly

14 just a difference in philosophy on how we should

15 establish an average hourly pay rate.

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16 Q Were there -- shifting subjects. Were

17 there scope changes in the 2004 agreement?

18 A Yes, there were.

19 Q What were they?

20 A As I recall, there was an increase in the

21 allowance of the number of 70-seat jets. There was

22 a change to what's called a plan percentage or the

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1 amount of flying that the RJ fleet or Delta

2 Connection carriers can fly as a percentage of

3 mainline flying, a reduction in that number. There

4 was a reduction in the amount of designated flying,

5 which governs when Delta can code share with

6 international partners as well.

7 Q And what was the change with regard to

8 regional jets?

9 A There was an increase in the number of

10 allowed 70-seaters that could be flown by the DCI

11 carriers, Delta Connection --

12 Q DCI being the Delta Connection carriers,

13 your commuter partners?

14 A Yes.

15 Q What value was assigned to the scope
16 clause changes in the 2004 negotiations in
17 calculating the \$1 billion value that the parties
18 assigned to the agreement?

19 A There was none.

20 Q I'm going to ask you to look at Delta
21 Exhibit 88, which is in volume 2 of the company's
22 exhibits.

□

1 Excuse me. I think I said 88 --

2 MR. HARRIS: Volume 3, isn't it?

3 MR. GALLAGHER: Volume 3. And Exhibit 85.

4 BY MR. GALLAGHER:

5 Q Do you have that document in front of you,
6 Mr. Watson?

7 A Yes, I do.

8 Q Can you identify this document?

9 A Yes. This was a summary page that was
10 provided to Delta from ALPA during the 2004

11 negotiations that valued -- that represented their
12 valuation of the proposed contract changes
13 associated with that negotiation.

14 Q And the label at the top of the document
15 says "as of October 26." What was the actual date
16 of the final agreement on the \$1 billion of
17 reductions in letter 46? Was it around that date?

18 A It was around that date, yes. Yeah.

19 Q All right. And did you say this was an
20 ALPA costing or an ALPA tally?

21 A Yes, they provided this -- this summary to
22 us.

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1 Q All right. Does this summary reflect any
2 dollar value for scope clause changes?

3 A No, it does not.

4 Q Does that surprise you?

5 A No, it does not.

6 Q Have Delta and ALPA ever assigned a dollar
7 value to scope clause changes in the course of their
8 negotiations, to the best of your knowledge?

9 A No.

10 Q Was there a time when Delta and ALPA
11 negotiated a code share agreement with regard to
12 Northwest Airlines?

13 A Yes, there was.

14 Q And was that a separate side letter?

15 A It was.

16 Q All right. And at the time of that side
17 letter, did ALPA insist that the -- a dollar value
18 be assigned to the Northwest code share?

19 A There was no insistence, no, of a dollar
20 value being assigned to that.

21 MR. GALLAGHER: Now I will pass out
22 exhibits, Mr. Chairman.

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1 BY MR. GALLAGHER:

2 Q Mr. Watson, I'm going to ask you questions
3 about a series of documents which I've distributed
4 to counsel and the panel and placed in front of you.
5 The first one is marked for identification as Delta

6 Exhibit 100.

7 (Company Exhibit 100 identified.)

8 BY MR. GALLAGHER:

9 Q And simply for the record, it is a
10 three-page document, with the heading "costing
11 differences, Delta proposal with DB plan
12 termination." Do you have that document in front of
13 you?

14 A I do.

15 Q Did you prepare this document?

16 A Yes.

17 Q What is it?

18 A It's -- well, the first page is a summary
19 page that reflects, starting with the left column,
20 and it's very similar to what Kye Johanning produced
21 the other day, starting with the left column, a line
22 item description of the proposals, high-level

□

1 description of the proposals that have been made by
2 Delta. They have been categorized under pay and
3 work rules, and then going down from there,

4 benefits, and then there's a section called
5 additional financial benefits as well.

6 Working to the right, there is a column
7 describing the company costing. It's described in
8 a -- as a four-year average, which, again, is the
9 duration of the proposed contract.

10 To the right of that is ALPA's costing of
11 the same proposal, and then there's a difference
12 column to the right of that and an explanation of
13 difference to the right of that column.

14 Q Now, what is reflected on page 2?

15 A Page 2 is a reflection of Delta's costing
16 of Delta's proposal, in this case with the
17 assumption that the defined benefit plan is
18 terminated. And it reflects those same category --
19 or same line items or proposals, but it also
20 reflects the annual value of each one.

21 Q So we have separate columns for each year?

22 A Yes.

□

1 Q And then a four-year average on the right?

2 A And then an average, right. And the

3 average, if you look in the top right, far right

4 column, the 169.4 ties back to the previous page of

5 the previous 169.4 as well.

6 Q So page 2, the last column on the right,

7 the average, this is the supporting detail for the

8 company costing four-year average that's reflected

9 on page 1; is that correct?

10 A That's correct.

11 Q And what's reflected on page 3?

12 A Page 3 is essentially the same

13 information, with a different assumption, and that

14 assumption being that the defined benefit plan would

15 not be terminated.

16 Q And then that follows the same format, it

17 is broken out over each year with the four-year

18 average shown?

19 A That's correct. And it does include the

20 savings associated with a proposal to eliminate the

21 401(k) match, which is reflected in the benefits

22 section down in the bottom.

□

1 Q Now, I'm only going to ask you questions
2 about the first page, which deals with the
3 difference between the parties on the value of
4 Delta's proposal with defined benefit plan
5 termination. What does Delta value its proposal at
6 in terms of the cost reductions in the event of
7 defined benefit plan termination?

8 A Close to \$292 million.

9 Q All right. Does that include any value
10 for Delta's proposed \$330 million note?

11 A No, it does not.

12 Q All right. Does it include any value for
13 an increase in the size of small regional jets
14 permitted under the agreement?

15 A It does not.

16 Q All right. And did Mr. Johanning's
17 similar presentation include value for Delta's note
18 or the small jet proposal?

19 A Certainly did for the small jet proposal,
20 and I don't recall about the note.

21 Q All right. And for the small jets, his

22 was broken out separately based on revenue

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1 enhancement?

2 A It was in his presentation, yes.

3 Q Now, looking at the differences column,

4 ALPA values the company's proposal at significantly

5 more than the company does; correct?

6 A Yes, that's correct.

7 Q Limiting yourself to items in excess of \$1

8 million, which are relatively few, can you identify

9 where the differences -- where the major differences

10 are?

11 A Sure. If you look in the far right

12 column, the explanation of difference, any time

13 there's text there, it would identify a greater than

14 \$1 million variance between our costings.

15 Q And it's -- let's focus on the first one.

16 A Okay.

17 Q On the composite hourly pay rates, there's

18 a \$6 million difference between the parties; is that

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19 right?

20 A That's correct.

21 Q And is this the item on which you are

22 using the same methods and assumptions you used in

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1 the 2004 negotiations?

2 A Yes, that is correct.

3 Q And that's the basis for the company's

4 number?

5 A Yes.

6 Q And ALPA is using a different methodology;

7 is that right?

8 A Yes, that's correct.

9 Q All right. The next --

10 A I would also just like to point out, there

11 is also, if you see the word "timing" there, based

12 on the supplemental slides that Mr. Johanning

13 provided, either yesterday or the day before, there

14 appears to be -- or I'm unable to reconcile the

15 first year savings that he has attributed to Delta's

16 proposal for the pay rate savings. And so there may

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17 be some of -- some of the discrepancy may be driven
18 by that as well.

19 Q The next big ticket item on differences is
20 under reduced sick pay. What's the value, and
21 what's the reason for the difference?

22 A I think, as Mr. Johanning described the

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1 other day, the value is here represented as \$7.6
2 million in the difference, and ALPA has assumed that
3 there would be a behavioral change by the pilot
4 group, and we have not made that assumption.

5 MR. HARRIS: Can I just ask a couple of
6 questions?

7 MR. GALLAGHER: By all means.

8 MR. HARRIS: Mr. Watson, having some
9 familiarity with this problem of sick pay and having
10 decided a case in ALPA's favor in this regard, I'm
11 inquisitive as to what basis they gave you for
12 changing behavior on the pilots' part.

13 THE WITNESS: As I recall it,

14 Mr. O'Malley -- Captain O'Malley indicated at the
15 time that he felt that because there would be a
16 financial disincentive to use sick leave, that
17 pilots would be able to, for example, if they needed
18 elective surgery, they would be able to schedule
19 that surgery around their trips rather than on top
20 of their trips, for example, so that they would not
21 necessarily need to use sick leave to have that
22 elective surgery performed.

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1 MR. HARRIS: That's what I heard him say
2 also when he testified. Did you do a study as to
3 how many people do elective surgery, as to how many
4 people actually just take sick leave?

5 THE WITNESS: I have no information on
6 that.

7 MR. HARRIS: You have no information on
8 it.

9 THE WITNESS: No.

10 MR. HARRIS: Thank you.

11 BY MR. GALLAGHER:

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12 Q The next big ticket item on the list of
13 differences, Mr. Watson, is under total benefits for
14 \$14.2 million difference. Do you see that entry?

15 A Yes, I do.

16 Q Do you know the reason for the difference
17 of valuations on the total benefits line?

18 A Yes. Again, I think as Mr. Johanning
19 described the other day, there is -- the primary
20 difference is that we assumed there would be no
21 savings associated with changes in 2006, and I
22 believe ALPA has assumed that there would be benefit

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1 savings in 2006. So it's really just a timing issue
2 on when those savings would occur within the
3 contract period.

4 Q Mr. Johanning suggested that this was a
5 recent change of position by the company. Did you
6 hear that testimony?

7 A I did.

8 Q Is it a change of position by the company?

0323AR9

9 And what are the reasons for it?

10 A It is a change. It's not necessarily a
11 change in position. It's certainly a change in how
12 we had valued the benefit savings.

13 Given the time that has passed from our
14 initial proposal on these changes and given the fact
15 that our plan year ends in September, it's my
16 understanding that the recognition of these savings
17 would not be -- we would not be able to recognize
18 them from a plan perspective within a reasonable
19 period of time to require remeasurement of the
20 savings or of the expense, and that they would not
21 actually be accrued until 2007.

22 Q Now, is that basically an accounting

□

1974

1 issue, in terms of when expenses are recognized?

2 A It is clearly an accounting, yeah, issue.

3 Q Now, if the recognition of that expense
4 savings is pushed forward into '07 plan year, does
5 that mean it has been devalued or taken out of the
6 equation?

7 A It hasn't been devalued. It clearly would
8 affect the average amount of savings, though.

9 Q And how would it affect the average?
10 Would it simply push what would have been recognized
11 in '06 into the '07 plan year?

12 A I don't know if it's -- I don't know if
13 it's that simple or not. I know that it does push
14 the savings out into the outer years. Whether it's
15 commensurate, I'm not sure.

16 Q So it pushes them forward?

17 A It does push them forward, yes.

18 Q And have Delta's benefits accounting
19 experts offered to meet with ALPA's benefits
20 accounting experts to discuss the impact of that?

21 A They have met with -- it's my
22 understanding that they actually have met with their

□

1 accounting experts on this.

2 Q All right. And as of yet, I take it that
3 those meetings have not yet resulted in agreement on

4 the proper accounting treatment of that item?

5 A I'm unaware that they have.

6 Q Now, below that section of the page are

7 \$60.1 million worth of what are labeled here

8 additional financial benefits that Mr. Johanning

9 talked about. Do you see that?

10 A I do.

11 Q And in each instance, the company assigns

12 no dollar value for savings; is that right?

13 A That's correct.

14 Q All right. Would you go through this list

15 and explain why the company assigns no dollar value

16 for savings where ALPA assigns a total of \$60.1

17 million value -- per year value for savings?

18 A Sure. As I mentioned earlier, there has

19 never been any cost savings associated with any

20 scope changes --

21 MR. DECHIARA: I would like to raise an

22 objection. The question assumes that ALPA assigns a

□

2 testimony was quite clear that these items are not
3 necessarily savings, they could be revenue; they're
4 items for which ALPA believes it should be credited.
5 We're not saying they're savings.

6 MR. BLOCH: Well, perhaps the question can
7 be modified just to indicate that the 60 million
8 would be assigned as credits. Is that satisfactory?

9 MR. GALLAGHER: That's satisfactory to us,
10 Mr. Chairman.

11 MR. BLOCH: Is that an understandable
12 question in that context?

13 THE WITNESS: I believe so. This answer
14 would be appropriate, then -- again, based on my
15 previous testimony, there has never been any credit
16 or cost savings attributed to ALPA for scope clause
17 changes in previous negotiations.

18 BY MR. GALLAGHER:

19 Q All right. And do you know if in
20 calculating its \$3 billion transformation plan,
21 in-court financial improvements, if Delta included
22 certain revenue enhancements from scope clauses and

□

1 regional jets in the \$1.1 billion of revenue
2 enhancements?

3 MR. DECHIARA: Objection; lack of
4 foundation. There's been no testimony that this
5 witness has been involved in constructing the
6 company's business plans.

7 MR. GALLAGHER: I asked him if he knew,
8 Mr. Chairman. He's been involved in many
9 presentations where it's been explained to ALPA.

10 MR. BLOCH: I'll allow the answer.

11 THE WITNESS: It's my understanding that
12 of the \$1.1 billion, that there has not been full
13 identification of how the company intends to achieve
14 the \$1.1 billion in revenue enhancements, and that
15 this would be the small jets, for example, would be
16 one way to help achieve the 1.1 billion.

17 BY MR. GALLAGHER:

18 Q All right. What is the second item after
19 the scope valuation issue?

20 A The eliminate rotation guarantee
21 provision. And I think there's been quite a bit of

□ 22 testimony on this from Mr. Johanning and Captain

1978

1 O'Malley earlier. And I believe Captain O'Malley
2 stated it correctly yesterday when he described to
3 us that in our proposal to ALPA in September of '05,
4 we have proposed substantial changes to the credit
5 ratings to govern how rotations are built for
6 pilots. And I do recall the question being raised
7 either at that meeting or one very closely
8 thereafter, where I think it was Dwayne Davis, who
9 is a consultant for ALPA, raised a question about
10 whether this would eliminate the rotation guarantee.
11 And my response at that time was yes, it would.

12 That was in the context of how we had
13 valued these changes. I do agree with Captain
14 O'Malley that our proposal would not -- if, for
15 example, a pilot had his rotation canceled in its
16 entirety, that he would continue to get paid for it.
17 I do believe that is our proposal.

18 Q Interruption, Mr. Watson. Does that mean
19 that the oral -- in the oral discussion you

0323AR9

20 referenced previously, that you either were
21 incorrect or could have been misunderstood?

22 A Clearly, yes.

□

1979

1 Q But it was -- I take it, then, it was
2 never the company's proposal to eliminate pay for a
3 pilot whose rotation is canceled entirely by the
4 company?

5 MR. DECHIARA: Objection; leading.

6 THE WITNESS: Maybe I can try and describe
7 the proposal.

8 MR. DECHIARA: There's an objection
9 pending.

10 THE WITNESS: Sorry.

11 MR. BLOCH: I agree that it's leading. I
12 don't think it would be a problem to have it
13 answered, however. You may respond.

14 THE WITNESS: Could you repeat the
15 question, please?

16 (The reporter read the record as requested.)

0323AR9

17 THE WITNESS: That is our proposal. I do
18 believe that there could have been some confusion
19 about that before.

20 MR. HARRIS: Let me see if we can clear
21 this up exactly. What you're saying is that if an
22 entire rotation is canceled, the pilot would be

□

1980

1 paid?

2 THE WITNESS: That is correct.

3 MR. HARRIS: Now, if the rotation is
4 partially canceled, that is, the line is changed
5 part of the way through, let's say, a four-day
6 rotation, would you explain what that's going to be?

7 THE WITNESS: Right. And that's what --
8 absolutely. That was the context in which I was
9 responding to the question about the rotation
10 guarantee being eliminated.

11 In that case, and based on our proposal,
12 then, the pilot -- the way that we have valued that
13 proposal is that he would not be paid for the
14 remaining portion of that trip. That's the way we

15 valued this proposal.

16 MR. HARRIS: So that if --

17 BY MR. GALLAGHER:

18 Q Would he be paid anything, Mr. Watson?

19 A He would be paid -- the proposal itself
20 says at the completion of a rotation, he's going to
21 get paid based on this formula, and the formula is
22 that he would be paid based on the greater of the

□

1 scheduled or actual flight time, or one of a couple
2 of duty rigs, which is the trip credit, okay.

3 So today the way a pilot is paid is he is
4 guaranteed the value -- the published value of that
5 rotation, or to the extent that the value increases
6 while he flies it, he gets paid the greater of.
7 This just simply says ignoring what the value of it
8 was when it was published, he's going to get paid
9 what he flies.

10 MR. HARRIS: Can we explore this a little
11 more; do you mind?

12 THE WITNESS: Not at all.

13 MR. GALLAGHER: By all means.

14 MR. HARRIS: Let's assume that a pilot --

15 let's take one where it's complicated. Let's assume

16 instead of flying domestically, let's assume he's

17 flying internationally. Let's assume he's supposed

18 to fly Paris, Paris/Dubai, Dubai/Paris, Paris

19 wherever, I don't think whether it's Atlanta or New

20 York. Let's assume he gets to Paris, and for some

21 reason, the Dubai round trip is canceled. How does

22 he get paid?

□

1 THE WITNESS: He would get paid for what

2 he had completed at that point in time.

3 MR. HARRIS: Okay. Now, what happens

4 if -- you know, how are you going to get him home?

5 THE WITNESS: He'll get dead head --

6 MR. HARRIS: He'll get the dead head time.

7 THE WITNESS: Sure, yes.

8 MR. HARRIS: Because he's not flying that

9 next leg, or is he going to stay for four days?

0323AR9

10 That's what I'm really asking.

11 THE WITNESS: It would be dependent on the
12 operation at the time. Assuming -- either way, if
13 he's away from base for four days, then his time
14 away from base credit would continue to accumulate
15 over that period of time, and he would get paid for
16 the value of that, assuming that was --

17 MR. HARRIS: But if for operational
18 reasons you wanted him home and you got him to
19 Paris, and obviously he would be extra crew going
20 back, so you would dead head him back.

21 THE WITNESS: He would get paid for that.

22 MR. HARRIS: He would be paid for that but

□

1983

1 not for the two days he would have spent in Paris.

2 THE WITNESS: That's right.

3 MR. HARRIS: Thank you.

4 BY MR. GALLAGHER:

5 Q Let me try a domestic example, Mr. Watson.

6 A pilot with a domestic four-day trip that was

7 canceled after day 1 by the company, under the
8 current agreement, the pilot would be paid for the
9 full value of the remainder of the trip; correct?

10 A He would. And --

11 Q And under the company's proposal, he would
12 only be paid for what he had actually flown, but a
13 formula for the remainder; is that right?

