

1 UNITED STATES BANKRUPTCY COURT
2 SOUTHERN DISTRICT OF NEW YORK

3 -----X
4 In Re: : 05-17923 (PCB)
5 :
6 DELTA AIR LINES INC., et al, : One Bowling Green
7 : New York, New York
8 :
9 Debtors. : November 17, 2005
10 -----X

11 TRANSCRIPT OF EVIDENTIARY HEARING ON MOTION
12 TO REJECT ALPA CBA
13 BEFORE THE HONORABLE PRUDENCE C. BEATTY
14 UNITED STATES BANKRUPTCY JUDGE

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(Appearances continued on next page)

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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I N D E X

	<u>Direct</u>	<u>Cross</u>	<u>Redirect</u>	<u>Recross</u>	<u>Further Redirect</u>
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WITNESSES

David Watson	5	55			
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Edward Bastian	62				
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EXHIBITS

		<u>Marked</u>	<u>Received</u>
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DEBTOR'S:

80	Schedule	5	55
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81	Delta Revenue Performance	84	
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84	Outline of \$3 billion confirmation	105	
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1 THE CLERK: The Honorable Prudence Carter Beatty
2 presiding.

3 THE COURT: You may be seated. Are we starting with
4 the pilots or the Delta first?

5 MR. GALLAGHER: Delta is ready to proceed, Your
6 Honor. We're ready to call our first witness.

7 THE COURT: I think you're the punitive plaintiff.

8 MR. GALLAGHER: Yes, Your Honor.

9 THE COURT: Did we make -- other than this ALPA
10 proposal, is there a sheet like that other single sheet that
11 sort of lists what these things are and what they're worth?

12 MR. GALLAGHER: The Company Exhibit 79 is the most --
13 is the company --

14 THE COURT: But that's not about this one; right?

15 MR. GALLAGHER: It's not about the ALPA proposal, no,
16 Your Honor. It's about the company proposal. I'm not aware of
17 one equivalent document for the ALPA proposal.

18 Your Honor, the company would call Mr. David Watson
19 to the witness stand.

20 THE COURT: Okay.

21 MR. GALLAGHER: We have distributed to counsel and to
22 Your Honor's bench company -- a document marked for
23 identification as Company Exhibit 80.

24 THE COURT: I'm sorry. What did you just say?

25 MR. GALLAGHER: I said, Your Honor, that we have

1 distributed to counsel --

2 THE COURT: Okay. We're talking about the one you
3 gave me yesterday?

4 MR. GALLAGHER: Yes. Except it was slightly revised
5 overnight, Your Honor. We found an error.

6 THE COURT: On A or C?

7 MR. GALLAGHER: A.

8 THE COURT: So I should take the one that's marked
9 80?

10 MR. GALLAGHER: Yes, Your Honor.

11 THE COURT: Okay.

12 MR. GALLAGHER: Thank you, Your Honor.

13 (Schedule, Debtor's Exhibit 80, Marked.)

14 MR. GALLAGHER:

15 Good morning, Mr. Watson. For the record, Your Honor, I'm
16 Jack Gallagher, special labor counsel for Delta Air Lines.

17 DIRECT EXAMINATION

18 BY MR. GALLAGHER:

19 Q Mr. Watson, would you state your place of employment and
20 job duties?

21 A Delta Air Lines. I'm the director of crew resources and
22 scheduling.

23 THE COURT: I can't hear you.

24 THE WITNESS: I'm sorry. Excuse me.

25 THE COURT: You have to move that microphone so it's

1 pretty close to your voice.

2 MR. SIMON: Perhaps Mr. Gallagher could please move
3 the podium.

4 THE COURT: It actually has little wheels on half of
5 it. It's also fifty years old.

6 A My name is David Watson. I work at Delta Air Lines. I'm
7 the director of crew resources and scheduling.

8 Q What are your duties as director of crew resources and
9 scheduling?

10 A Most simply stated, it's just --

11 THE COURT: You're going to have to slow down because
12 I can't hear you.

13 THE WITNESS: I'm sorry.

14 THE COURT: I don't know -- I realize that we talk
15 really fast when we talk to each other, but when we're talking
16 about things that we don't know about I need to have a little
17 more time to hear you. Thank you.