14 MR. DECHIARA: Objection; leading.

15 MR. GALLAGHER: Simply trying to get it
16 clear and simple for the board, Mr. Chairman.

17 MR. DECHIARA: I think counsel is trying
18 to get the answers he wants from the witness through
19 leading questions. I would ask that he ask
20 nonleading questions.

21 MR. BLOCH: In the context of dealing with
22 a hypothetical that needs to be set forth, I'm not

□

1984

1 concerned about any misleading impact.

2 You may answer, if you remember it.

3 THE WITNESS: Could you repeat the
4 question, please?

5 (The reporter read the record as requested.)

6 THE WITNESS: I believe the way that this
7 has been valued is he would be paid for what he had
8 flown, period.

9 BY MR. GALLAGHER:

10 Q Would that, then, leave him with the
11 option or incentive to pick up an additional trip in
12 the remaining three days?

13 A Certainly he has that option.

14 Q But if he didn't, it would affect his
15 income; correct?

16 A Yes.

17 MR. HARRIS: Would it affect his income if
18 you -- if you canceled the trip and he was below
19 guarantee?

20 THE WITNESS: That's a very good question.
21 We still would have a minimum regular line guarantee
22 of 65 hours.

□

1 BY MR. GALLAGHER:

2 Q So in that event, if he was below
3 guarantee, he would still get the guarantee?

4 A That's correct, yeah.

5 Q Now, you have a \$6 million difference
6 here. Why is there a \$6 million disagreement?

7 A The way we valued this change -- and this
8 is a -- clearly, I think everybody understands now,
9 it is not a simple -- this is not a simple
10 discussion.

11 The way we valued this change was we had
12 to assume that there was no rotation guarantee, and
13 as such, the \$20 million savings that we've
14 attributed to this change, which is roughly halfway
15 down in the pay and work rules section --

16 Q Is that the entry for restructuring credit
17 rigs?

18 A Yes, it is -- would include roughly
19 two-thirds of the \$6 million that is referenced
20 here.

21 Q So you're saying that you've already --

22 A It's already included.

□

1 Q You've already counted it in your --

2 A Yes.

3 Q -- credit rig valuation?

4 A Yes, we have.

5 Q And why is it only two-thirds? What
6 happened to the other 2 million?

7 A The remaining one-third is primarily
8 attributable to those rotations -- of this \$6
9 million, is primarily attributable to those
10 rotations that were canceled in their entirety and
11 for which we would continue to pay protect a pilot.

12 Q So that would be no savings; correct?

13 A That's correct.

14 Q If you would explain the difference
15 between Delta and ALPA on the remainder of these
16 items.

17 A The next four items are items that
18 Mr. Johanning assigned a value to, and these are
19 related to proposals that Delta has made to
20 eliminate certain protections in the event that a
21 pilot is furloughed.

22 We have assigned no value here, and this

□

1987

1 is going to require a little explanation as well, so
2 bear with me. But if you look back up into the pay
3 and work rules section of the document, if you look
4 at the second to last item where it says "eliminate
5 obligation to recall," we have proposed to --
6 currently Delta has a contractual obligation to
7 offer recall to all pilots by August of 2008.

8 Our proposal is to eliminate that
9 obligation in its entirety, and we've assigned a
10 value associated to that of \$2 million, which is an
11 average over the four years.

12 The way that that value was determined was
13 to take the five-year projection, look at total
14 block hours to be flown, and determine what our
15 projected head count would need to be. That
16 projection indicates that we would need to recall
17 all pilots for operational reasons by the spring or
18 summer of 2009. And ALPA has agreed with that
19 assumption.

20 So the fact of the matter is, we are
21 crediting ALPA for eliminating the obligation to
22 recall these pilots, under the assumption that we

□

1988

1 would be recalling them all by 2009 anyway. They
2 have agreed with that, and however, down below, they
3 are also seeking value for changes to the contract
4 that would only occur in the event that we would
5 furlough somebody. And there is no plan under our
6 five-year projection where that would happen.

7 Q Did you hear Mr. Weil testify about the
8 company's fuel mitigation strategy in the event of
9 major spikes in the price of fuel? Did you hear
10 that?

11 A Yes, I did.

12 Q And Mr. Weil assumed that the company
13 could very promptly initiate a sizable decrease of
14 capacity. Did you hear that testimony?

15 MR. DECHIARA: Objection to the
16 characterization of Mr. Weil's testimony.

17 MR. GALLAGHER: I'll move on,
 Page 53

0323AR9

18 Mr. Chairman.

19 MR. BLOCH: Take out the adjective.

20 MR. GALLAGHER: I'm happy to move on from
21 that, Mr. Chairman.

22 BY MR. GALLAGHER:

□

1989

1 Q If these provisions remain in the
2 agreement, would the company be able to move quickly
3 to respond to an event such as a dramatic increase
4 in the price of fuel?

5 A No, we won't.

6 Q And the last item on the list is a \$45
7 million difference. What is that?

8 A That is a -- there's been testimony about
9 this as well. Delta's proposal is to have the pilot
10 disability and survivorship trust pay sick leave and
11 remove that expense from Delta Air Lines.

12 There would be a commensurate increase in
13 expense on the D&S plan, the D&S trust, or the
14 increase in sick leave for short-term disability

0323AR9

15 expense on the D&S trust, would be commensurate with
16 the reduction in sick leave expense that Delta would
17 see by this proposal.

18 So there's no change in expense for Delta,
19 although there would be a cash savings by being
20 able -- by having the D&S trust pay short-term
21 disability under our proposal.

22 Q And is there a large amount of money in

□

1990

1 the D&S trust?

2 A As I understand it, there's over a billion
3 dollars.

4 Q All right. And if that trust were drained
5 tomorrow and there were still disability and
6 survivorship obligations to be paid, whose
7 obligations would they be?

8 A Delta's.

9 Q And is that trust currently overfunded?

10 A As I understand it, yes.

11 Q So this proposal would access that cash
12 overfunding to pay benefits to pilots?

13 A That is correct.

14 Q But the expense would remain the same and
15 would remain Delta's?

16 A That's my understanding.

17 Q If you would turn to the next exhibit I
18 passed out, which is labeled ALPA proposal with DB
19 plan termination on page 1.

20 MR. HARRIS: Is this 101?

21 MR. GALLAGHER: Yes.

22 (Company Exhibit 101 identified.)

□

1 BY MR. GALLAGHER:

2 Q And is this a parallel document to the
3 last exhibit, Mr. Watson?

4 A Yes, it's very similar.

5 Q So the first page are the costing
6 differences over four years?

7 A That's correct, as valued by Delta and as
8 valued by ALPA.

9 Q All right. So I'm not going to ask you to

0323AR9

10 review the line items. What does the company value

11 ALPA's proposal at?

12 A Roughly \$75 million.

13 Q Per year, over four years?

14 A That's the average over four years.

15 Q And what does ALPA value it at?

16 A At roughly \$86 million.

17 Q And what is reflected on the second and

18 third pages of this exhibit?

19 A This is, again, very similar to the

20 previous exhibit. This reflects Delta's costing of

21 ALPA's proposal by line item but reflecting the

22 actual annual savings.

□

1992

1 Q With the year-by-year breakout and then

2 the four-year average?

3 A That's correct.

4 Q And that four-year average on page 2 is

5 carried over to the company's costing column on page

6 1?

7 A That's correct.

8 Q And does this costing assign any value to
9 the ALPA proposal for a note?

10 A It does not.

11 (Company Exhibit 102 identified.)

12 BY MR. GALLAGHER:

13 Q Now I'm going to ask you to turn to the
14 next document in sequence that I gave you, which is
15 labeled "Delta active line pilot demographics as of
16 March 1, 2006." Do you see that?

17 A Yes, I do.

18 Q That's a two-page exhibit which is labeled
19 Exhibit 102. Did you prepare this document?

20 A Somebody that works for me did, yes.

21 Q And what is reflected on page 1 of this
22 two-page document?

□

1 A This shows the -- I believe there was a
2 question earlier from the panel about the
3 demographics of the line pilot population, and this
4 is intended to be responsive to that question. This

0323AR9

5 just shows the average seniority of the active line
6 pilots at Delta, as of March 1, 2006. And it's
7 broken out on the right-hand side among all pilots,
8 and then broken out by captains and first officers.

9 Q All right. And what is the average
10 seniority of Delta's captains?

11 A 18.2 years.

12 Q Are any of Delta's captains not at the top
13 of the pay scale?

14 A Yes, as indicated on this chart, 36 as of
15 March 1.

16 Q And what is the average seniority of
17 Delta's first officers?

18 A 9.9 years.

19 Q What's reflected on page 2 of this
20 exhibit?

21 A Page 2 just simply is the exact same
22 information, with the inclusion of management and

□

1994

1 instructor pilots, of which we have 110 as of March
2 1, 2006.

3 Q And does the addition of the instructor
4 and management pilots change any of the averages?

5 A No, it does not. And just to be clear, I
6 would like to point out that I realize there are
7 more -- we have more instructors than 110, but they
8 rotate through the line. So this just reflects
9 those instructors that were in the training
10 department in this model. The others would be
11 included as active line pilots.

12 (Company Exhibit 103 identified.)

13 BY MR. GALLAGHER:

14 Q If you would turn to the next exhibit in
15 sequence, which is labeled "Delta active nonpilot
16 demographics," which we'll mark as Exhibit 103. Do
17 you have that in front of you?

18 A I do.

19 Q What does this reflect?

20 A This shows essentially the same kind of
21 information, but for nonpilots, as of March 1. And
22 it shows that the average seniority of all active

□

1 nonpilots is 15.3 years, and that 49 percent have
2 over 15 years, with 20 percent being over 25 years.

3 (Company Exhibit 104 identified.)

4 BY MR. GALLAGHER:

5 Q If you would turn to the next exhibit in
6 sequence, which is labeled "Delta management average
7 years of service." Do you have that in front of
8 you?

9 A I do.

10 Q We will label that as Exhibit 104. Can
11 you tell us what this reflects?

12 A This shows the average years of service of
13 the management -- of some of the management team,
14 broken out by CEO and EVPs, senior vice presidents,
15 vice presidents and directors.

16 (Company Exhibit 105 identified.)

17 BY MR. GALLAGHER:

18 Q If you would look at the next document in
19 sequence which is labeled "mainline fleet plan."

20 And I would emphasize, Mr. Chairman, that
21 this document is confidential. It will be marked
22 for identification as Exhibit 105.

□

1996

1 What does this document reflect, without
2 talking about the numbers of aircraft in each
3 category, Mr. Watson; can you tell us what this
4 document reflects?

5 A It reflects three different snapshots of
6 Delta's fleet, along with counts by fleet type. It
7 also shows in the second column the seat
8 configuration for each aircraft type.

9 Q So we have the narrow-body fleet broken
10 out by type and number of seats?

11 A Yes.

12 Q On the top half?

13 A Yes.

14 Q And then the bottom half, the wide-body
15 fleet?

16 A That's correct, with a total, and then at
17 the very bottom you can see that there was a certain
18 number of aircraft that were stored or inactive as
19 of September 14, 2005. And that's reflected in that
20 block of information.

0323AR9

21 Q And the 20 that were stored or inactive at
22 the bottom of the page are not included in the top

□

1997

1 half, where it says "total in-service fleet";

2 correct?

3 A That's correct.

4 Q All right. And there are three dates

5 given. September 14 was the date of the bankruptcy

6 filing; correct?

7 A That's correct.

8 Q So those aircraft were in active service

9 as of that point in time?

10 A Yes.

11 Q March 1 of '06?

12 A Yes.

13 Q Beginning of this month. That is the

14 number in active service this month?

15 A That's correct.

16 Q And 1/1/07. Is that the --

17 A The last column, yes.

0323AR9

18 Q The current plan, current company plan?

19 A As I understand it, yes.

20 Q And then on the far right, you can, by

21 process of elimination, identify which aircraft and

22 fleet types are impacted by changes being made to

□

1998

1 the fleet; correct?

2 A That is correct. That is reflected in the

3 difference in that column.

4 Q This exhibit shows aircraft in service.

5 It doesn't show where they're in service, does it?

6 A No, it does not.

7 Q And are there significant moves or

8 reassignments of aircraft from domestic to

9 international service?

10 A More than I would like to see, yes.

11 Q And that increases your workload

12 significantly, I take it?

13 A Yes, it does.

14 Q And do you know which aircraft types are

15 being reassigned from domestic to international?

16 A Well, there's quite a bit of the
17 wide-bodies -- there were quite a few wide-bodies
18 that had been flown in domestic service, they are
19 being moved to international service as we speak.
20 There's also a reallocation of the 737/800 fleet and
21 757 from domestic to international as well.

22 Q I have no further questions on that

□

1999

1 exhibit, Mr. Watson.

2 (Company Exhibit 106 identified.)

3 BY MR. GALLAGHER:

4 Q Would you turn to the next exhibit, which
5 is labeled "pilot cost reduction initiative," dated
6 April 29, 2003. Do you have that in front of you?

7 A I do.

8 Q Was this a presentation made by the
9 company to the ALPA negotiating committee?

10 A Yes, it was.

11 Q On April 29?

12 A Yes.

0323AR9

13 Q Was this the opening proposal in what

14 became the 2004 agreement?

15 A I don't know if I would call it a

16 proposal, but certainly a start of a process.

17 Q Okay. But this is a document that the

18 company prepared and shared with ALPA on April 29,

19 2003?

20 A That's correct.

21 Q In that document, did the company discuss

22 pilot cost per pilot block hour?

□

2000

1 A Yes, we did.

2 Q Is that reflected on the second page of

3 this exhibit?

4 A It is. It's reflected.

5 Q So is pilot cost per pilot block hour a

6 concept that the company has first used for purposes

7 of this proceeding?

8 A No, we've been using pilot cost per pilot

9 block hour since the 1996 agreement.

10 Q And could it have been used before, before

11 you were involved?

12 A Certainly could have been.

13 MR. DECHIARA: Objection; speculation.

14 MR. GALLAGHER: I'll withdraw it,

15 Mr. Chairman.

16 (Company Exhibit 107 identified.)

17 BY MR. GALLAGHER:

18 Q If you would turn to the next exhibit,

19 which is labeled "employee productivity

20 comparisons," dated November 7, 2003. We'll label

21 this as Company Exhibit 107. Do you have that in

22 front of you?

□

1 A I do.

2 Q Was this a presentation made by Delta to

3 ALPA?

4 A Yes.

5 Q Does this presentation reflect the use of

6 pilot cost per pilot block hour on the last page?

7 A It does, on page --

8 Q Excuse me, the last two pages.

9 A Yeah. Yes, it does.

10 Q All right. And what is the metric used
11 for flight attendants in those last two pages?

12 A The flight attendant minimum block hour as
13 well.

14 Q All right. And this -- I take it this is
15 an analysis of all the Delta groups by different
16 measures; is that right?

17 A That's correct.

18 Q But the metric that was used in this
19 presentation to discuss pilot costs was pilot cost
20 per pilot block hour; is that right?

21 A That's right.

22 Q All right. No further questions on that

□

2002

1 exhibit.

2 (Company Exhibit 108 identified.)

3 BY MR. GALLAGHER:

4 Q If you would look at Delta Exhibit 108,
5 labeled "2004 pilot unit cost comparison." Do you

6 have that in front of you?

7 A Yes, I do.

8 Q What is this document?

9 A This was a document that was provided to
10 ALPA on January 29, 2004.

11 Q There are handwritten initials in the
12 upper right corner. Do you see that?

13 A I do.

14 Q Whose initials are those?

15 A Terry Erskine's.

16 Q Who was Mr. Erskine?

17 A He was the vice president of labor
18 relations at Delta.

19 Q All right. In this presentation did Delta
20 discuss with ALPA pilot cost per pilot block hour?

21 A Yes.

22 (Company Exhibit 109 identified.)

□

2003

1 BY MR. GALLAGHER:

2 Q If you would look at the next document in

3 sequence labeled "strategy review project,
4 presentation to ALPA, June 9, 2004." Do you have
5 that in front of you?

6 A I do.

7 Q We will label that as Delta Exhibit 109.

8 And this is an interpret, of course, from a much
9 longer document.

10 The second page is labeled page 31. Do
11 you have that in front of you?

12 A Yes, I do.

13 Q Who is Carl Sloan?

14 A He was a consultant that was employed by
15 Delta to help with restructuring efforts.

16 Q And did he do a strategic review process
17 for the company?

18 A Yes, he was involved in that.

19 Q And is this part of his report or
20 analysis?

21 A Yes.

22 Q And was this presented to ALPA in June of

□

2004

1 2004?

2 A Yes, that's my understanding.

3 Q And in this analysis, did Delta discuss
4 pilot cost per pilot block hour?

5 A As reflected on page 31.

6 (Company Exhibit 110 identified.)

7 BY MR. GALLAGHER:

8 Q If you would look at the next document in
9 sequence, which we will mark for identification as
10 Delta Exhibit 110. It is a long document labeled
11 "ratification," with the number 20 on the front
12 page. Do you have that?

13 A I do.

14 Q Can you identify this document?

15 A This is a document that was published by
16 ALPA's negotiating committee following the 1996 --
17 or in support of the ratification of the 1996
18 agreement.

19 Q I'm sorry, in support of the ratification
20 of what?

21 A Of the 1996 agreement.

22 Q And if you look at the last page, who

□

1 issued the document?

2 A Delta's negotiating committee, which
3 was -- who was comprised of Captain Bill Dougherty,
4 Captain Bob Norris and Second Officer Barry Gordon.

5 Q So this is a document published to the
6 Delta pilots by their negotiating committee in
7 support of ratification of the 1996 agreement?

8 A That's correct.

9 Q If you would look at page 15 of this
10 document, under the paragraph with the bold heading
11 "conclusion," in the last sentence. Would you read
12 that aloud into the record.

13 A "At the negotiating table, we have dealt
14 principally with the pilot cost per block hour
15 flown, a figure which more readily translates to the
16 cost per ASM."

17 Q Is it consistent with your recollection
18 that at the bargaining table, the parties dealt
19 principally with pilot cost per block hour flown?

20 A Yes.

21 MR. GALLAGHER: I have no further

22 questions, Mr. Chairman.

□

2006

1 MR. BLOCH: Thank you very much,

2 Mr. Gallagher.

3 Gentlemen, what's your pleasure?

4 MR. DECHIARA: We have cross, if I could

5 ask the panel -- if we could ask the panel for a few

6 minutes.

7 MR. SIMON: 30 minutes.

8 MR. GALLAGHER: I'm sorry, I didn't mean

9 to interrupt.

10 MR. DECHIARA: We would request a

11 30-minute break to prepare cross.

12 MR. GALLAGHER: And I would offer Company

13 Exhibits 100 to 110.

14 MR. BLOCH: Any objection to their

15 admission?

16 MR. DECHIARA: No objection.

17 MR. BLOCH: Those will be admitted.

18 (Company Exhibits 100 to 110 received.)

0323AR9

19 MR. BLOCH: Let's go off the record for a
20 moment, if we may.

21 (Discussion off the record.)