18 THE WITNESS: Yes, Your Honor.

19 A I am primarily responsible for the -- what I would
20 consider to be the logistics of the pilot operation at Delta
21 Air Lines and that would include short and long range manpower
22 planning and then the scheduling of the pilots as well.

23 Q Is it fair to say, Mr. Watson, that you are responsible --

24 THE COURT: We forgot to swear you in. I usually
25 have the court reporter do that. So now I'm kind of stuck.

1 (David Watson, Delta's Witness, Sworn.)

2 Q That applies to your answers before you were sworn as well
3 as to after I assume, Mr. Watson.

4 A Yes.

5 Q Is it fair to say in layman's terms that you are
6 responsible for insuring that Delta has enough pilots at hand
7 trained and qualified to fly its scheduled service?

8 A Yes.

9 Q We have a document we placed in front of you marked for
10 identification as Delta Exhibit 80. Let me ask you. It's a
11 two-page document and we have blow ups of each page available
12 in the room for the spectators. Can you tell the Court what is
13 reflected on the first page of Exhibit 80?

14 A Yes. This is an example of a schedule for a regular, an
15 MD88 captain who is based in Atlanta. This is a regular pilot,
16 meaning that he was -- had these trips pre-scheduled on his
17 line for that month.

18 MR. GALLAGHER: Your Honor, I would --

19 THE COURT: I don't understand what you mean by pre-
20 scheduled. Who schedules them?

21 THE WITNESS: In this case the company would
22 construct a series of trips that would be available for a pilot
23 to bid within a month and then the pilot would bid on those and
24 he would be awarded that line or those series of trips based on
25 his seniority.

1 THE COURT: Would they be packaged this way or would
2 he have to fit it on each one?

3 THE WITNESS: In this particular case the trip one,
4 trip two, trip three and trip five were packaged this way.
5 Then he picked up trip four during the month.

6 BY MR. GALLAGHER:

7 Q Now, before we go further, Mr. Watson, because we're going
8 through this for the first time and in part to help all of us
9 understand better the complexities of the pilot contract, you
10 started off by saying this was a domestic pilot, regular pilot,
11 Atlanta pilot, MD88 captain. I want you to stop at each one of
12 those categories and tell us what that means. What does it
13 mean to be a domestic pilot and as distinguished from what?

14 A There are a -- domestic pilots are those that fly non-
15 transoceanic flights. International category pilots are those
16 that are qualified to fly transoceanic flights.

17 Q Does that require special training and qualifications --

18 A Yes, it does.

19 Q -- to fly transoceanic?

20 A Yes, it does.

21 Q Does the pilot contract define what is domestic and what
22 is international?

23 A Yes.

24 Q The Caribbean and Mexico and Canada, are those domestic or
25 international?

1 A They're considered international operations but can be
2 flown by a domestic pilot.

3 THE COURT: I forgot to tell you yesterday that I
4 actually did play a major role in the restructuring of an
5 international air carrier. I got the 304 for Air Canada. So I
6 enjoin all of the lawsuits in the United States. The next
7 hearing I had somebody come in and said they wanted to sue on a
8 personal injury action in the United States and I told them
9 they couldn't and the very last thing and only other thing I
10 had to do was to sign an order that was what the judge in
11 Canada told me I was supposed to sign. So I feel I just made
12 that the smoothest case possible.

13 MR. GALLAGHER: We wish they were all that simple,
14 Your Honor. I'm sure the Court does as well.

15 BY MR. GALLAGHER:

16 Q What does it mean -- we've talked about domestic and
17 international pilots, Mr. Watson. What does it mean to be a
18 regular pilot and as distinguished from what?

19 A As distinguished from a reserve pilot. As I mentioned,
20 the regular pilot has a series of trips that are prescheduled.
21 He's aware of them before the month starts.