22 MR. BLOCH: We'll reconvene in an hour.

□

2007

1 (Whereupon, at 11:29 a.m., the hearing was
2 recessed, to be reconvened at 12:30 p.m. this same
3 day.)

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2008

1 AFTERNOON SESSION (12:37 p.m.)

2 Whereupon,

3 DAVID WATSON

4 resumed the stand and, having been previously duly

5 sworn, was examined and testified further as

6 follows:

7 MR. BLOCH: Mr. DeChiara, are you ready?

8 MR. DECHIARA: I am.

9 CROSS-EXAMINATION

10 BY MR. DECHIARA:

11 Q Good afternoon, Mr. Watson.

12 A Good afternoon.

13 Q Mr. Watson, I'd like to begin my

0323AR9

14 cross-examination with a question to you which I
15 believe Mr. Gallagher posed to Captain O'Malley
16 yesterday, which is to ask you, do you understand
17 that the current negotiations that have been going
18 on since 2005 and then have continued to the present
19 are negotiations under section 1113 of the
20 bankruptcy code?

21 A Yes.

22 Q Okay. Now, you're not a lawyer, are you?

□

2009

1 A I am not.

2 Q So I'm not going to ask you for a lawyer's
3 answer to this question. But let me ask you, do you
4 have a general operating understanding of what
5 section 1113 is?

6 A I don't know what you mean by "general,"
7 but I would assume so.

8 Q Okay. Well, let me ask you more
9 specifically. Do you understand that under 1113, a
10 company, to achieve the relief it is seeking, must

0323AR9

11 establish that it has an economic need for the

12 relief it's seeking?

13 A Yes.

14 Q And is it the company's position here --

15 well, the company is proposing the elimination of

16 certain furlough protections in the contract;

17 correct?

18 A That is correct.

19 Q And is it the company's position that that

20 proposal to eliminate those furlough protections

21 have no economic value?

22 A There is no -- there is no cost savings

□

2010

1 associated with those proposals.

2 Q Is there any economic value -- is the

3 economic value zero? That's my question.

4 A It certainly provides flexibility to the

5 company. We have not ascribed any economic value to

6 them.

7 Q You haven't ascribed it.

8 Let me ask you, while you're on the

Page 77

0323AR9

9 witness stand and under oath, does it have an
10 economic value?

11 A Under the five-year projection, I don't
12 believe it does, no.

13 Q Okay. So your position that those --
14 okay. You answered my question.

15 The scope changes. The company is
16 proposing to change the scope clause of the
17 collective bargaining agreement; correct?

18 A Yes.

19 Q And in particular, let me focus on the
20 proposal to increase the amount of flying or the
21 number of jets and the size of the jets that could
22 be flown by the DCI carriers. Are you familiar with

□

2011

1 that proposal?

2 A Yes.

3 Q Does that have any economic value?

4 A It has economic value, yes.

5 Q What is the economic value?

6 A I don't know off the top of my head, but
7 it would be incremental -- there would be
8 incremental revenue by being able to fly up to
9 79-seat jets.

10 Q To the tune of about \$1 million per jet
11 per year?

12 A I believe that is what we had said before,
13 yes.

14 Q And in fact, that's what you told the
15 bankruptcy court?

16 A That was in an exhibit, yes.

17 Q And you cannot achieve -- the company
18 cannot achieve that revenue, that \$1 million per
19 plane per year, unless the pilot contract is
20 changed; correct?

21 A Under -- yes. I mean, we cannot fly over
22 70-seat -- more than 70-seat jets at DCI under the

□

2012

1 current contract.

2 Q So you have to change the contract to get
3 that revenue; right?

4 A Yes.

5 Q Okay. And you're saying the pilots should
6 not be credited for that revenue that would result
7 from changing their contract. Is that the company's
8 position?

9 A That is the position, yes.

10 I would like to point out that it would
11 make no sense to do so, to pursue that change, if
12 you're going to get a million dollars of revenue off
13 of the plane and then simply credit that to ALPA,
14 then there's no net impact by doing that.

15 Q Well, let's talk about section 1113 and
16 what it means to credit something. Are you familiar
17 with -- we talked about economic necessity. Are you
18 familiar with another provision of section 1113 that
19 says that the amount taken from the unionized work
20 force has to be fair and equitable in regard to the
21 amount taken from the nonunion work force?

22 A Yes, I'm aware of that.

□

1 Q And to do that sort of fair and equitable
2 analysis, one needs to give credit to one group and
3 another and make some effort to balance those
4 equities?

5 A Yes.

6 Q Is that fair?

7 A Yes.

8 Q Okay. And so it's your position that in
9 changing the pilot contract to allow this generation
10 of additional revenue through the scope clause, ALPA
11 and the pilots should not get any credit even as to
12 that fair and equitable piece. Is that your
13 position?

14 A Our position is that there is no economic
15 value attributed to ALPA for making that change,
16 that's right. Just as if --

17 Q Let me ask you --

18 MR. GALLAGHER: Objection.

19 MR. DECHIARA: I'm sorry.

20 MR. GALLAGHER: Let the witness finish his
21 answer.

22 BY MR. DECHIARA:

□

1 Q Go ahead.

2 A I was just going to add that to the extent
3 we do increase 79-seat jets, there would be impact
4 to other employee groups by doing that as well.
5 It's not just to ALPA. That's my answer.

6 Q How many of those other employees have
7 collective bargaining agreements?

8 A There's only one other group at Delta.

9 Q How big is it?

10 A Couple hundred people.

11 Q How big is the pilot group?

12 A About 5700.

13 Q What's the other group?

14 A 6000 --

15 Q What's the other group?

16 A The flight dispatchers.

17 Q Would the flight dispatchers be affected
18 by the change in the pilot scope clause to allow an
19 increase in small jet flying by the DCI carriers?

20 A I don't know off the top of my head.

21 Q So I believe you've testified -- I just

22 want to make sure I'm following you -- the furlough

□

2015

1 clause has no -- the proposal to eliminate the

2 furlough clause has no economic value?

3 A Right. I think it's important to point

4 out as well --

5 Q You can point out additional things when

6 your counsel asks on redirect. I'd like an

7 answer --

8 MR. GALLAGHER: Mr. Chairman, I would ask

9 that the witness be allowed to finish his answer.

10 MR. DECHIARA: I have no problem with him

11 completing his answer. I don't want him to make

12 additional comments beyond the scope of the

13 response.

14 MR. BLOCH: If you had something to add,

15 please do so.

16 THE WITNESS: Thank you. I would just add

17 that in order for there to be economic value, to me

18 at least, the way I think of this, in order to

0323AR9

19 provide economic value, there would have to be -- if
20 you accept that premise, then the converse must be
21 true as well, that there must be a cost associated
22 with that.

□

2016

1 And under the five-year plan, which I was
2 trying to describe before, there is no cost that is
3 currently provided for for the furlough protection.
4 So had there been -- and we have given credit for
5 the elimination of the obligation to recall pilots,
6 as indicated here, and if there were projections
7 that we would be furloughing pilots, then they would
8 be credited for that change.

9 BY MR. DECHIARA:

10 Q Okay. So is it your position that there's
11 only economic value where there's a cost savings?

12 A In this case, yes. Yes.

13 Q When did the company first make this
14 proposal to eliminate furlough protections in the
15 1113 negotiations? Was that part of the original
16 proposal?

0323AR9

17 A That's my recollection.

18 Q And ALPA has said -- ALPA has not agreed
19 to that; correct?

20 A That's correct.

21 Q And yet the company has insisted on
22 keeping that proposal in there; correct?

□

2017

1 A It is still part of our proposal.

2 Q And, in fact, you heard -- were you here
3 yesterday afternoon when Captain Moak testified?

4 A I was.

5 Q Okay. And you heard Captain Moak say that
6 the pilots are prepared to strike if there's no
7 agreement?

8 A I heard him say that.

9 Q And have you heard the company testify
10 that a strike would be a disaster and could be
11 disastrous to the company?

12 A Well, I'm aware of that, yes.

13 Q Okay. And yet the company continues to

0323AR9

14 insist on this provision that has no economic value

15 as being part of this proposal?

16 A It is part of our proposal, yes. It is

17 intended to provide flexibility in the event of

18 circumstances that occur that would require us to

19 realign our business.

20 Q You're familiar generally with how

21 collective bargaining works; correct?

22 A Yes.

□

2018

1 Q Okay. And it's often the case, is it not,

2 that in collective bargaining, a union will trade

3 off one item for another. For example, they may

4 accept lower pay rates that they otherwise might

5 have obtained in order to obtain work rule

6 protections; is that a fair statement?

7 A Yes.

8 Q And, in fact, in these negotiations, the

9 company has repeatedly said it might be flexible on

10 pay rates regarding what the pilots are willing to

11 agree to or not agree to on other aspects; correct?

12 A That's correct.

13 Q Okay. So isn't it fair to say that if
14 there are work rule protections, existing work rule
15 protections in a collective bargaining agreement,
16 the union and the employees represented by that
17 union have purchased those protections, whether
18 through foregone wage increases or use of bargaining
19 chips?

20 MR. GALLAGHER: Mr. Chairman, I'm going to
21 object to rhetorical questions that call for
22 conclusions and speculation about who has purchased

□

2019

1 what. I mean, this is not factual testimony from
2 this witness.

3 MR. DECHIARA: This goes to the absolute
4 core of our position, Mr. Chairman. This is not
5 rhetorical. I'm trying to understand the company's
6 position and understand this witness's understanding
7 of how collective bargaining works.

8 MR. GALLAGHER: Well, I'm perfectly fine

9 with counsel stating ALPA's position, and I'll state
10 the company's position. But I don't think we need
11 to argue with the witness.

12 MR. BLOCH: Mr. DeChiara, I think this --
13 I think it's a perfectly articulate representation
14 of what we understand the union's position to be. I
15 think it is argumentative in the context of this
16 witness's testimony and existence here today.

17 By the way, I do welcome arguments on that
18 score from counsel in your closing briefs.

19 MR. DECHIARA: We'll be happy to provide
20 them.

21 BY MR. DECHIARA:

22 Q The company's position, as I understand

□

2020

1 it, for why -- and let me focus now on Company
2 Exhibit 100. That's the first document that was
3 introduced through your direct testimony. It says
4 "costing differences, Delta proposal with DB plan
5 termination" on the top on the front page. Do you
6 see that?

7 A That's correct.

8 Q By the way, was this document provided to
9 ALPA during contract negotiations?

10 A This document?

11 Q Yes.

12 A I don't believe so.

13 Q When was this created?

14 A Well, it was updated yesterday.

15 Q Okay. So this was created for purposes of
16 your testimony in this litigation?

17 A This particular page, yes.

18 Q What about -- it's a three-page document.

19 Let me ask you, what you just said, is that true for
20 the entire document?

21 A No, it is not true for the entire

22 document. We've provided these summary pages to

□

2021

1 ALPA previously.

2 Q Which pages did you provide, and when did
3 you provide them?

4 A We've provided the proposal, the summary
5 page. It's in the model that I sent to ALPA earlier
6 this month and --

7 Q Let me just be a little bit more precise.
8 This document, this three page -- three pages of
9 paper that is your -- that is Company Exhibit 100 --

10 A Yes.

11 Q -- was that created yesterday?

12 A This three-page document was created
13 yesterday.

14 Q Thank you. Now, who created it?

15 A Well, several people updated it. I was
16 one of them as well.

17 Q And let's look at -- on the first page
18 under "additional financial benefits," there's a
19 list of items, all of which under the company
20 costing column, the left-most column, says "NA."
21 Those are all the items that the company says have
22 no economic value; correct?

□

2022

1 A Right. In the context of this page, yes,
Page 90

2 that's correct.

3 Q And the reason that -- I think there are
4 about three or four in the middle of that group that
5 all give the same reason for why there's no economic
6 value. They all have to do with -- there's going to
7 be a question mark at the end of the sentence. Let
8 me just get it out.

9 They all have to do with furlough
10 protection, and the reason given is because "the
11 five-year plan does not call for furloughs"; is that
12 an accurate characterization of the document?

13 A That's exactly what that says.

14 Q Now, the company is not guaranteeing there
15 will be no furloughs under the four-year term of
16 this proposed contract, is it?

17 A No, it is not.

18 Q There may very well be furloughs?

19 A There very well may.

20 Q And if there are furloughs and the
21 furlough protections are not removed, it's going to
22 cost the company money to furlough?

□

1 A That is correct.

2 Q And so the company would save that money
3 if it got this -- these proposals implemented;
4 correct?

5 A If there were furloughs, yes.

6 Q Okay. So in effect, would it be fair to
7 say that the company on this furlough protection is
8 purchasing flexibility? There's a risk out there
9 that may occur, and you want to avoid having to pay
10 money if that risk comes to fruition. Is that a
11 fair characterization?

12 A I don't know if that's fair or not. You
13 know, purchasing something, I don't -- I don't
14 necessarily agree with. So I don't know.

15 Q Let's talk about the scope clause. The
16 scope clause is contained in section 1 of the
17 collective bargaining agreement?

18 A Yes, it is.

19 Q And are there other parts of section 1?

20 A What do you mean?

21 Q Are there other -- apart from -- well, you

22 tell me, is the scope clause -- is section 1 scope?

□

2024

1 Is it anything else?

2 A It is generally known as scope and

3 recognition, or something like that, yes.

4 Q Okay. And apart from setting the number

5 of -- and size of aircraft that the DCI carriers can

6 fly, are there other elements of section 1?

7 A For example, furlough protections, yes.

8 Q Okay. Any others?

9 A Yes, there are others.

10 Q What about fragmentation policy

11 protection?

12 A I believe that is in there.

13 Q What about successorship clause?

14 A Yes.

15 Q What about participation in the board of

16 directors?

17 A I believe that's in there as well.

18 Q Okay. In the letter of agreement 46

19 negotiations, you testified that the scope clause

0323AR9

20 was changed to the extent of the amount of flying
21 that could be performed or the size of the aircraft
22 that could be flown by the DCI carriers. Do you

□

2025

1 remember that testimony?

2 A Yes.

3 Q Were there also changes to other elements,
4 such as the ones you just mentioned?

5 A Yes, I believe there were.

6 Q Okay. And those changes, for example, to
7 the fragmentation policy, successorship,
8 participation in the board of directors, those were
9 changed, in fact, in the pilots' benefit, in fact,
10 those were improved; correct?

11 A Clearly, there were changes. I can't -- I
12 really wasn't that involved with those particular
13 portions of the contract.

14 Q Do you know whether any effort was made by
15 the company in the costing efforts of letter of
16 agreement 46 to determine whether there was any

0323AR9

17 balance or offset between the amount that the pilots

18 gave up and the amount that the pilots gave in

19 section 1 -- the changes to section 1?

20 A All contained within section 1, that was

21 the --

22 Q That's my question, yes.

□

2026

1 A I'm not aware of any.

2 Q Without revealing any numbers in the

3 company's five-year projections, do you know whether

4 the percentage of Delta's total flying that is --

5 when I say "Delta," I mean the Delta system,

6 including the DCI, whether the amount of that total

7 flying -- the percentage of that total flying that

8 constitutes DCI flying will increase over the period

9 of the five-year projections?

10 A I don't recall. I don't recall.

11 Q Okay. Let me ask you to look at ALPA

12 Exhibit 14 and turn to page 21. And I'll get that

13 for you. And I would just ask you to look at -- you

14 can look at whatever you want in the document, but

0323AR9

15 then I would ask you to focus on page 21. And I
16 would just ask you if you could -- if that refreshes
17 your recollection and whether you can answer my
18 question, having looked at that document.

19 A If this is the five-year plan as presented
20 to ALPA, I have seen this document.

21 (Witness reviewed the document.)

22 Q So can you answer my prior question? Does

□

2027

1 this refresh your recollection about whether or not
2 the percentage of total Delta system flying that
3 constitutes DCI flying will increase over the length
4 of --

5 A Yeah, DCI will increase.

6 Q And domestic mainline flying will
7 decrease; right?

8 A Along with a commensurate increase or even
9 greater increase in international flying.

10 Q The answer was domestic mainline will
11 decrease?

0323AR9

12 A Domestic mainline will decrease;
13 international will increase; DCI will increase, yes.

14 Q Okay. Thanks. Do you know whether under
15 the Northwest bridge agreement there was credit
16 given to the pilots there for changes in their scope
17 agreement?

18 A It's my understanding that there was some
19 amount of money given to ALPA as credit.

20 Q What about in the case of the recent
21 changes to the United Airlines/ALPA collective
22 bargaining agreement, do you know whether there were

□

2028

1 scope changes there?

2 A I'm not aware of any credit given there.

3 I'm sorry --

4 Q You don't know one way or another or --

5 A Could you repeat your question, please?

6 Q Let me break it down. Are you familiar
7 with changes -- recent changes to the pilot contract
8 at United Airlines?

9 A Yes, to some degree, yes.

0323AR9

10 Q Do you know whether there were changes to
11 the scope provision of that agreement?

12 A I believe there were, yes.

13 Q Do you know whether or not there was
14 credit given to the pilots for those changes?

15 A I do not believe that there was. I don't
16 know.

17 Q You don't know?

18 A No, I don't.

19 Q Okay. And you pointed out -- I believe
20 it's Company Exhibit 85, which you may have in front
21 of you -- do you have that in front of you?

22 A I do.

□

2029

1 Q Okay. And that's the costing from letter
2 of agreement 46?

3 A This was one -- yes, this was the version
4 of costing that we were -- received as of October 26
5 from ALPA.

6 Q Okay. And you -- and you pointed out, I

7 believe, in your direct testimony there's no scope

8 clause savings in that costing; right?

9 A That's correct.

10 Q Okay. To what -- letter 46 was not in the

11 context of an 1113 process, was it?

12 A No.

13 Q Okay. Do you know to what extent that

14 costing was developed to balance the equities

15 between the pilots and the nonunion employees under

16 section 1113?

17 A This negotiation?

18 Q Yes. Yes.

19 A I'm not -- no, I don't know.

20 Q Who currently -- does the sick pay

21 currently come out of the company's treasury?

22 A It does.

□

1 Q And the company is proposing that the sick

2 pay should come out of the D&S VEBA; right?

3 A That's correct.

4 Q D&S VEBA is a separate trust?

5 A It is a trust, that is correct.

6 Q Okay. And the company concedes that would
7 save it money?

8 A It would save cash.

9 Q Cash -- okay. Cash is money, but okay.

10 A Just to make it clear, it would not
11 save -- it would not save the expense, but it would
12 save cash.

13 Q Okay. So you're saying that -- so let me
14 go back to the first page of your Exhibit 100. The
15 bottom item on the N/A, the items to which you
16 attribute no economic value, that's this "pay sick
17 leave out of D&S trust VEBA" item; correct?

18 A That's correct.

19 Q And you're saying it has no economic value
20 because the savings would only be cash but not
21 expense savings?

22 A Right. I'm not saying it has no economic

□

1 value. What I'm saying is that it is a cash savings

2 and not an expense savings.

3 When we developed our proposal, there were
4 certain benefit changes that we had proposed that
5 would have expense savings but not a commensurate
6 amount of cash savings. So in order to try and
7 achieve level of cash and expense savings equivalent
8 to 325 million, now 305 million, or 292 if the DB
9 plan is terminated, we made this proposal to be able
10 to get an equivalent level of cash savings as well.

11 Q What would -- I think you testified a
12 minute ago, you said the change would have economic
13 value. What economic value would it have?

14 A It's \$45 million of cash.

15 Q Okay. I believe counsel on direct asked
16 you whether the company would have to pay sick pay,
17 even under this proposal, the company would have to
18 pay sick pay if the assets of the D&S plan were -- I
19 believe this is an exact quote -- drained tomorrow.
20 Do you remember that question?

21 A I remember the context, yes.

22 Q Okay. What -- and how much money is in

□

1 that D&S plan?

2 A My understanding is it's over a billion
3 dollars.

4 Q What are the chances it's going to be
5 drained tomorrow?

6 A I would imagine very little.

7 Q When was the last time the company paid a
8 cent into the D&S plan?

9 A I don't know.

10 Q Do you know where the money originally
11 came from?

12 A No.

13 Q The difference in the -- now let me go up
14 to -- not the bottom -- still on the first page of
15 Company Exhibit 100. I'm leaving the bottom items
16 where you give no economic value and I'm moving up
17 to the items where there's a difference in the value
18 attributed. And on the reduced sick pay item, the
19 difference is attributed to ALPA assumes behavior
20 change; correct?

21 A That's correct.

22 Q Is it your understanding that ALPA is

□

2033

1 saying if you reduce the value of sick pay the

2 pilots are going to take less sick pay?

3 A That is my understanding.

4 Q Okay. Has the company -- let me ask you,

5 does the company have access to any economic

6 expertise in this case?

7 A I'm not sure I understand what you mean.

8 Q Does the company have -- has the company

9 made any effort to determine, as an empirical

10 matter, whether ALPA's assumption is accurate?

11 A No, we have not.

12 Q Okay. Do you know -- and I'm just asking

13 you if you know -- do you know whether the company

14 has ever asked any of its economic experts to look

15 into that issue?

16 A Not that I'm aware of.

17 Q In fact, the company hired a labor

18 economist who was -- who prepared written testimony

19 for the bankruptcy court hearing. Are you familiar

0323AR9

20 with that?

21 A If you can give me the name, I'll --

22 Q I believe his name is Dr. Michael Wachter,

□

2034

1 PhD, from University of Pennsylvania?

2 A Okay. Right.

3 Q Do you know if he was ever asked to look

4 into --

5 A I'm not aware of whether he was or not.

6 Q Let's move on to the rotation guarantee.

7 You told someone named Dwayne Davis that the company

8 was proposing to eliminate the rotation guarantee;

9 is that correct?

10 A I think actually what happened was he said

11 does this mean that the rotation guarantee would be

12 eliminated, and I said yes.

13 Q Okay. I'll accept that. When did that

14 exchange happen?

15 A My recollection is that it happened either

16 on -- when we delivered our proposal around

17 September -- mid-September or shortly thereafter.

0323AR9

18 Q Okay. And today in your testimony, you've
19 provided a clarification of what you actually meant.
20 I think you said you thought there was a
21 misunderstanding. Is that accurate?

22 A Well, the fact of the matter is, this is a

□

2035

1 relatively complicated subject, and we've had very,
2 very, very few discussions, if any, with ALPA on
3 this entire subject. So I think we could have
4 probably provided or gained a better understanding
5 than we may have right now over this subject, had we
6 had more conversations.

7 Q Okay. When did -- you testified this
8 morning that you believed what you said to -- by the
9 way, who is Dwayne Davis?

10 A As I mentioned this morning, to my
11 understanding, he's a consultant that works for
12 ALPA.

13 Q Okay. He's part of ALPA's team, for --
14 speaking in the broad sense; correct?

15 A For costing and scheduling, yes.

16 Q You testified this morning you thought

17 there was a misunderstanding in what you told

18 Mr. Davis; correct?

19 A I testified that I think there could be a

20 misunderstanding, yes.

21 Q When did you form that belief that you may

22 have created a misunderstanding in responding to

□

2036

1 Mr. Davis's testimony?

2 A I guess listening to Kye Johanning speak

3 on the subject the other day.

4 Q Okay. But between September and today, is

5 today the first time that you've given a full

6 exposition of your position on what you believed was

7 this issue?

8 A No, it is not. It is -- we've had several

9 discussions on how we have valued the changes on

10 restructuring credit rates, and so during those

11 discussions -- and I explained exactly how we had

12 valued them. And so it's not the first time there's

0323AR9

13 been a full exposition. It's certainly the first
14 time -- well, first time -- it's helping clarify how
15 this issue may be -- how this issue may be taken
16 care of or considered in our proposal.

17 Q Okay. And under the company's proposal,
18 if a pilot's rotation is partially canceled, he
19 would not get rotation guarantee pay that he would
20 be entitled to currently under the current contract;
21 right?

22 A That's correct.

□

2037

1 Q That change would save the company money,
2 would it not?

3 A That's correct.

4 Q And you're saying -- so you're not
5 disputing that it would save the company money, but
6 you're saying it's accounted for elsewhere in your
7 costing. And the "elsewhere" is where?

8 A It's in the line item that reads
9 "restructure credit rigs," it's about a third of the

10 way down under pay and work rules, where it shows

11 \$20.1 million.

12 Q When did you tell ALPA that before today?

13 A I believe we've had that discussion

14 before, between Randy Worrall, Kye Johanning and me.

15 Q When did that take place?

16 A I don't recall.

17 Q Do you have notes from that meeting?

18 A I do not.

19 Q Where did that take place?

20 A It would have been either at ALPA's office

21 or Delta's offices.

22 Q Now, you testified that even if a pilot's

□

1 rotation were partially canceled, he could still

2 pick up other flying. Was that your testimony?

3 A Yes, there would be nothing restricting

4 him from picking up additional flying.

5 Q Okay. If he picks up additional flying,

6 does that mean that someone who would have otherwise

7 done that additional flying is now not going to be

0323AR9

8 doing that flying?

9 A I think that's obvious.

10 Q Okay. Bear with me. This is your
11 business, not mine.

12 And in fact -- and correct me if I'm
13 wrong -- you and your staff of 85 people do your
14 best to make sure there's no fat in that scheduling
15 system; correct?

16 A That's correct.

17 Q Let's now turn to the issue of when the
18 savings from the reduction in benefits -- or let me
19 rephrase that -- whether or not the savings from the
20 reduction in certain plan benefits should be
21 recognized in 2006. Are you familiar with that
22 issue?

□

2039

1 A Yes.

2 Q And that's a grounds for difference in
3 costing?

4 A Yes, it is.

5 Q Okay. Did you give the ALPA team a

6 costing model on or about February 28?

7 A Yes, I did.

8 MR. BLOCH: I don't want to interrupt the

9 proceedings, please continue, but let's try and get

10 some new batteries or something for that MIC, if we

11 can.

12 MS. SNYDERS: They're on their way.

13 MR. BLOCH: Thank you very much.

14 Please continue, Mr. DeChiara.

15 BY MR. DECHIARA:

16 Q And -- first of all, let me see if I

17 understand the company's position. The company

18 originally, back in September of '05, said that

19 these same benefit changes would produce a

20 realizable savings in 2006; right?

21 A Yes.

22 Q Okay. And now the company is saying

□

1 because time has passed, that's no longer

2 appropriate?

3 A That is correct.

4 Q Okay. In your February 28 costing model
5 that you gave to ALPA, did you have an item on this
6 issue?

7 A Yes, I believe I did.

8 Q Okay. And isn't it true that on February
9 28, in your costing model you attributed a
10 substantial dollar amount to the savings that would
11 be recognized in 2006 from these pension reductions?

12 A They were included, yes.

13 Q Okay. And, in fact, in the interim
14 agreement, which I believe is letter of agreement
15 50, do you know when that was entered into, the
16 letter of agreement 50?

17 A The exact date is escaping me, but I know
18 it was --

19 Q Back in December?

20 A Yeah.

21 Q Okay. And that set forth a schedule for
22 the effort by the parties to reach a comprehensive

□

1 agreement; correct?

2 A That's correct.

3 Q Okay. And did the company have a belief
4 as to when that comprehensive agreement might have
5 been entered into?

6 A I don't know if we had a belief. I think
7 there was a time line set out, though.

8 Q Okay. And the time line brought the
9 parties into March of '06; correct?

10 A That's right.

11 Q Okay. So the company knew when it entered
12 into that interim agreement in December that it was
13 quite likely there would be no comprehensive
14 agreement, if there were one, until March of '06.
15 Is that a fair statement?

16 A I don't know if that's fair or not, but
17 that's certainly a possibility.

18 Q Okay. Did the company at that time, when
19 it entered into the interim agreement, make any
20 effort to rejigger its costing of when these 2000 --
21 or whether in 2006 there should be a recognition of
22 savings from these proposed benefit changes?

□

1 A At that time, no.

2 Q Let me turn you to Exhibit 101, Company
3 Exhibit 101. Do you have that in front of you?

4 A I do.

5 Q Okay. Let me call your attention to the
6 second group of items that are listed on the first
7 page that come under the heading "benefits." Do you
8 see that?

9 A I do.

10 Q And then the second item under that is
11 "additional DC contribution"?

12 A That's correct.

13 Q What is that for?

14 A That is based on ALPA's proposal to
15 increase the defined contribution amount by 6
16 percent, in the event that the defined benefit plan
17 is terminated.

18 Q Okay. And, in fact, the heading of this
19 first page is "ALPA proposal with DB plan
20 termination"?

0323AR9

21 A That's correct.

22 Q So this assumes that -- this page assumes

□

2043

1 DB plan termination; correct?

2 A That's correct.

3 Q Okay. And that additional DC

4 contributions would be an offset to the savings from

5 the DC plan termination; correct?

6 A As reflected here, it is an incremental

7 cost.

8 Q Okay. Where on this page, if you can

9 point out to me, does it indicate what the savings

10 would be to the company from the termination of the

11 pilot pension plan?

12 A There is no indication of that on this

13 page.

14 Q Okay. Let me turn you to -- back to

15 Exhibit 100. The heading on the first page of

16 Exhibit 100 is "costing differences in the Delta

17 proposal with DB plan termination." That's the

0323AR9

18 first page?

19 A That's correct.

20 Q So the first page assumes -- this is what
21 the costing would look like in the company's view if
22 the DB plan terminated?

□

2044

1 A Under Delta's proposal.

2 Q Right. And the second page is the same
3 thing, but -- I'm sorry. The third page is the same
4 thing but without the DB plan termination?

5 A That's correct.

6 Q Okay. I'm sorry, so the first page is a
7 summary page; is that right? Am I reading this
8 correctly?

9 A Yes.

10 Q Okay. And the second page is one scenario
11 with DB plan termination, and the third page is
12 another scenario without DB plan termination?

13 A That's correct.

14 Q Okay. And we have both on the second and
15 third pages a total benefit under the company's

0323AR9

16 proposal under each of those two scenarios; correct?

17 A That's correct.

18 Q And the company -- and the company has
19 indicated that with DB plan termination, the savings
20 from the company's proposal would be \$291.7 million?

21 A Yes.

22 Q And that without DB plan termination, the

□

2045

1 savings to the company would be \$304.9 million?

2 A That's right.

3 Q So the savings to the company under your
4 costing would be greater without plan termination
5 than with plan termination?

6 A Right. I think there's been -- testimony
7 has been given before, this is all relative against
8 a five-year plan that has no -- has no provisions
9 for a fund -- in this circumstance, has no
10 provisions for cash for DB plan. So it's against a
11 baseline of which it would be excluded.

12 Q No provisions for cash?

13 A Right.

14 Q Nor after '07 does it have any provisions
15 for plan expenses; correct?

16 A For expense.

17 MR. DECHIARA: Nothing further.

18 MR. BLOCH: Anything else for this
19 witness, Mr. Gallagher?

20 MR. GALLAGHER: Very briefly,

21 Mr. Chairman.

22 REDIRECT EXAMINATION

□

1 BY MR. GALLAGHER:

2 Q Mr. Watson, do you still have in front of
3 you ALPA Exhibit 14, the company's preliminary
4 five-year plan?

5 A I do not.

6 Q Do you have that in front of you?

7 A I do.

8 Q Page 21.

9 A Okay.

10 Q I want to ask you to -- do you have a

11 calculator handy?

12 A No.

13 Q Or a pad? It's very simple calculation

14 I'm going to ask you to do.

15 In 2006, if you would total the Delta

16 mainline ASMs and the Delta international ASMs --

17 MR. DECHIARA: I'm sorry, what page are

18 you on?

19 MR. GALLAGHER: Page 21, same page that

20 was referenced on cross.

21 THE WITNESS: I have a feeling this is

22 getting back to my education.

□

1 (Laughter.)

2 BY MR. GALLAGHER:

3 Q What is the total ASMs for Delta mainline

4 and international?

5 A The way I calculate it, it's 124,9 --

6 well, in these numbers, 124,920.

7 Q And those are millions of ASMs, are they

8 not?

9 A That's correct, yes.

10 Q And what is the projected ASMs for the
11 same categories for 2010?

12 MR. SIMON: Jack, are you -- your
13 confidentiality privilege.

14 MR. GALLAGHER: Yes. I've been reminded,
15 Mr. Chairman, that there's a confidentiality issue
16 here, so I'm going to ask the witness to do the
17 tally but not say it out loud and simply tell me the
18 percentage increase overall.

19 (Laughter.)

20 MR. GALLAGHER: No? All right.

21 MR. HARRIS: You can say whether it's
22 large or small.

□

1 MR. SIMON: Nice try, Jack.

2 MR. GALLAGHER: I'll try to rephrase to
3 deal with this.

4 MR. SIMON: That's why we went to law
5 school, Jack.

6 MR. GALLAGHER: Absolutely true.

7 BY MR. GALLAGHER:

8 Q Is it fair to say, Mr. Watson, that the
9 increase, domestic and international, at Delta
10 from '06 to '10 is larger than the increase in ASMs
11 at Delta Connection between '06 and '10, numerically
12 larger?

13 A Numerically larger, yes, it is.

14 Q All right. And is it your understanding
15 that the growth of ASMs at the Delta Connection
16 carriers would include the additional nine seats on
17 the 70-seat airplanes, that would increase the ASMs
18 at the Delta Connection carriers, would it not?

19 MR. DECHIARA: Objection; leading.

20 MR. BLOCH: I'll allow the answer.

21 THE WITNESS: Yes.

22 MR. GALLAGHER: No further questions,

□

1 Mr. Chairman.

2 MR. BLOCH: Anything else, Mr. DeChiara?

3 MR. DECHIARA: No.

4 MR. BLOCH: Mr. Watson, thank you, sir.

5 THE WITNESS: Thank you very much.

6 (Witness excused.)

7 MR. GALLAGHER: The company would call
8 Edward Bastian to the witness stand, Mr. Chairman.

9 I've been told in other settings that I
10 don't know how to get a laugh, but -- I think they
11 mean intentionally.

12 Mr. Chairman, for the board's convenience,
13 in addition to the new exhibits that are being
14 handed out, I will be referencing in the course of
15 discussion with Mr. Bastian ALPA Exhibit 52 and ALPA
16 Exhibit 56.

17 Whereupon,

18 EDWARD BASTIAN

19 was called as a witness and, having previously been
20 duly sworn, was examined and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. GALLAGHER:

□

1 Q Welcome back, Mr. Bastian.

2 A It's a pleasure.

3 Q We're in the homestretch.

4 A I sure hope so.

5 MR. SIMON: Promises, promises.

6 BY MR. GALLAGHER:

7 Q I have placed before you a set of new
8 exhibits, as well as copies of some exhibits already
9 introduced. Do you have those in front of you?

10 A I do.

11 Q Exhibit 111 is a one-page document. Do
12 you have that in front of you?

13 A I do.

14 (Company Exhibit 111 identified.)

15 BY MR. GALLAGHER:

16 Q Can you tell the board what Exhibit 111
17 reflects?

18 A 111 is a chart that depicts the total
19 amount of new LCC capacity that's been deployed in
20 the country, in the U.S., since 2000, that's been in
21 competition with each of the major carriers.

22 As you can tell from this chart, Delta has

□

1 had the most amount of LCC capacity deployed against
2 it over the last five years, 69 percent of total new
3 LCC capacity is a direct overlap with Delta. This
4 number is even further compounded by the fact that
5 if you were to consider Delta draws a much higher
6 proportion of its revenues in the U.S. as compared
7 to these other comparable carriers, that relative
8 scale is even higher, that 69 percent against
9 Delta's much higher domestic revenue, as proportion
10 of total revenue, than it is relative to the other
11 carriers.

12 Q Would you turn in Ms. McAhrn-Schulz's
13 Exhibit 52, page 2.

14 A Okay.

15 Q Now, this slide says that Delta's
16 competitive overlap with LCCs is relatively low. Do
17 you agree with that conclusion?

18 A I absolutely do not agree with that
19 conclusion.

20 Q And why not?

0323AR9

21 A Well, once we researched this -- and you

22 can tell from looking at the note below --

□

2052

1 Ms. McAhron-Schulz did not include America West or
2 USAirways as an LCC in this analysis. And I think
3 clearly, given where USAir, the new USAir is going,
4 with respect to its cost structure and its pricing
5 strategies, by virtue of the fact its very ticker on
6 the stock exchange is LCC, is an indication that
7 it's an LCC, it's a direct competitor to Delta.

8 If you were to add USAir and America West
9 into this chart, you'd see most of the competitive
10 landscape to be pretty balanced.

11 Q Now, even before the recent merger of
12 USAirways and America West, America West has been
13 regarded for several years as a low-cost carrier,
14 has it not?

15 A They sure have.

16 Q So under any analysis, the America West
17 competition is low-cost carrier competition;
18 correct?

0323AR9

19 A That's correct.

20 Q And now with the merged -- during its
21 restructuring, did USAirways reduce its cost to a
22 level at or near that of America West?

□

2053

1 A My understanding is their cost structure
2 is a lot closer to an LCC cost structure than a
3 network carrier structure, yes.

4 Q All right. And does the newly merged --
5 the newly created USAirways, which includes both
6 America West and the restructured USAirways, does
7 that compete with Delta Air Lines?

8 A USAir, in fact particularly on the East
9 Coast, is one of our largest, if not the largest
10 competitor we have.

11 Q Now, does Delta compete only with legacy
12 carriers?

13 A Certainly not.

14 Q Well, Ms. McAhrn-Schulz, to my -- seemed
15 to be dividing the competition universe into network

16 carriers and legacy carriers. Is Delta able to
17 divide the universe of carriers it competes with?

18 A For Delta to be successful, it must craft
19 a strategy to compete with both network as well as
20 LCC carriers.

21 Q All right. I want to talk briefly about
22 Delta's revenue issues.

□

1 (Company Exhibit 112 identified.)