22 Q Regular means he has a fixed monthly schedule that he
23 knows about; in advance of the month he knows how much flying
24 he's going to do and what days he's going to work?

25 A That's correct.

1 A reserve pilot is a pilot who is awarded a monthly
2 schedule but it is comprised of what are called on call days.
3 So --

4 THE COURT: On call days?

5 THE WITNESS: Yes, ma'am. Yes, Your Honor.

6 A Those on call days he has to be available to the company
7 for assignment to a trip in the event that there is a
8 disruption or there -- and a pilot that was scheduled to fly
9 that trip is unavailable for whatever reason.

10 Q So the reserves are like substitutes who are available if
11 a scheduled pilot calls in sick or a scheduled pilot is
12 unavailable because he's delayed elsewhere by a mechanical or a
13 weather event?

14 A That's correct.

15 THE COURT: Do the reserve pilots always get time?

16 THE WITNESS: No, Your Honor, not always, but the
17 majority of them do.

18 Q Those eighteen on call days, are they required to sit at
19 home by the phone for the entire time?

20 A They have a twelve-hour notification requirement for call
21 out. There is a provision in the contract that allows us to
22 convert a pilot to what is also called a short call. The
23 twelve-hour notification is called a long call pilot. We can
24 convert a long call pilot to a short call pilot which would
25 require him to be available generally speaking within two hours

1 of notification to report for a flight.

2 Q When you do that is that because you know and you want him
3 to know that it is more likely that he's going to be called on
4 a particular day?

5 A It is because we have an expectation that there will be a
6 disruption, yes, and as a result we would expect to call him

7 Q By disruption, you mean a weather event or something like
8 --

9 A A weather, a mechanical or just based on historical
10 information.

11 Q But the short call and long call that you speak of, that
12 relates only to reserve pilots; is that right?

13 A Yes, that's correct.

14 Q What percentage of the total pilot work force are on
15 reserve each month?

16 A It varies. Anywhere from really -- I would expect
17 anywhere from ten to fifteen to sixteen percent depending upon
18 the level of activity that's going on in that month.

19 Q How is it determined who ends up being the reserve pilot?

20 A Pilots bid on their schedules each month and they are
21 awarded their schedules based on their seniority within their
22 category which in this case the category for this pilot is in
23 Atlanta MD88 captain. So it's his base. It's the fleet or the
24 aircraft type he's flying and his position, whether that's
25 captain or first officer.

1 So his seniority within that position would allow him to
2 bid on his line. Some pilots, in my experience very few, like
3 to fly reserve. So even if they're senior they may fly reserve
4 but generally speaking the more junior pilots would be flying
5 reserve.

6 Q So the most senior MD88 captain in Atlanta because he's
7 senior will have his choice among the various schedules for
8 that aircraft type at that base; is that right?

9 A That's correct.

10 THE COURT: And that particular instance the flight
11 one, flight two, flight three and flight five when he bid
12 that's what he bid on, the whole package?

13 THE WITNESS: Yes, Your Honor.

14 Q Now, do all of the Atlanta MD88 captains bid together for
15 the pool of MD88 flights out of Atlanta that month?

16 A Yes, they did.

17 Q Is it only the MD88 captains who in effect compete against
18 each other for the schedules for that flight, for those
19 flights?

20 A For those flights, yes, sir.

21 Q So each subgroup of pilots by base and equipment, meaning
22 the aircraft type, and by their rank, meaning they're captain
23 or first officer, the captain being the pilot in command and
24 the first officer being the co-pilot, each one of those groups
25 bids as a separate subgroup; is that right?