2 BY MR. GALLAGHER:

3 Q Do you have Exhibit 112?

4 A I do.

5 Q Now, in Ms. McAhron-Schulz's Exhibit 52,
6 she showed Delta having a revenue premium over Air
7 Tran on page 9.

8 A That's correct.

9 Q And it is true, is it not, that Delta does
10 have a revenue premium over Air Tran?

11 A We do.

12 Q Does that tell the whole story?

13 A I wish it did tell the whole story. The

0323AR9

14 30 percent RASM advantage against Air Tran is very
15 important for us to protect. In fact, we've talked
16 a lot last week about how we're looking on to
17 improve our unit revenue performance.

18 But to tell the full story, you also have
19 to look at how that revenue compares to the cost.
20 And if you were to look at the cost, excluding fuel,
21 because fuel at the end of the day is going to be,
22 you know, the same for both carriers, on an ex-fuel

□

2055

1 basis, our CASM disadvantage versus Air Tran is 47
2 percent.

3 So you can't continue to compete
4 effectively over the long term if one carrier has a
5 47 percent cost advantage when you're only garnering
6 a 30 percent revenue advantage against that carrier.

7 Q And Air Tran is a low-cost carrier?

8 A They are.

9 Q And they are your primary competitor at
10 your Atlanta hub?

0323AR9

11 A They have a hub in Atlanta, and they sit
12 right on top of a lot of our very lucrative routes.

13 Q All right. Do you agree with Mr. Weil's
14 suggestion that it all gets back to long-term
15 fundamentals of balancing your costs and your
16 revenues, that that's what drives earnings?

17 A In order to be successful over the long
18 term, you need to get your costs below your
19 revenues, as a fundamental matter.

20 Q Now, you testified earlier that you saw
21 the potential for some upside in Delta's revenue
22 plan; is that right?

□

2056

1 A I did.

2 Q Do you also foresee some downside
3 potential in Delta's business plan?

4 A I do recall talking last week about
5 concerns with respect to where fuel is today, yes.

6 Q All right. In your view, are those upside
7 and downsides balanced today, or what's their
8 relationship today?

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0323AR9

9 A Well, what I recall testifying -- and I
10 still believe that to be the case today -- is I do
11 think there is the potential, I don't think it's a
12 certainty, but a potential for revenue upside from
13 the plan. We have a fairly aggressive plan in
14 place. We are a little over two months into the
15 year, so it's very early to call it a done deal.

16 But if our trends continue the way they
17 have, I do expect revenues could exceed plan levels
18 in the neighborhood of about \$250 million.

19 I also talked a lot about how fuel enters
20 into the picture here, and that our fuel plan, going
21 into 2006, was for \$1.74 per jet fuel per gallon.
22 Today where jet fuel is is about \$1.85. It's been

□

2057

1 generally at that range for much of the year.

2 If you look at the forward curve, in fact,
3 it gets closer to \$2 by the end of the year.

4 Just at \$1.85, that's about a \$300 million
5 hit to the plan in fuel. So when I look on balance,

0323AR9

6 if fuel stays where it's at at \$1.85, not to trend
7 upward, as the forward curves suggest it might, and
8 our revenue growth to continue and successfully
9 continue, I think our plan for 2006 is fairly
10 balanced.

11 Q All right. And if fuel goes beyond \$1.85
12 and stays up at the \$2 range for the remainder of
13 the year, what happens to that balance?

14 A Well, we -- if we're not able to get
15 revenue premiums and further improvements in the
16 revenue above that which we already have seen, I
17 think the plan is going to be in a bit of trouble
18 for '06.

19 Q Well, can Delta rely on a revenue upside
20 for the long term?

21 A We certainly cannot.

22 Q What are the unit revenue growth targets

□

2058

1 in Delta's business plan for '06 and '07?

2 A For '06 we have a 6 percent unit revenue
3 improvement on a year-over-year basis, and in '07 we

0323AR9

4 have another 5 percent on top of that 6 percent.

5 Q All right. When was the last time that
6 Delta actually achieved a 6 percent unit revenue
7 growth per year?

8 A Last time we achieved 6 percent was in
9 1989, 17 years ago.

10 Q And was the industry environment
11 confronting Delta less competitive then?

12 A I think substantially different. You had,
13 obviously, Pan Am, you had Eastern, you had a lot of
14 carriers in a lot of trouble. Delta was able to
15 benefit from some of those difficulties. You also
16 had the -- obviously, the low-cost carriers as they
17 are today didn't exist in the same context.

18 Q How much is Delta's unit revenue gap to
19 the other legacy carriers today?

20 A We have a 20 percent unit revenue
21 difference between us and the major legacies.

22 Q And what is the goal of your business plan

□

2059

1 with regard to that gap?

2 A Our goal of our business plan is to close
3 that gap over time. We have two -- over the next
4 two years, we've got a 50 percent closure of that
5 gap, so that by the end of 2007, we project, if our
6 plans materialize, that we cut that gap in half. So
7 it would be a 10 percent difference.

8 Q So even with 6 percent unit revenue growth
9 in '06 followed by an additional 5 percent revenue
10 growth -- unit revenue growth in '07, you still will
11 have closed only half of the gap to the --

12 A Only half the gap, yes.

13 Q And that's to the average of the other
14 legacy carriers, not to the highest?

15 A That's correct.

16 Q All right. Well, why is your goal so less
17 than all? Why is it only half?

18 A Well, our goal is to get all the way
19 there, but this is going to take a lot of time to
20 implement. Restructuring Delta and making the
21 network changes is a long-term process as we
22 resequence aircrafts, change the footprint in a lot

□

1 of our domestic flow markets, growing international.

2 International, as I was testifying last
3 week, is a big part of our growth strategy and our
4 transformation plan.

5 We're opening up, I think, somewhere on
6 the order of 18 to 20 new international destinations
7 over the course of this summer. That's an awful lot
8 of expansion. In fact, it's the biggest expansion
9 in Delta's history on an international plane.

10 We're assuming we're going to execute
11 flawlessly, to take on that challenge, take on that
12 risk; it's going to take a while before you can
13 implement those changes, correct the domestic
14 marketplace, all the while you've got competitors at
15 your throat.

16 We also have in our plan the expectation
17 that the economy is going to continue to be, you
18 know, relatively strong. We'll be looking at 3
19 percent GDP assumption throughout the course of our
20 plan.

21 This economy has been in an economic

22 expansion for a six- to seven-year time frame. It's

□

2061

1 bound to turn soft at some point. We certainly hope
2 it doesn't happen before we get our company fixed.

3 Q I'd like to shift from the revenue side of
4 the equation to the cost side of the equation. The
5 ALPA witnesses have been fairly positive about
6 Delta's success in cutting costs to date. Indeed,
7 they rely upon that for the proposition that,
8 therefore, Delta needs less from the pilots.

9 Does Delta's past success at cost-cutting
10 mean that the further reductions in the business
11 plan, further cost reductions, are no longer
12 necessary?

13 A Absolutely not. Of the \$3 billion plan,
14 1.9 billion of that 3 billion is in cost reductions.
15 So, clearly, we need to continue to reduce costs in
16 this business.

17 Q And apart from pilots today, as we speak,
18 is Delta doing other things to reduce its costs?

0323AR9

19 A We're looking in every corner of this
20 company to reduce costs. We've got on the nonpilot
21 side, we're in the midst of a fairly significant
22 head count reduction. We're reducing somewhere

□

2062

1 between seven and 8000 heads in terms of nonpilot
2 heads this year alone in 2006, tremendous amount of
3 outsourcing of jobs, tremendous amount of looking
4 for productivity and better efficiency in terms of
5 how we go about conducting our business. Obviously,
6 a tremendous amount of fleet negotiations, as we're
7 looking to reduce aircraft costs by 50 percent on a
8 lease basis, and on and on and on.

9 There's not a contract in this company
10 that we're not touching with respect to making
11 certain they're at market rates and on terms that
12 Delta can live with.

13 Q And has Delta recently announced specific
14 job reductions at its headquarters?

15 A Yeah, earlier this week we announced we'd
16 be reducing roughly 1000 management and

0323AR9

17 administrative folks in an attempt to save \$200
18 million.

19 Q And in the supply chain, is Delta in
20 active negotiations with vendors today?

21 A We probably have over 150 negotiations
22 going on as we speak with suppliers of all size and

□

2063

1 stature.

2 Q And do any of those vendors say to you,
3 our size, our value, our quantity of dollars is so
4 small that you really -- we don't need to talk to
5 you, you don't need to lower our costs?

6 A I get that all the time.

7 Q And what's your response?

8 A Well, you know, if we were to take that
9 approach with every vendor, with every contract,
10 with every work group across the company, we'd never
11 get close to our \$2 billion expense target as part
12 of the \$3 billion. You know, this battle for
13 Delta's long-term success is going to take every

0323AR9

14 dollar that we can find.

15 And I get that from the airports, I get

16 that from aircraft lessors, I get that from vendors,

17 you know, how is my \$50,000 going to contribute or

18 how is my \$1 million going to contribute? Frankly,

19 we need every penny we can muster, and I hope

20 everyone in this room appreciates that.

21 Q Every million counts?

22 A Every million, every dollar counts.

□

2064

1 Q So you heard the suggestion from ALPA's

2 testimony that the amount in dispute here is so

3 small that it's really immaterial to Delta. Do you

4 recall that, hearing that testimony?

5 A I heard the question why is \$200 million

6 so critical, yes.

7 Q And can you afford to ignore the

8 approximately \$200 million difference in what the

9 company is seeking from ALPA and what ALPA is

10 offering to the company?

11 A We certainly cannot.

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0323AR9

12 Q And why not?

13 A Well, we're in a competitive battle here.

14 You know, our goal is to produce a company that's

15 viable for the long term, that's got long-term,

16 stable prospects, has a long-term success track. We

17 are not here to just skim above the top of EBITDAR

18 covenants or just meet bank agreements.

19 We need to fix this business and fix it

20 for the long term. In that context, \$200 million is

21 a very significant task. To put \$200 million into

22 context, our plan in 2006 is to lose \$600 million.

□

2065

1 It doesn't sound like a very lofty goal, but

2 considering what we've been losing the last couple

3 of years, that's a significant improvement.

4 If we were to miss it by \$200 million,

5 that makes our loss for 2006 to be \$800 million.

6 Kind of starting to get close to the billion dollar

7 mark in the year of a turnaround. That's a fairly

8 significant decrement in our profitability in our

0323AR9

9 plans.

10 In 2007, the year in which we've got the
11 plans fully implemented, our turnaround plan is a
12 two-year plan with the full \$3 billion implemented,
13 in the year 2007. Our goal -- our target is to make
14 \$400 million of profits.

15 \$400 million of profits, again, sounds
16 like a lot of money from where Delta has been
17 historically over the last number of years, but what
18 \$400 million is is a 2 percent pretax margin on our
19 business.

20 If we have a pretax margin of \$400
21 million, which is 2 percent, so when you put that
22 into context of what goes on in this industry, the

□

2066

1 volatility, the dynamics that we are faced with on a
2 day-in-and-day-out basis, to have a 2 percent margin
3 for error, when we say we're at very razor-thin
4 margin, that's why. If we were to reduce that by
5 another \$200 million, to live with a 1 percent
6 margin in a year that we're hoping to exit

7 bankruptcy and have a successful launch as a new
8 company, that's a pretty, pretty thin margin for
9 error, not mentioning, you know, what risks that we
10 don't know that might be out there, whether there's
11 going to be a fuel spike, whether there's going to
12 be avian flu that hits this country, or even some of
13 our international locations, whether there's going
14 to be an event risk, you know, on and on and on. We
15 know that this industry has been fraught with fairly
16 significant issues, and the risks tend to be
17 negative as compared to positive surprises.

18 So when we talk about having a very thin
19 margin for error, that's why I'm concerned about
20 \$200 million.

21 Q Ms. McAhrn-Schulz mentioned that the 2001
22 ALPA agreement brought Delta's pilots "up to

□

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1 industry standard." Do you agree with that?

2 A The 2001 agreement brought pilots to
3 industry standard?

4 Q Yes.

5 A By my understanding, that is the most
6 expensive contract ever signed in aviation history.
7 So unless that's the standard, I would say I
8 disagree.

9 Q Do you agree that Delta already has
10 competitive pilot labor costs?

11 A Delta does not have competitive labor
12 costs today, no, we don't.

13 Q All right. You heard Mr. Watson's
14 testimony, citing examples of when Delta has
15 discussed pilot cost per pilot block hour with ALPA,
16 did you not?

17 A I did.

18 Q Have you personally been involved in any
19 of those discussions?

20 A I have.

21 Q Can you explain to the board what your
22 involvement has been?

□

1 A I've not always been involved in these

2 discussions with ALPA in terms of from a negotiating
3 tack, but certainly in 2003, and a lot of the
4 discussions that were the eventual lead-up to the
5 2004 new contract, we received a lot of inquiry from
6 ALPA as to wanting to make certain that our costs
7 across all categories of labor were competitive.

8 So we did some exhaustive analysis for
9 them, marking each employee, whether it be flight
10 attendants, mechanics, ACS workers, the airport
11 workers, reservation agents, across the category, to
12 what their -- how they perform against their peers
13 in each competitive set.

14 And in that context, the metrics we used
15 were not CASM-based metrics; they were based on the
16 metrics that drive the cost of the function.

17 So, for example, flight attendants, it was
18 block hours. For airport workers it was departures.
19 For mechanics it was maintenance events. For
20 reservation agents it was calls handled, and for
21 pilots it was block hours. They were consistently
22 applied across each of those groups, and that in my

□

1 recall at the company has always been the standard
2 on which we measure cost-effectiveness and cost
3 productivity.

4 Q And some of those productivity examples
5 are in the exhibits introduced by Mr. Watson;
6 correct?

7 A I believe that's correct.

8 Q That's across all different Delta job
9 groups?

10 A That's correct.

11 Q And at the end of the day in 2004, first
12 of all, in 2004 negotiations leading up to the
13 agreement, was there discussion of the contributions
14 of nonpilot employees?

15 A Well, as I indicated, there was a
16 tremendous amount of discussion and analysis and
17 detail and data sharing between us and ALPA's
18 representatives, yes.

19 Q So it was a subject of interest to ALPA?

20 A No question.

21 Q And at the time of the 2004 agreement, did

22 ALPA object that the billion dollars was not its

□

2070

1 fair share?

2 A I believe at that point we did our best to
3 satisfy them, and I think by virtue of the fact that
4 we received the billion dollars that we requested,
5 that, yeah, it was their fair share.

6 Q All right. Now, we talked about pilot
7 costs per pilot block hour as, in the company's
8 view, a better metric. But even if one were to look
9 at pilot costs per ASM, do you agree with ALPA's
10 calculation and data about what Delta's pilot costs
11 per ASM is?

12 A We have a factual dispute in terms of what
13 the projected CASM -- pilot CASM would be, based on
14 ALPA's charge, yes.

15 Q Would you turn to Exhibit 113.

16 (Company Exhibit 113 identified.)

17 BY MR. GALLAGHER:

18 Q Tell the board what is reflected here.

19 A What's reflected here is a comparison

0323AR9

20 between ALPA's calculation, based on third-quarter
21 data, of what the pilot CASM would be, using both
22 the company's proposal as well as ALPA's proposal,

□

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1 and that what our calculation of what pilot CASM is,
2 based on, again, both the company's proposal as well
3 as ALPA's proposal.

4 And I would on the front end say that
5 we've not had a chance to go through and reconcile
6 the differences. They haven't shared with us and we
7 haven't had a chance to go back with them on their
8 analysis, and I suggest we do that, so there is no
9 longer a factual dispute. There's no reason for
10 there to be a factual dispute.

11 But I can tell you, I'm pretty darned sure
12 our numbers are right, Delta's numbers.

13 Q By Delta's numbers, you mean the numbers
14 at the bottom row?

15 A Absolutely.

16 Q All right. So the bottom row of this

17 page, what does that reflect?

18 A Well, that reflects what Delta's CASM
19 calculation for pilots would be under the company
20 proposal, .71 cents, and under ALPA's proposal, .87
21 cents.

22 One of the differences here is due to the

□

1 fact that -- and this proposal is based on the DB
2 plan being terminated. One of the differences here,
3 which is a little bit of a technical item, is the
4 fact that the pension expense is being eliminated
5 from the CASM calculation.

6 We in our analysis here added back some of
7 the interest -- or not some of the interest, the
8 interest on the note, because that's, in our view,
9 the substitute that's going back to the pilots, in
10 exchange for that termination.

11 So in a classical CASM calculation, you
12 don't include interest expense. Since you're not
13 including any of the pension expense, I think it's
14 appropriate that the substitute or replacement

0323AR9

15 strategy also be reflected as well, to be fair.

16 Q That interest expense is money that would
17 be paid directly by the company to the pilots as
18 interest on the note; correct?

19 A Under our proposal, yes.

20 Q So the -- if I understand it, the bottom
21 line is Delta's calculation. And you say you're
22 confident of Delta's numbers?

□

2073

1 A I'm very confident.

2 Q ALPA's numbers are at the top of the page,
3 drawn from ALPA's exhibit. What is reflected in
4 between ALPA's calculation and the company's
5 calculation?

6 A Well, that's what I just went through.
7 There's a bunch of technical issues that, quite
8 honestly, I wouldn't take the panel's time, I think
9 the company and ALPA needs to get together and
10 reconcile these differences, given that we haven't
11 shared each others's analysis on that. I'm not

12 surprised there may be some differences. But I can
13 tell you, I feel that the company's calculation is
14 accurate, and it usually is pretty accurate.

15 Q What standard did Delta apply in setting
16 the pay rates and costs that it has implemented for
17 the nonpilot employees?

18 A We looked at market competitive rates for
19 all of our work groups and attempted to match the
20 wage rates to the relevant market competitive set
21 across the industry.

22 Q And those are the exhibits you showed last

□

1 week that showed the relative position of each of
2 Delta's nonpilot employee groups to its peer set in
3 the industry; correct?

4 A That's correct.

5 Q Now, what standard did Delta apply in
6 determining what it would propose to ALPA as the pay
7 rates and cost levels for pilots?

8 A Again, we looked at the market competitive
9 analysis as to how our pilots are paid on equipment

0323AR9

10 type across the industry, and we attempted,
11 realizing that we don't have the revenue premium
12 that we have against the network peers and who our
13 competitive set is, where we believe on a market
14 scale those rates should be set.

15 Q All right. Why not apply a different
16 standard to the pilots?

17 A Why would we?

18 Q Well, let's say the pilots would prefer
19 that you did.

20 A Sure.

21 Q But --

22 A I think we need to be fair and equitable,

□

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1 and fair and equitable means for market all
2 employees at the comparable rates.

3 Q And fair and equitable applies to both the
4 pilots and the nonpilots?

5 A Yes.

6 Q If you would, look at Exhibit 114.

7 (Company Exhibit 114 identified.)