1 A That is correct.

2 Q So when you're --

3 THE COURT: How many different places do you have
4 bidding from?

5 THE WITNESS: Currently we have forty categories,
6 what we call --

7 THE COURT: I'm sorry. You bid from Atlanta. Where
8 else do you bid from?

9 THE WITNESS: Atlanta, New York, Cincinnati, Los
10 Angeles and Salt Lake City.

11 Q So you have five pilot bases; is that right?

12 A That's correct.

13 Q With those five bases, each base -- every base has
14 captains and first officers; correct?

15 A If I'm doing my job correctly.

16 Q Right. Then different aircraft operate out of different
17 airports from a base standpoint?

18 A That is correct.

19 Q If I'm based in Atlanta, can I move to Los Angeles or the
20 New York base or am I fixed base in one place?

21 A You are fixed. There are -- there is -- there are
22 opportunities within a month for a pilot to pick up time from
23 another base if it's available.

24 Q But that doesn't mean he changes his base. It simply
25 means he's --

1 A No, he does not change his base. He just flies from
2 another one.

3 Q So --

4 THE COURT: Unless he's moved to a base that it's at
5 least 150 straight miles from his other base that would cause
6 him to have to change his home, would he be entitled to
7 relocation expenses, something like that; yes?

8 THE WITNESS: If he does -- if he does, in fact,
9 change his base, which every pilot is capable of doing if there
10 is availability to do that and if he moves his residence within
11 that mileage range then yes, he would be eligible for
12 relocation benefits.

13 Q So we've covered domestic and international, regular and
14 reserve, Atlanta being the base. Now, aircraft types. Are all
15 pilots qualified for all aircraft types?

16 A No, they're not.

17 Q By FAA regulation?

18 A Yes.

19 Q Each must -- each pilot must be trained and qualified and
20 certified --

21 THE COURT: There was an implication in the papers
22 and I may have misread the implication, that if you are
23 qualified to fly an MD88 that you are disqualified to fly
24 anything else, that you could only be qualified to fly one type
25 of plane at a time. Now, is that a Delta regulation or is that

1 something from the FAA?

2 THE WITNESS: It is clearly a Delta regulation and
3 it's under debate whether the FAA would actually allow certain
4 equipment types or aircraft types to be combined.

5 Q There are a series --

6 THE COURT: I understand that there's a big
7 difference between flying a smaller plane and flying one of the
8 huge jobs, but some of the smaller planes aren't that different
9 in size or weight.

10 THE WITNESS: Yes, Your Honor. There are a multitude
11 of factors that would go into determining whether or not you
12 would be able to combine equipment types to create a single
13 qualification. Avionics are very important, the operating
14 characteristics of the airplane, the cockpit configuration --

15 Q Mr. Watson, before you go further, what do you mean by
16 avionics?

17 THE COURT: All them little, you know, machines that
18 have little electronic pieces in them that light up and don't
19 light up and --

20 THE WITNESS: Exactly. That's the way -

21 THE COURT: You switch the toggle this way and you
22 toggle that way.

23 Q What do you mean by operating characteristics?

24 A Just to --

25 THE COURT: They have a nose that tends to go down or

1 one that tends to go up.

2 MR. GALLAGHER: All right.

3 BY MR. GALLAGHER:

4 Q The FAA as well as Delta are very concerned with making
5 sure that any pilot who gets on board an airplane are trained
6 and qualified --

7 A Absolutely.

8 Q -- fully trained and qualified --

9 A Absolutely.

10 Q -- to operate.

11 A Absolutely.

12 Q Now, when a pilot needs -- is moving into a new airplane
13 that he hasn't flown before, is that promotion based on
14 seniority?

15 A It is. It is based on seniority. The way that works is
16 we would identify a vacancy in a particular category. So in
17 this case in Atlanta 88 captain. We would post a vacancy bid.
18 Pilots would bid on those vacancies and be awarded that vacancy
19 based on their seniority. So, yes.

20 Q So that's filling a pilot position based on seniority and
21 that's different --

22 THE COURT: But -- now, once they get it, where do
23 they train and how long do they have to train?

24 THE WITNESS: They train the vast majority of the
25 time in Atlanta at our training facility. The curriculum that

1 they would train on is dependent upon their prior experience as
2 well ask, for example, if they had flown the MD88 as their
3 first officer and they're just simply moving it to captain.
4 That is a different training event or curriculum versus
5 somebody who had never flown the 88 and may be flying was a 767
6 first officer who is now moving to a MD88. So each curriculum
7 is tailored to some degree based on a pilot's prior experience.