8 BY MR. GALLAGHER:

9 Q Tell us what this reflects.

10 A Page 114 takes from 1990 all the way
11 through to 2010, based on both the company and
12 ALPA's proposal, where our average wages would be
13 per employee, per, you know, employee equivalent
14 FTE, which is average employees on an annual basis.

15 So you can see here on the bottom line,
16 our nonpilot average wages in 1990 were a little
17 over \$34,000. And how they trend over the course,
18 you can see them gradually improving over the course
19 of the 1990s, and then sometime around 2002 or so,
20 starting to dip down, certainly flat line, and then
21 dip down to where they end by 2006 at \$36,470.

22 The top line are the pilot comparable

□

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1 wages, again right off Form 41, tracked over time.

2 And you can see how pilot wage growth compares to
3 nonpilot wage growth.

4 And again, the wages track through

5 the '90s somewhat a comparable manner, but then
6 certainly you see the full effect of contract 2000
7 kicking in and the substantial growth in pilot
8 wages, and then the substantial reduction in pilot
9 wages following the concessionary contract in 2004.

10 MR. HARRIS: Could I just ask who -- which
11 groups are included in the nonpilot wages?

12 THE WITNESS: Virtually all groups except
13 pilots.

14 MR. HARRIS: Executives?

15 THE WITNESS: I don't know if executives
16 are in here for not. I presume they are.

17 MR. GALLAGHER: We'll endeavor to clarify
18 that in the next --

19 MR. HARRIS: I figured I'd ask the
20 question --

21 THE WITNESS: Yes, I'm told it does
22 include executives. I'm told it does include

□

1 executives, yes. It's all employees except pilots.

2 MR. HARRIS: That was my assumption.

3 THE WITNESS: I assume too, and I got just
4 confirmation, yes.

5 BY MR. GALLAGHER:

6 Q But with more than 40,000 nonpilot
7 employees, the inclusion of executives would tend to
8 raise the nonpilot employee averages, although not
9 by much, because of dilution; right?

10 A That's correct.

11 MR. BLOCH: Mr. Gallagher, give me a sense
12 of the extent of your direct, because I think maybe
13 we should take a break.

14 MR. GALLAGHER: Okay. I have about 10 to
15 15 more minutes, Mr. Chairman.

16 MR. BLOCH: Please continue.

17 THE WITNESS: Thank you.

18 BY MR. GALLAGHER:

19 Q If you would look back at
20 Ms. McAhron-Schulz's Exhibit 52, pages 15 and 16.

21 A Okay.

22 Q Both of these -- well, the first -- at

□

1 page 15 it says, "Nonpilot pay has grown more than
2 pilot pay since 1995." Do you agree that that's a
3 fair representation of the growth of pay for pilots
4 and nonpilots at Delta?

5 A I believe when we went back and checked,
6 this was accurately calculated. But I don't think
7 it's a fair representation.

8 Q Why not?

9 A Well, when we went back and checked, we
10 checked every other year from 1990 through 2000, and
11 this is the only year in the 10 years that this was
12 the case.

13 So I -- you know, it may be a coincidence
14 that '95 was the only year. My cynical bones tell
15 me maybe not. But it was the only year in that
16 10-year cycle where this happened to be the case.

17 Q Now, let's switch subjects, if we may, and
18 talk about cash. Did Delta's original in-court
19 business plan last summer have any cash in it for
20 payments to define benefit plans?

21 A We had no cash in there for defined
22 benefit contributions either to the pilot plan or

□

2079

1 the nonpilot plan.

2 Q When did you become aware of that or
3 decide that that would be the case?

4 A Well, certainly when we looked at the cash
5 requirements of the business, in terms of what it
6 was going to take to eliminate the bleeding and
7 start to turn the company around, we realized that,
8 again under current legislation, there's no way he'd
9 be able to afford the well in excess of a billion
10 dollars of contributions that would be due to the
11 two plans over the next two years, and still hope to
12 attain a DIP in terms of market financing.

13 Q And when did you become aware of that
14 chronologically in the course of preparing your
15 business plan?

16 A I'd say early August.

17 Q All right. When did you -- did you tell
18 ALPA?

19 A I did.

0323AR9

20 Q When?

21 A Well, we had several meetings prior to the
22 filing. I think there was an August 16 meeting

□

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1 that's already been referenced, where it was
2 indicated that we did not believe we'd be
3 contributing any cash over the bankruptcy -- the
4 two-year bankruptcy period into either plan.

5 Q Was there specific discussion at that
6 meeting of that fact?

7 A I recall someone asking me a question to
8 confirm that, and I did confirm that, yes.

9 Q All right. So when you -- did you
10 describe to ALPA your \$3 billion target at that
11 meeting?

12 A Well, at that meeting I don't think it was
13 comprised in terms of the full scope of the \$3
14 billion, but yes, we described our in-court business
15 plan, and we had several -- at least two other
16 meetings prior to the filing as the \$3 billion was
17 being fully developed.

0323AR9

18 Q And one of those other meetings was on
19 September 12, when the company's proposal to ALPA
20 was presented for the \$325 million of labor -- pilot
21 labor cost reductions; correct?

22 A That's correct.

□

2081

1 Q And you attended that meeting on September
2 12?

3 A I did.

4 Q And you made a presentation about the
5 business plan?

6 A I did.

7 Q And did you tell the pilots at that
8 meeting how the company derived its proposal for
9 \$325 million?

10 A I think we talked about the total \$930
11 million, in terms of need for the additional labor
12 concessions or labor reductions. And as part of
13 that, we also described how much our request of ALPA
14 was as compared to our request for the nonpilots,

15 yes.

16 Q And what did you tell the ALPA
17 representatives at that meeting about pensions, or
18 particularly, the defined benefit pension plans?

19 A Again at that meeting, I indicated that we
20 had no ability to put any contributions into either
21 the pilot plan or the nonpilot plan during the
22 period of time we were in bankruptcy, predominantly

□

1 because of the current legislation and the well over
2 a billion dollars that would be due to those plans.

3 Q By "current legislation," you mean under
4 current law?

5 A Under today's law, yes.

6 Q And both Delta and ALPA at that time were
7 supporting legislative changes?

8 A We were.

9 Q And still are?

10 A I believe we are.

11 Q So did you distinguish between the need
12 for \$325 million in cost reductions and wages, work

0323AR9

13 rules and benefits on the one hand and pensions on
14 the other hand?

15 A I did.

16 Q Now, has Delta subsequently developed a
17 proposal to address what would happen if the pilot
18 defined benefit plan is terminated?

19 A We have.

20 Q What's that proposal?

21 A We have proposed a note, as I outlined
22 last week, for \$330 million, which when coupled with

□

2083

1 the assets of the plan, when coupled with PBGC would
2 pay out in terms of guarantees, would put the
3 average retained value to the average current pilot
4 as somewhere between 78 to 95 percent, depending on
5 whether the Akaka legislation passes or does not
6 pass.

7 Q All right. Mr. Parrack submitted some
8 examples of impact on pilots of defined benefit plan
9 termination in ALPA Exhibit 49-C, the third version

10 of that, as last corrected. Do you have that in
11 front of you?

12 A I do.

13 Q All right. And it's on the last page of
14 the exhibit set that I passed out, is an extra copy
15 of ALPA 49-C.

16 Have you reviewed whether the examples
17 proffered by ALPA in Exhibit 49-C are representative
18 of what would happen to the typical Delta pilot?

19 A Well, I have been updated on them. I'm
20 not an actuary, so I don't want to speak from an
21 actuarial point of view. But based on my
22 understanding, no, these are not representative

□

2084

1 samples.

2 Q And why is that? And let me call your
3 attention to Exhibit 115.

4 (Company Exhibit 115 identified.)

5 THE WITNESS: Exhibit 115 lays out some of
6 the reasons why we don't believe these to be
7 representative samples. First of all, 11 percent of

8 today's active pilots are PC-3 category. And our
9 understanding is that roughly 90 percent of their
10 benefits would be retained under the terms of the
11 plan and the assets of the plan, and there may be
12 some dispute between the actuaries between 84 and 92
13 percent.

14 Again, I'm not an actuary, but I
15 understand it's in the 90 percent range.

16 BY MR. GALLAGHER:

17 Q Mr. Parrack's estimate was 84 percent, was
18 it not?

19 A I recall him saying that, yes. None of
20 those pilots are listed here, that the 11 percent,
21 as a representative sample.

22 And then of the remainder of the active

□

1 pilots who would fall under PC-4 category
2 protection, only 13 percent of those pilots have a
3 defined benefit of \$70,000 or more. 13 percent of
4 the remainder.

5 It's interesting, two of the three samples
6 are pilots of \$70,000 or more. So that, again,
7 doesn't seem to be a representative sample.

8 And then furthermore, if you were to look
9 at how many pilots have \$130,000 or more of
10 contractually defined benefits, there's only 10, or
11 2/10 of one point, who fall in that category.
12 Interestingly, the sample pulled one of those
13 people.

14 So for those reasons, no, I don't think
15 this is necessarily a fair representation of what
16 happens to active pilots in the event of a
17 termination.

18 BY MR. GALLAGHER:

19 Q All right. And the PBGC maximum shown on
20 ALPA's Exhibit 49-C, that's a fixed dollar number at
21 30,978; correct?

22 A That's correct.

□

2086

1 Q That's the PBGC maximum at page 60?

2 A Correct.

3 Q So if a higher total accrued benefit is
4 used in the top line and the actual maximum benefit
5 is fixed, the higher the benefit used in the top
6 line, the larger will be the percentage of benefit
7 loss shown in the last line; correct?

8 A I believe so, but I'm not going to pretend
9 to be an actuary.

10 Q Right, right. Now, I'm sure that you've
11 heard testimony and questions about the savings that
12 the company will achieve from the termination of the
13 pilot defined benefit plan. Have you heard?

14 A I have.

15 Q Do you agree that Delta will save a lot of
16 money from termination of the pilot defined benefit
17 plan?

18 A You know, I think there's no question that
19 if the pilot define benefit plan was to be
20 terminated, there would be savings to the company.
21 But that savings presumes that you have the cash in
22 the first place to make the contribution.

□

1 Under our business plan, we are very clear
2 right from the onset that we don't have the cash to
3 make the contributions. It's well over a billion
4 dollars in the next two years, and I have a hard
5 time placing my hands on that savings if I never had
6 it in the first place.

7 Q Would --

8 A Instead, the focus that we've had with our
9 negotiations, as compared to paper savings, is what
10 the actual losses are to the pilots, because we
11 can't -- since we can't save what we don't have,
12 we'd much rather focus on what the active pilots are
13 losing. That's why the focus has been on the note.
14 It's been focused on the PBGC contribution, as well
15 as any other assets of the plan, and also the
16 question as to what legislation might -- how that
17 might eventually affect the outcomes.

18 Q Do you have ALPA Exhibit 56 in front of
19 you? This is the financial update from Delta's
20 financial planning to ALPA, dated September 12,
21 2005.

22 A I do.

□

1 Q There's a page in that document which
2 deals with a fuel mitigation strategy, which is on
3 pages 22 and 23. If you could turn to those.

4 Did your team prepare this presentation
5 for ALPA?

6 A We prepared and presented to them. We
7 didn't prepare it necessarily for ALPA, but yes, my
8 team did it.

9 Q All right. Page 22 says, "We're
10 developing contingency plans." Why was Delta
11 developing contingency plans with regard to fuel
12 prices?

13 A Well, this analysis was produced at the
14 request of the DIP lenders. When we were in the
15 market looking for a DIP, which was in the August
16 time frame, there was a lot of concern in the
17 marketplace, in terms of what -- where eventually
18 fuel would settle out at.

19 As you recall, towards the end of August,
20 when the hurricanes hit the Gulf Coast, fuel started

0323AR9

21 to move rapidly north, getting into the \$70 per
22 barrel range for crude, and the crack spread growing

□

2089

1 at an even faster clip. So there was concern
2 whether Delta would survive and the lenders would
3 get their money back.

4 This was not to try to meet a covenant or
5 anything. This was what can you do if fuel plateaus
6 at a new higher level, and how would you continue as
7 a corporation to continue to exist.

8 So we did an analysis at their bequest to
9 indicate if fuel went to \$70 or \$75, and I believe
10 we may have even done \$80, what our response would
11 be if we believed that to be the new long-term level
12 for fuel. You would need to be very careful about
13 pulling the triggers we have in here, because
14 they're fairly substantial triggers in terms of
15 capacity reductions, head count eliminations,
16 aircraft retirements and rejections and the like.

17 So if we believed fuel was going to get

0323AR9

18 into the 70, 75, \$80 a barrel range -- fortunately
19 it hasn't, and it's not -- these are the type of
20 steps like we feel that we'd be forced to take if we
21 believed that was going to be a new level for the
22 business model.

□

2090

1 Q Well, was this just an easy incremental
2 adjustment?

3 A Absolutely not. You know, as Mr. Weil
4 testified, if our long-term plan is that fuel was at
5 \$70 a barrel, and we expected it to stay there for
6 the long term, I think we would look hard at, first
7 of all, what the revenue consequences are in terms
8 of whether there's any revenue upside. I'm not sure
9 that it would be tremendous.

10 But then more importantly, how do you
11 mitigate that in terms of pulling capacity down,
12 pulling flying down. And we, as you say here in the
13 chart, indicate we'd probably be forced to pull down
14 another 9 percent of our capacity.

15 Now, we've already taken out a lot of the

0323AR9

16 capacity already as we've entered the court process,
17 but we'd be looking at another 9 percent. That
18 would have huge implications across this company.
19 Head count reductions would probably order another
20 four to 5000, including pilots.

21 It would have implications on, as I say,
22 the aircraft we retained. It would stretch out the

□

2091

1 bankruptcy process. It would be a massive, massive
2 amount of work, not something you'd take lightly,
3 not something you do just to meet an EBITDAR
4 covenant. On top of which it would take, my guess,
5 at least three months and more likely longer to
6 fully implement.

7 So the cost -- there's obviously a lot of
8 friction cost with respect to how to implement this
9 strategy, as timely as you need to.

10 Q All right. Now, the predicate of page 22,
11 in the second subpoint, is that if crude oil went to
12 \$70 a barrel with a \$15 crack spread, the

0323AR9

13 incremental cost would be \$770 million; is that

14 right?

15 A That's correct.

16 Q All right. And the business plan has fuel

17 at \$60 a barrel; correct?

18 A Effectively, yes.

19 Q What would happen if fuel went well above

20 \$70 on a sustained basis?

21 A I think we'd be a much smaller airline, as

22 I testified last week.

□

2092

1 Q All right. And is that the simple

2 economic proposition that the price of fuel then

3 gets to be so large that --

4 A I think you have to look at the revenue

5 implications. You know, one of the things that we'd

6 also be concerned about is, as we've testified, the

7 revenue has been improving in the business. And

8 again, you're very careful about pulling capacity

9 down and leaving revenue on the table, unless you

10 really believed over the long term that fuel is

0323AR9

11 going to stay very high, and it was going to start
12 to impact elasticity of demand and the like.

13 So no, I think we'd be cautious before we
14 implemented this.

15 Q Mr. Weil indicated that he was very
16 confident -- shifting from fuel to the revenue side
17 of your expectations, he indicated that he was very
18 confident that Delta would not have a revenue
19 shortfall. Do you share that confidence?

20 A I heard him say that. I think I need to
21 hire him, put him to work in the revenue management
22 department. No, I don't share that confidence.

□

2093

1 Q Do you share that hope?

2 A I share that hope. I hope we beat the
3 heck out of it.

4 Q All right. Mr. Weil also said that there
5 was nothing unique about Delta which places it at
6 greater risk than the other legacy carriers. Did
7 you hear him say that?

8 A I did hear him say that, yes.

9 Q And do you agree with that?

10 A Again, I strongly disagree with that.

11 Delta is in a much more serious condition than any
12 of the other legacy carriers or any of the carriers
13 in the industry.

14 I went through that in some detail last
15 week. We lost more -- or basically the same level
16 in 2005 as the entire industry lost. Our losses in
17 2005 were \$800 million worse than the next guy,
18 which was Northwest. I think the fragile nature of
19 the business, the fact we have no further borrowing
20 capacity, no further assets to pledge, no access to
21 the capital markets of any substance, is cause for
22 concern.

□

1 Yes, I think we are unique in that regard.

2 We are in a much more fragile condition, and I think
3 any spike, any fuel pressure, any event risk, would
4 probably have much more damaging effect on Delta
5 than any other carrier in the industry, given where

6 we sit.

7 Q And if you had to sum up your message to
8 the panel today, what would it be?

9 A Well, I'd say that we are in serious
10 trouble as a company. We've been -- you know, the
11 \$3 billion plan that we put out there, I think, is a
12 winning proposition. I think it's a plan that will
13 achieve the results we're looking to achieve. I
14 think it's a plan that can win.

15 And one of the things that has been
16 pointed out here is that we're doing better than
17 planned, we're doing better on cash. The \$400
18 million has been quoted. You know, I think that's
19 great, and I'm very proud of the team's effort for
20 doing well on the cash side.

21 But I equate that to being ahead the third
22 inning of a ballgame. Okay. We've got to win this

□

1 game, and we can't sit on the lead. We've got to go
2 out and implement that full \$3 billion plan. And

0323AR9

3 even if we get that \$3 billion plan in place by the
4 end of 2007, we still have a thin margin for error
5 with a lot of risk.

6 So this business is all about managing
7 risks. This is about being competitive with respect
8 to your cost structure, it's about improving the
9 revenue. We've got to work on every facet of
10 improving this business, and we've got to move, you
11 know, at light speed, because the competition knows
12 the vulnerability that Delta is faced with, and that
13 vulnerability is real and present. And if they get
14 a chance to take a shot at us and potentially knock
15 us out, they would like no other thing to do.

16 So in that regard, I think Delta's
17 survival is the foremost concern. It's not just the
18 long-term success. It's just being around as a
19 company that we're very involved and very concerned
20 about.

21 Q And does that relate to Delta's ability to
22 reorganize successfully?

□

2096

1 A To reorganize successfully. As I said,
2 we're not looking to just meet DIP covenants. We're
3 looking to be a successful, profitable carrier for
4 the long term.

5 Q And if that happens, would it be to the
6 benefit of all Delta employees?

7 A It sure would. I think the best thing we
8 can do as a company is to have a long-term, stable
9 future that we can look to. At the risk of getting
10 in trouble from my boss, I mean, we've used the
11 do-it-once, do-it-right quote against us too many
12 times. Out of court it turned out to be difficult
13 to do, given the lack of guarantees that you can
14 place in that effort. We're now in court, and now
15 we do have to do it, and we have to do it right, and
16 we have to get it right, because time is of the
17 essence.

18 MR. GALLAGHER: Thank you. I have no
19 further questions.

20 MR. BLOCH: Let's take a 10-minute break.

21 MR. SIMON: Why don't we combine it with
22 preparation time and ask for a half hour break.

□

1 MR. BLOCH: 30 minutes.

2 MR. GALLAGHER: And Mr. Chairman, I would
3 move the admission of Company Exhibits 111 through
4 114 -- 115.

5 MR. SIMON: No objection.

6 MR. BLOCH: They will be admitted.

7 MR. GALLAGHER: 115.

8 (Company Exhibits 111 through 115
9 received.)

10 (Recess from 2:09 to 2:49 p.m.)

11 MR. BLOCH: Are you ready, Mr. Simon?

12 MR. SIMON: Yes, sir.

13 MR. BLOCH: Back on the record.

14 CROSS-EXAMINATION

15 BY MR. SIMON:

16 Q Mr. Bastian, you testified earlier about
17 the development of the fuel mitigation plan and its
18 discussion with the DIP lenders; correct?

19 A Correct.

20 Q When did you have those discussions with

21 the DIP lenders?

22 A On that topic specifically?

□

1 Q Yes.

2 A I'd say it's probably the first week of

3 September.

4 Q And was that before you secured from them

5 the commitment to provide the DIP loan?

6 A I'd say yes.

7 Q And were those discussions subsequent to

8 Katrina?

9 A They were concurrent.

10 Q And was -- according to your testimony,

11 fuel was then spiking considerably, was it not?

12 A I don't recall the specific prices. I

13 don't think fuel got into the 70 range until the

14 latter part of September, early October. But I

15 can't -- I can't recall the specific time of the

16 month.

17 Q But it was the fuel spikes that generated

18 that topic of discussion from the DIP lenders;

0323AR9

19 correct?

20 A Absolutely.

21 Q And if I were to suggest to you that fuel,

22 indeed, spiked considerably in the first week of

□

2099

1 September into and beyond the \$70 range, would that

2 help your recollection?

3 A I can't recall the specific dates when

4 fuel hit 70.

5 Q Do you recall when it was that you

6 finalized the DIP lending arrangements?

7 A It was sometime in the second week of

8 September.

9 Q And do you recall when it was that you

10 presented the DIP financing arrangements to the

11 court for the court's approval?

12 A It was probably around the 17th, I think,

13 of September.

14 Q And do you recall whether the court

15 granted interim approval of the DIP financing

0323AR9

16 arrangement?

17 A It did.

18 Q And during the period of time leading up
19 to the court's interim approval, were there
20 continuing discussions between Delta and the DIP
21 lenders?

22 A I'm sorry, on the -- leading up to the

□

2100

1 interim?

2 Q Prior to the court's approval in
3 mid-September of the DIP loan, were there continuing
4 discussions between --

5 A Yes, yes.

6 Q And subsequent to the court's entry of an
7 interim order in mid-September and before the
8 court's final approval of the DIP loan, were there
9 continued discussions between Delta and the DIP
10 lenders?

11 A You are losing me. Which cycle are we in?

12 Q Do you recall when it was that the court
13 granted final approval to the --

Page 177

0323AR9

14 A Final approval, I think that was in early
15 October.

16 Q And between mid-September, when the
17 interim approval was granted, and the first week of
18 October, when final approval was granted, were there
19 continuing discussions between Delta and the DIP
20 lenders?

21 A Yeah, absolutely.

22 Q And did those discussions continue

□

2101

1 regarding the price of fuel and the fuel spiking
2 during the month of September following Katrina,
3 following the problems regarding the refinery issues
4 in and around Louisiana, Mississippi and the
5 surrounding area?

6 A I think they were satisfied with our
7 contingency strategy in the mid-September time
8 frame.

9 Q In the mid-September time frame, when oil
10 was spiking; correct?

0323AR9

11 A Yes.

12 Q And it was in the context of that oil
13 spiking that your fuel contingency plan was proposed
14 and accepted by them as a continuing basis to
15 provide the DIP financing loan?

16 A I wouldn't go that far. It was -- they
17 were lending based on what they knew today. We had
18 no specific contingency plan written into the
19 contract, in terms of trigger dates, but we had a
20 presentation to them that indicated if fuel was to
21 spike and stay at a sustained level, that level for
22 a long term, this is how we would manage the

□

2102

1 liquidity of the corporation.

2 Q But your business plan, then, upon which
3 they were granting the loan called for fuel at
4 approximately \$1.73, \$1.74 a gallon, roughly the
5 equivalent of a \$60 a barrel oil; correct?

6 A Correct.

7 Q And that remains your business plan today;
8 correct?

9 A That was our business plan for 2006, and
10 as I mentioned last week, we've updated our
11 forecast, closer to \$1.85.

12 Q And have you updated your business plan to
13 include that?

14 A Well, by updating the forecast, you're, in
15 effect, updating the business plan.

16 Q And at the time fuel had spiked and your
17 fuel mitigation plan had been presented to the
18 lenders and they continued to lend, in fact, they
19 lent on a DIP basis more than you expected them to
20 lend; isn't that correct?

21 A We were able to upsize the DIP, yes.

22 Q And, in fact, you were delighted, and

□

1 Mr. Coleman was delighted with the success you had
2 in raising more than you anticipated in the DIP
3 loan; correct?

4 A Mr. Coleman said he was delighted, yes.

5 Q And you were not delighted?

6 A At that rate of money, I was happy to have

7 it. I wouldn't say I was delighted.

8 Q I'm sorry?

9 A At the cost of that money, I'm not sure I

10 was delighted, but I was glad to have the security.

11 Q And you were glad to have more than you

12 had hoped to have in the DIP facility, were you not?

13 A Given where we were at that point in time,

14 absolutely.

15 Q And with fuel trading where it's trading

16 today, and with your business plan updated, as you

17 say, to \$1.85, your DIP loan is trading as a

18 premium; correct?

19 A Correct.

20 Q Let's go back to the formulation of your

21 \$3 billion transformation plan. I believe you've

22 testified, certainly in the bankruptcy court, and to

□

1 some extent in this proceeding -- but let's go

2 through it iteratively as well again.

3 What was the first area of either revenue

4 enhancement or cost reductions that the company
5 looked to in developing its plan?

6 A Our initial strategy was to see if we
7 could implement the network changes, the revenue
8 enhancements that could offset some of the loss, and
9 that was the first place we started.

10 Q And, in fact, as you've testified, you
11 looked high and low for areas of savings and revenue
12 enhancement before you turned to labor cost
13 reductions, because labor cost reductions were the
14 last place you wanted to go; correct?

15 A Correct.

16 Q When you formulated the \$325 million pilot
17 cost cut piece of the business plan, were you aware
18 that you would end 2005 \$400 million ahead of your
19 business plan?

20 A I'd have no way of knowing that.

21 Q Were you aware that you would, in January
22 of '06, exceed your business plan order of magnitude

□

1 \$20 to \$25 million for that month?

2 A For the month of January, we exceeded 25
3 million. But I do want to also add, because it's
4 relevant, that we also lost over \$200 million in the
5 month of January. So it's all in context.

6 Q But the \$200 million you lost in January
7 was less than you planned to lose; is that not
8 correct?

9 A By 25, which was better. But losing 200
10 is still not good, yes.

11 Q But we're now talking about the plan that
12 you had formulated in the summer of '05, which was
13 the basis of the \$325 million in pilot cost cuts,
14 and you ended 2005 \$400 million ahead of that plan;
15 correct?

16 A Correct.

17 Q And you ended January \$25 million ahead of
18 that plan; correct?

19 A Yes.

20 Q And you ended February of '06 order of
21 magnitude another \$20 or \$25 million ahead of that
22 plan; correct?

□

1 A Plus or minus.

2 Q And you anticipate, on the basis of
3 refinancing your DIP loan instruments, that you will
4 significantly reduce your debt service with regard
5 to those obligations; correct?

6 A We sure hope to.

7 Q And you weren't aware of that when you
8 formulated your \$325 million pilot cost cuts either,
9 were you?

10 A We were not aware of that, no.

11 Q And the \$400 million better than plan
12 in '05, the \$25 million ahead of plan in January
13 of '06, the \$20 to \$25 million order of magnitude
14 ahead of plan in February of '06 were all despite
15 the fact that you did not receive \$75 million in
16 planned pilot costs between November 1 of '05 and
17 March 15 of '06; correct?

18 A Correct.

19 Q So that while you were looking high and
20 low for other areas in which to improve the
21 company's position in August '05, before you

□ 22 formulated your pilot cut proposal of \$325 million,

2107

1 you did not have before you a \$400 million better
2 than plan end of year, a \$25 million better than
3 plan January, a \$25 million better than plan
4 February, and an improvement of a significant amount
5 in your debt service charges as a result of
6 refinancing your debt instrument; correct?

7 A And we also didn't have \$1.85 fuel for
8 2006 either, correct.

9 Q But you had a cost mitigation strategy in
10 place that you shared with your lenders, and against
11 which they loaned to you more than you anticipated,
12 and against which that loan is trading at premium
13 today; correct?

14 A We did.

15 Q So that if those things were apparent to
16 you in August of '05, perhaps if you looked a little
17 higher or a little lower while you were looking high
18 and low, you would not have come to the conclusion

0323AR9

19 that \$325 million in pilot cuts were necessary as
20 against 400 million better than plan in '05, 25
21 million better than plan in January, \$25 million
22 better than plan in February, and a debt financing

□

2108

1 charge that's lower in a significant amount. Do you
2 think if you'd looked higher and looked lower and
3 knew then what you know now you'd still be asking
4 for 325?

5 A We're not. We're asking for 305.

6 Q Oh, so we've reduced the give by \$20
7 million as a consequence of the 400 million, the 25
8 million, the 25 million and the debt refinancing;
9 correct?

10 A What I testified was, yes, sequentially,
11 we went through revenue and other actions before we
12 came to labor. But what I also testified is that
13 for this company to survive, it needs competitive
14 costs in every category of the business. And to the
15 extent we're doing better than planned, that's
16 great. But --

Page 186

17 Q Mr. Bastian, stay with me. Let me ask the
18 question. If you knew in August --

19 MR. GALLAGHER: I'll object, Mr. Chairman,
20 and ask the witness be allowed to finish his answer.
21 We certainly are getting a lot of testimony from
22 counsel.

□

1 MR. SIMON: You had the audacity to make
2 that comment after your questioning, Mr. Gallagher?

3 MR. BLOCH: Mr. Bastian may complete his
4 answer.

5 THE WITNESS: Thank you. As I testified,
6 though, earlier, I equate this to the third inning
7 of a ballgame and we're ahead. I don't know what
8 the future holds in terms of additional risks, and
9 we can't put this company's future at risk of just
10 barely getting by with the minimum needs. We have
11 to have a competitive cost structure and a
12 competitive business plan to succeed for the long
13 term.

14 BY MR. SIMON:

15 Q Let's talk about the third inning. So the
16 325 was formulated in a pregame locker room scenario
17 up on the blackboard; right? That's before you knew
18 what was happening, so you gave the troops -- you
19 looked high and low, you came up with your scorecard
20 and your lineup, you figured who you were going to
21 have in the bullpen, it looked like a great plan,
22 here's the \$3 billion plan, and you entered the

□

2110

1 ballgame, inning 1.

2 A I wouldn't equate it that way --

3 Q Let me finish the question, Mr. Witness.

4 Inning 1. 400 million ahead of plan, huh?

5 Not a bad first inning.

6 Inning 2, \$25 million ahead of plan in

7 January. That's a pretty good second inning.

8 Inning 3, another \$25 million ahead of

9 plan in February. Not a bad inning 3.

10 Somewhere in between those innings, look

11 at this, we're going to refinance our debt, and

0323AR9

12 we're going to save more money. I won't put a
13 figure on it, you know what it is, I know what it
14 is, the panel knows what it is. Another number.
15 Not a bad third inning.

16 So now you say, well, it's true, those are
17 the three innings we've had, but who knows what's
18 going to happen in the 4th inning. That's your
19 testimony?

20 A That's not my testimony.

21 Q Mr. Gallagher asked you to look at I guess
22 what was your Exhibit 111. Do you have that in

□

2111

1 front of you?

2 A I do.

3 Q That's the one that talked about LCC
4 capacity since 2000; correct?

5 A That's correct.

6 Q In the 2004 \$5 billion concessionary
7 agreement, a billion dollars a year, did the subject
8 of LCC capacity since 2000, was that one of the

9 areas of concern to the company?

10 A Yes, it was.

11 Q And was that discussed as one of the
12 structural problems that led to the 2004 \$5 billion
13 negotiations and resulting agreement?

14 A Yes, it did.

15 Q And that was along with the other
16 structural problems that we've discussed earlier in
17 this hearing, decline in high-yield business travel,
18 Internet booking, price transparency, those issues
19 were all known to Delta in 2004 and formed part of
20 the context and the environment for the negotiation
21 of the 2004 \$5 billion agreement; correct?

22 A Those were issues known at that time. And

□

2112

1 certainly in 2005 it continued to get worse, yes.

2 Q And that was what led Mr. Grinstein,
3 yourself, the company to say we've got structural
4 problems, we've got to meet them, we should do it
5 once and do it right. And the way to do it once and
6 do it right for the pilots means that you've got to

7 give us a billion dollars a year for the next five
8 years; correct?

9 A I won't comment on the characterization,
10 but we did ask for a billion dollars, that's
11 correct.

12 Q And what did ALPA agree on behalf of
13 Delta's pilots to give you?

14 A \$1 billion a year.

15 Q Every nickel you asked for; correct?

16 A That's correct.

17 Q And that was done in the context of doing
18 it once, doing it right, addressing the structural
19 problems of the LCCs, the high-yield business
20 traveler decline, the Internet transparency, do it
21 once and do it right, and the price tag is a billion
22 bucks a year; right?

□

1 A And we also were clear to lay out there
2 were no guarantees. But that's right.

3 Q No guarantees. But instead of doing it

4 once and doing it right, what you're trying to do

5 now is do it twice and do it wrong; isn't that

6 correct, Mr. Bastian?

7 A Sounds like on your scorecard analogy,

8 we're doing okay.

9 Q Thank you for that.

10 (Laughter.)

11 So we're doing okay. And not only that,

12 but we think we're going to do better for the rest

13 of 2006, aren't we?

14 A I testified that I'm hopeful revenue is

15 going to do better. I also testified I'm concerned

16 about fuel costs.

17 Q Are you familiar with the J.P. Morgan

18 analysis that came out within the last couple of

19 days talking about revenue projections for the

20 industry?

21 A I do believe I saw it, yes.

22 Q And do you recall, in effect, what it

□

2 regard to Delta?

3 A I don't recall the specific numbers, but I
4 did read it, yes.

5 Q And it anticipated -- well, I thought I'd
6 save you the agony and me the embarrassment of
7 looking for the document.

8 (ALPA Exhibit 61 identified.)

9 BY MR. SIMON:

10 Q I show you a document I will ask to have
11 marked as ALPA Exhibit 61 for identification. Is
12 that the report you recall seeing?

13 A It is.

14 Q And it talks about increase in RASM,
15 noting LCC in the lead, to rob you of your opening
16 remarks, but showing Delta down at the bottom, plus
17 20 percent; correct?

18 A That's his estimate. He doesn't have
19 access to the data because it's not public.

20 Q Would you generally acknowledge Mr. Baker
21 as being among the, if not the, leading airline
22 analyst in the industry?

□

1 A He also had a buy rating on September 13,
2 I think, of Northwest, but that --

3 Q Could you answer the question?

4 (Laughter.)

5 I'm sure next time you take his
6 call, you will want to remember what you said about
7 him today.

8 Would you acknowledge that he is
9 among the, if not the, leading analyst in the
10 airline industry?

11 A It's all relative. He is a leading
12 analyst, there's no question about that. He's not
13 always right, but he's okay.

14 Q Are you always right?

15 A Absolutely not.

16 Q Makes one of us.

17 (Laughter.)

18 A Do I have to take that?

19 MR. BLOCH: He's not under oath.

20 (Laughter.)

21 MR. SIMON: Touche. One step too far.

22 BY MR. SIMON:

□

2116

1 Q If you would turn to the exhibit
2 Mr. Gallagher presented you with earlier marked 114.

3 A Okay.

4 MR. HARRIS: Don't confuse the chairman
5 with facts.

6 BY MR. SIMON:

7 Q That chart shows whatever it intends to
8 show, pilot versus nonpilot average wages per FTE,
9 that the pilot peak wage was \$209,330 in 2003;
10 correct?

11 A That's what it shows, yes.

12 Q And nonpilot peak wages were \$49,735 in
13 2003?

14 A That's what it shows, yeah.

15 Q And moving to 2010, nonpilot wages will
16 decline by 25 percent. Do you need a calculator to
17 do that?

18 A I can do that in my head. I trust your
19 math.

0323AR9

20 Q And is that order of magnitude what it
21 shows?

22 A It does.

□

2117

1 Q And pilot wages would decline by 43
2 percent; correct?

3 A From 209 to where? The 117?

4 Q Yes.

5 A Yes.

6 Q And under the ALPA proposal, pilot wages
7 would decline by 29 percent. Are you familiar with
8 that?

9 A I am.

10 Q It's a lot closer to the 23 percent than
11 to the 43 percent; correct?

12 It speaks for itself. I'll withdraw the
13 question.

14 If you'd now look at Delta Exhibit 90. Do
15 you have that one?

16 A I don't believe so.

0323AR9

17 Q Pardon?

18 A I don't believe so.

19 Q And if you'd turn to page 49. Do you have
20 that in front of you?

21 A I do.

22 Q That slide reflects that when the defined

□

2118

1 benefit plan terminates, your proposal would
2 replace, on average, 78 cents out of every dollar of
3 value; correct?

4 A What that says is that our proposal,
5 together with the PBGC estimate, would be 78
6 percent, yes.

7 Q Now, you heard testimony earlier and you
8 know order of magnitude that the average pilot has
9 worked for 14 years?

10 A I didn't hear that testimony, but I'll
11 take it.

12 Q It was Mr. Watson's testimony this
13 morning.

14 A I didn't hear that, but that's okay.

0323AR9

15 Q But it sounds about right?

16 A Yeah.

17 Q So the average pilot has been working 14
18 years, and every dollar of that defined benefit
19 pension earned was earned during those years of
20 service; correct? That's what he was working
21 towards?

22 A Okay.

□

2119

1 Q That money has already, in effect, been
2 earned by pilots, that pension entitlement has been
3 earned by the average pilot over his 14 years of
4 average service?

5 A It would have been vested, yes.

6 Q Now you say to the pilots that in addition
7 to the 32-1/2 pay cut in '04, you want to impose a
8 further pay cut of 18 percent; correct?

9 A Again, I wouldn't characterize it like
10 that, Bruce. I mean, this is not our decision in
11 terms of imposing elimination of the pension plan.

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0323AR9

12 We don't have the cash.

13 Q No, I backed up to wages. I was talking
14 about wages. We can chew gum and walk at the same
15 time. Now we're back on wages.

16 So that you're proposing, in addition to
17 the 32-1/2 percent pay cut taken in 2004, an
18 additional 18 percent pay cut today?

19 A That's correct.

20 Q And in addition to that, you're saying to
21 the pilots that you're going to take away from
22 them -- you say they're getting 78 percent of what

□

2120

1 they were entitled to. The other way to look at
2 that is that the average pilot is going to be losing
3 22 cents out of every dollar of pension entitlement;
4 correct?

5 A If Akaka does not pass, that's correct.

6 Q And that's \$22 out of every 100; right?

7 Let's talk about -- instead of pennies --

8 MR. GALLAGHER: We'll stipulate 22 percent
9 is \$22 out of 100.

Page 199

10 MR. SIMON: Stipulation is gratefully
11 accepted. That's almost as good as your asking
12 whether time passes.

13 (Laughter.)

14 BY MR. SIMON:

15 Q And that declination in pension
16 entitlement is directly attributable to Delta's
17 failure and inability to fund its pension promises;
18 correct?

19 A I would not say that, no.

20 Q What would you say?

21 A I would say that the plan is in trouble.

22 I think there's a number of reasons it's in trouble.

□

1 I think the biggest reason it's in trouble is the
2 amount of lump sums that have come out of the plan
3 over the last five years.

4 Q And isn't it clear to you, Mr. Bastian,
5 that if the company could pay and would pay the
6 amounts required by law for it to pay, that the

7 pension plan would, in fact, not be terminated?

8 A If we had the money that the law required
9 us to contribute, if we were contributing, yes, I
10 think that's right.

11 Q Which is another way of saying that the
12 reason the plan is going to terminate is because the
13 company is not going to make the contributions that
14 it is required by law to make, comma, because you
15 believe you don't have the money to make them?

16 A No, I would say that the company
17 absolutely does not have the money, and, in fact,
18 could not have raised the DIP, we wouldn't be here
19 today, if we didn't have the DIP in place.

20 Q And as a consequence of the company's not
21 making the money it's required to make, the pension
22 plan will terminate, and the average pilot will lose

□

2122

1 22 cents out of every dollar, \$22 out of every 100,
2 I'm going to take it one step further, Jack -- no,
3 I'm not. Correct?

4 A If Akaka doesn't pass.

5 Q If Akaka doesn't pass.

6 A That's correct.

7 Q What does Delta's lobbyist tell it that
8 the likelihood of Akaka passing is?

9 A I haven't talked to him in the last week,
10 so I -- I know as of a week ago, we were optimistic
11 that it was going to pass, but I know there's a lot
12 of debate about the topic.

13 Q Does the company have the money to pay to
14 the pilots the contractual page rates that were in
15 effect pre-letter of agreement 50?

16 A Pre?

17 Q Yes.

18 A -- agreement 50?

19 Q Yeah, the wage rates in pilot working
20 agreement.

21 A Can we afford to continue paying the
22 highest rates in the industry? No, we can't.

□

1 Q Okay. The question I asked is whether you

2 had the money to pay them.

3 A We do not, we do not have the ability to
4 pay, given our revenue situation, our liquidity
5 situation, highest wage rates in any category of
6 this business.

7 Q And that was true when you negotiated the
8 contract in 2004, was it not?

9 A Our financial situation today is a lot
10 different than it was in 2004.

11 Q Can you answer my question? That was the
12 situation in 2004, was it not?

13 A The agreement in 2004, obviously, the
14 company felt that those were wages we could afford.

15 Q And it was also true in 2000, leading to
16 the 2000 pilot working agreement; correct?

17 A That's correct.

18 Q Notwithstanding the fact that you don't
19 have the money to pay those wages, you do agree that
20 the extent to which you don't pay them provides
21 savings to the company; correct?

22 A Sure.

□

1 Q And those are savings to the company that
2 you do credit in the bargaining process; correct?

3 A That's correct.

4 Q And it doesn't occur to you that there is
5 a parallel between money that you're supposed to pay
6 in wages that you can't pay because you don't have
7 the money, but you're going to provide credit and
8 pension money that you can't pay because you don't
9 have the money, but you're not going to give credit?

10 A I never said that. I know there's a
11 parallel. You know, I'm very personally sensitive
12 to the pension situation. I know there's a
13 tremendous hit that pilots will take. I'm not --
14 I'm not backing away from that.

15 The fact of the matter is the company is
16 in pretty dire financial straits, and there's
17 limitations in terms of how much it can replace with
18 respect to the pension proposals.

19 We've attempted to do our best to meet the
20 pilots on those needs. But it's a serious issue,
21 and I'm not going to not give them credit for that.
22 They deserve credit for that.

□

2125

1 Q The question is not the credit you're
2 forced to give when you look in the mirror and
3 you're shaving because your pension is going to be
4 preserved, but credit that you have to give at the
5 bargaining table, where it counts, where if you gave
6 credit, you would not be seeking to extract \$325
7 million, Mr. Bastian.

8 A I look at the 325 as a different topic
9 than the pension.

10 Q What part of your decision to stick with
11 your 300 million, \$305 million pilot cut demand,
12 notwithstanding the 400 million better than planned
13 and January and February's 20 million and the debt
14 service reduction, is driven by your determination
15 to preserve Delta's competitive edge over other
16 network carriers because of your nonunion, nonpilot
17 work force, and your ability to drive down their
18 wages and benefits at will? You do believe you have
19 that competitive advantage, do you not?

20 A I believe our compact with our nonunion
21 work force is strong, the flexibility they provide
22 is a competitive advantage to Delta. And as I said

□

2126

1 last week, if we ever violated that pact, shame on
2 us.

3 Q Would you describe what pact and compact
4 you're talking about? Is there an agreement in
5 place between Delta and its nonunion work force?

6 A There is no contract, but there absolutely
7 is a working relationship with our employees.

8 Q Is a working relationship the same as a
9 compact?

10 A A working relationship is a working
11 relationship.

12 Q Well, you described a compact. I'd
13 like --

14 A I said compact in a generic sense. It's a
15 relationship that we have with our employees.

16 That's --

17 Q You also used the word "pact." Do you

18 mean pact in its dictionary sense of an agreement?

19 A There is obviously no agreement in

20 writing.

21 Q Oh, is there an agreement that is oral?

22 A There is a working relationship between a

□

1 company and its employees.

2 Q Let's not quibble, Mr. Bastian.

3 MR. GALLAGHER: I endorse that -- I

4 endorse that observation, Mr. Chairman, but I object

5 that the entire line of questioning is

6 argumentative.

7 MR. SIMON: Oh, I don't think it's

8 argumentative at all. Let me simply proceed to ask

9 simple questions.

10 The witness said that there was an

11 agreement with the nonpilot employees that was not

12 written.

13 THE WITNESS: I said -- I clarified --

14 MR. SIMON: I accept the answer. It leads

15 to another question.

16 Is there an agreement between Delta and
17 its nonunion -- nonpilot employees that is other
18 than written?

19 THE WITNESS: I think I clarified my
20 remarks that there is a relationship between a
21 company and its employees that, in Delta's sense,
22 with its nonunion work force provides a competitive

□

1 advantage, absolutely.

2 MR. BLOCH: Mr. Simon, I think we
3 understand both the question and the answer.

4 MR. SIMON: I have to rub it in.

5 MR. BLOCH: And the rubbing-in, we
6 understood that, too.

7 (Laughter.)

8 MR. SIMON: Because it's critical to the
9 case, Mr. Chairman, if I may pursue it for a moment.

10 MR. HARRIS: Who are you trying to
11 convince, the audience or us?

12 MR. SIMON: You.

13 MR. HARRIS: We have heard it. You don't
14 have to -- don't beat me over the head, because if
15 you beat me over the head, I'm going to walk away.

16 MR. SIMON: If you tell me you get it as
17 well as hearing it, then I'll shut up. But because
18 it's so central, because it goes to the heart of
19 1113, whether what this company is looking for is
20 what it needs to reorganize or what it's looking for
21 is to preserve its competitive edge because of its
22 nonunion work force, is a critical issue.

□

1 MR. BLOCH: By my suggestion that you move
2 on, it was not because we didn't get it, but simply
3 because we think it's better in argument, by brief,
4 than by questioning of the witness, or rubbing it
5 in, however form that might take.

6 MR. SIMON: I shall finally move on.

7 BY MR. SIMON:

8 Q What's the fourth inning look like?

9 A It has yet to be played.

10 Q Pardon?

11 A It's yet to be played.

12 Q Yet to be played. Does the company have a
13 plan in place to deal with the eventuality of a
14 pilot strike, if one should come to pass?

15 A We do not.

16 Q Does Delta plan to operate in the event
17 that there is a pilot strike?

18 A We do not.

19 MR. SIMON: No further questions.

20 MR. GALLAGHER: No further questions,

21 Mr. Chairman.

22 MR. BLOCH: Mr. Bastian, thank you very

□

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1 much, sir.

2 THE WITNESS: Thank you.

3 MR. BLOCH: Anything else by way of
4 rebuttal from the company?

5 MR. GALLAGHER: No, Mr. Chairman.

6 MR. BLOCH: Mr. Simon, anything else from

7 ALPA?

8 MR. SIMON: We need 45 seconds. Start the
9 clock.

10 By direction, the Air Line Pilots
11 Association rests.

12 MR. BLOCH: Thank you very much,
13 Mr. Simon.

14 MR. SIMON: May I, before I rest, simply
15 indicate the presence in the hearing room of the
16 president of the Air Line Pilots Association, Dwayne
17 Woerth, and assure the panel he was not the super
18 secret witness who we have obviously not been able
19 to call because he was not able to remove himself
20 from matters of national security.

21 MR. BLOCH: Mr. Woerth, welcome.

22 Well, let me make some, I guess,

□

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1 penultimate comments. Hopefully, they will be the
2 last comments from the board. But that hope may not
3 turn out to be the case.

4 And I would say that my colleagues are

5 joining me in these remarks. We're going to close
6 the record in this case. It's a record that, as you
7 have all heard, has been compiled expertly and
8 comprehensively.

9 But the record that's going to attach to
10 these parties remains very much open. We began
11 these proceedings by characterizing this arbitration
12 as the product of failure, and that is your failure.
13 No one here is responsible for the financial
14 circumstances of the company or of this industry,
15 and I don't suggest that.

16 But make no mistake, you both are
17 responsible for this proceeding. If you require
18 this panel to issue a decision and to clean up after
19 you, this will be an abandonment of responsibility
20 that will and should haunt all of you.

21 It would be no less shameful to have
22 permitted the dispute to be resolved by a bankruptcy

□

1 court, and let's be clear, let's abandon all
2 breast-beating of being forced into these

3 unfortunate circumstances.

4 The parties are here because they want to
5 be here. You are here because you want this to be
6 happening more than you want it not to be happening.

7 This is a shameful exercise by two groups
8 who, it appears, have bargained successfully in fat
9 times, but in hard times, the talk turns to nuclear
10 options and shredding a labor agreement,
11 eviscerating pensions and the profound expectations
12 of families, striking the company, generally taking
13 actions that challenge for the long term, not just
14 today or tomorrow, a 65-year relationship that's at
15 the core and character of this company.

16 Corporate life may be easier without a
17 labor contract, but the cost of the divorce is
18 nowhere reflected in any of these exhibits, and it's
19 a cost that need not be incurred.

20 Bargaining is easy when things are rosy.
21 You both basked in the moneys that flowed when
22 conditions were different. Pilots then were the

□

1 recipients of an unprecedented and very rich
2 agreement.

3 Management, too, has done very well for
4 itself in the past. It's showered its own with
5 perks that were both lavish beyond reason, and
6 considering their timing, inexplicable.

7 Times are different now, but the
8 obligation to continue the bargaining relationship,
9 to respond meaningfully and responsibly to the needs
10 of the other party, persists and has never been more
11 essential.

12 These are more than statutory and
13 contractual obligations. These are moral
14 obligations to everyone involved, to the
15 shareholders, to the employees, in and outside the
16 bargaining unit, and to the industry in general and
17 to the public.

18 Collective bargaining, it is true, is
19 premised on an adversary relationship, but there's
20 far more to it than that. The parties are in every
21 sense of the word trustees of this relationship.
22 They have obligations to their respective

□

1 constituencies, but they have concomitant

2 obligations to each other.

3 You built this relationship together; you

4 can and you must fix it. This panel is proceeding

5 on the assumption that no one wants this company

6 liquidated.

7 With that in mind, certain strategic

8 assumptions, however inescapable, are being

9 overlooked. If you can afford to lose this case, it

10 means the other side's position is not nearly as

11 catastrophic as you have portrayed it to us. And if

12 you can't afford to lose this case, then you can't

13 afford to risk our decision.

14 Either way, the case for a negotiated

15 compromise is overwhelming. Either way -- pardon

16 me. The assumption that a winner take all outcome,

17 which is what this is, is better than anything the

18 parties could possibly construct is cynical; it's

19 MYOPIC, it's absurd, it's not better, and you, the

20 stewards of this relationship, cannot allow this to

21 play itself out.

22 No one wants Delta folks or anyone else to

□

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1 work for substandard terms, but however painful this

2 fix may be on an interim basis, it will be less

3 painful than our decision, win or lose. Why?

4 Because both sides, in our judgment -- and we've had

5 extensive discussions about this among the board --

6 have raised credible objections to the other's plan.

7 There are, in our judgment, real flaws,

8 oversights, exaggerations and shortcomings that

9 attend both positions. They are, in many respects,

10 the product of advocacy.

11 The problem is that the unrealistic

12 segments are going to necessarily survive, although

13 they shouldn't, because of the either/or nature of

14 this process. We will not attempt in our decision

15 to give you the right result. That's not our

16 mandate. It's probably not within our abilities

17 either.

18 Rather, we'll be choosing the less
19 unpalatable plan. On the other hand, we will make
20 ourselves available without limit to assist and
21 mediate, consult, kibitz, do anything we can, in an
22 effort to help reach a consensual resolution that is

□

2136

1 so urgently needed here.

2 You need to begin today, tonight, please
3 consider this an interim order of this arbitration
4 panel, you need to get back to your committees, you
5 need to get down to this privately, now. You need
6 to give us confidential reports. We are asking for
7 two such reports, one on April 3, one on April 7.
8 Given the time constraints that are attending this
9 entire proceeding.

10 Recall, please, the telling remarks of
11 captain Dolan, who testified that leadership counts
12 and that there comes a point when people can't
13 unvolunteer. But if the parties here allow us to
14 write this opinion, you both will not only have
15 unvolunteered, you will have bailed out.

16 Without doubt, there are external
17 circumstances that both parties recognize as events
18 over which they have no control. But that doesn't
19 in any way include adjustments to a collective
20 bargaining agreement that formed the guts of what's
21 at issue here.

□ 22 We are aware, we appreciate, that both of

1 you have made substantial and creative concessions
2 in the past and in the discussions immediately
3 preceding this arbitration.

4 But the clear reality is, it was not
5 enough. You both need to do much better. You've
6 given us a mandate and a time line for deciding this
7 case. We will adhere to that charge, if necessary.
8 We will retire to our studies, we'll give you our
9 best shot, counsel will draft their arguments. Then
10 we'll give you an informed, as informed a judgment
11 as we can. And then we'll go home.

12 But the time between now and then must be

0323AR9

13 used by you for a much more important endeavor. You
14 need to agree on a fix. You both got us here, this
15 is your mess, you fix it, because unlike us, when
16 you go home, you're going to have to live with this.

17 Now, these remarks, I assure you, are not
18 intended to disparage. To the contrary, each of us
19 on this panel has spent the majority of our
20 professional lives in the airline industry in one
21 capacity or another.

22 We come to you as colleagues and friends.

□

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1 We come to you with an unshakable certainty as to
2 your capabilities to perform under pressure. And
3 it's because we are friends that we take the license
4 to speak candidly concerning the massively
5 unresponsive nature of this 1113 proceeding, as
6 contrasted with the opportunity to bargain your way
7 out of this mess.

8 Each side has within its power the ability
9 to destroy this company, somewhat akin to Robert
10 McNamara's observation of mutually assured

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0323AR9

11 destruction, the acronym MAD in the Cold War.

12 Similarly, each side of this dispute has the

13 obligation not to use that power.

14 The board stands ready to assist in any

15 way we can during the course of these critical

16 discussions, but time is very much of the essence,

17 and failure, we hope you will come to realize, is

18 not an option.

19 By profession, probably by genetics, your

20 expertise is in dealing with crises, unanticipated

21 or otherwise, that need to be fixed. You live for

22 that.

□

2139

1 This fix is not unavailable. It's just

2 painful. But it's a fix that is entirely in your

3 hands, and it needs to be pursued. By all means,

4 the fact disputes, the apparentness understandings

5 that have surfaced during these hearings, need to be

6 part of those discussions. There's much too much at

7 stake to tolerate any of those.

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8 Please meet immediately. None of us have
9 any business being in this forum. And while you
10 meet, we recommend that you meet, of course,
11 privately but the reports to us be confidential, and
12 that in the process you turn off the noise and the
13 battering and the posturing and get this thing done.

14 In the meantime, in addition to remaining
15 fully available to assist, we will prepare to write
16 our decision, with the urgent and earnest plea that
17 you never allow us to complete it.

18 That said, I do thank you for your input.
19 We will look forward to establishing a briefing
20 record which we can do on the record, if you wish.

21 MR. SIMON: I think we have one.

22 MR. BLOCH: Do you have a briefing

□

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1 schedule?

2 MR. GALLAGHER: It's in the procedural
3 agreement.

4 MR. BLOCH: All right. In that case,
5 then, I will close the record and look forward to

6 the briefs. Thank you all very much.

7 (Whereupon, at 3:37 p.m., the hearing was
8 concluded.)

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1 CONTENTS

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3 WITNESS DIRECT CROSS REDIRECT RECROSS

4 GERALDINE CAROLAN

5 by Mr. Gallagher 1948

6 DAVID WATSON

7 by Mr. Gallagher 1952 2045

8 by Mr. Dechiara 2008

9 EDWARD BASTIAN

10 by Mr. Gallagher 2049

11 by Mr. Simon 2097

12

13 EXHIBITS

14

15 NUMBER IDENTIFIED RECEIVED

16

17 ALPA Exhibit 55-A 1945 1945

18 Company Exhibit 99 1949 1952

19 Company Exhibit 100 1965 2006

20 Company Exhibit 101 1990 2006

21 Company Exhibit 102 1992 2006

22 --continued--

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1 E X H I B I T S (CONT'D)

2

3 NUMBER IDENTIFIED RECEIVED

4

5	Company Exhibit 103	1994	2006
6	Company Exhibit 104	1995	2006
7	Company Exhibit 105	1995	2006
8	Company Exhibit 106	1999	2006
9	Company Exhibit 107	2000	2006
10	Company Exhibit 108	2002	2006
11	Company Exhibit 109	2002	2006
12	Company Exhibit 110	2004	2006
13	Company Exhibit 111	2050	2097
14	Company Exhibit 112	2054	2097
15	Company Exhibit 113	2070	2097
16	Company Exhibit 114	2075	2097
17	Company Exhibit 115	2084	2097
18	ALPA Exhibit 61	2114	

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