8 Generally speaking, a qualification or a training
9 event would last anywhere from three to six weeks.

10 THE COURT: Okay.

11 BY MR. GALLAGHER:

12 Q During -- who pays for the training, Mr. Watson?

13 A Delta Air Lines.

14 Q That means they pay for the classrooms, the instructors,
15 the simulators, et cetera?

16 A Yes.

17 Q Training materials?

18 A Yes.

19 THE COURT: Who pays for where they get to live?

20 THE WITNESS: Delta.

21 Q Are the pilots on full pay while they're in training?

22 A Yes.

23 Q Do you know approximately or is there a fixed value that
24 Delta uses or assigns to a training event, what it costs Delta?

25 A Generally speaking, it's around \$25,000.00 per event.

1 Q Approximately how many training events does --

2 THE COURT: Now, that's excluding the wages; right?

3 THE WITNESS: That is including their wages.

4 Q Approximately how many pilot training events does Delta
5 have in a year if there is a typical year?

6 A There isn't a typical year. We are generally speaking
7 carrying -- I think the easiest way for me to answer that if
8 it's acceptable, we generally carry between 130 and 170
9 additional pilots to cover those pilots that are in training.
10 So a training event may only last for three weeks. We convert
11 that back to sort of full time head count to reflect the loss
12 of the pilot availability.

13 Q Because while one pilot is in training somebody else must
14 be flying the line, flying the schedule that the pilot in
15 training would have flown if he weren't in training?

16 A That's correct.

17 Q Approximately -- now, who are the instructors who do the
18 training?

19 A We have two sets of instructors. One are what we call
20 seniority list instructors. Those are Delta pilots that
21 perform or do the instruction. We also have non seniority list
22 instructors. Those are not Delta pilots but those are -- but
23 instructors who have previous airline or air carrier experience
24 who also perform some instruction.

25 Q Generally speaking, is the flight instruction done by the

1 Delta line pilots?

2 A I don't know the breakdown on that. If you're talking
3 about the OE, which is an operator --

4 THE COURT: I mean I assume that they actually have
5 to take this plane up in the air at some point.

6 THE WITNESS: That's exactly what I was referring to,
7 Your Honor. There is an operating experience requirement. So
8 once a pilot is trained in the schoolhouse, in the classroom,
9 he then -- he is then given what's called an operating
10 experience where a line check airman who is a Delta pilot will
11 accompany that pilot on a series of flights to insure that what
12 he learned in the schoolhouse he can practically apply in the
13 airplane.

14 THE COURT: I would assume that someone other than a
15 pilot would be quite capable of teaching the pilot board and
16 explaining how different things worked and why they work that
17 way. After all, there are people who do mechanics.

18 THE WITNESS: Your Honor, we do have non seniority
19 list instructors at Delta who are not Delta pilots that do some
20 instruction.

21 BY MR. GALLAGHER:

22 Q Approximately how many seniority list pilots serve as
23 instructors?

24 A I believe right now we have in that are actually
25 performing that duty in a month probably around 85 or 90, I

1 believe.

2 Q Are they paid as pilots while they serve as instructors?

3 A They are paid as instructors while they serve as
4 instructors.

5 THE COURT: What's the difference between being paid
6 as a pilot and being paid as an instructor?

7 THE WITNESS: There's just a couple of small
8 differences.

9 THE COURT: Somebody leaned against the lights.
10 Don't ask me which one, but --

11 THE WITNESS: They are paid as -- well, an instructor
12 pay is -- they're paid essentially the same pay rate they would
13 be able to hold or for the equipment that they would be able to
14 hold or their seniority would allow them to hold on the line up
15 to a maximum. So their hourly rates were very similar to what
16 a line pilot would receive. They receive an 85 -- well,
17 typically they receive 85 hours of pay in a month.

18 THE COURT: Okay.

19 BY MR. GALLAGHER:

20 Q If they took a pay cut, you probably wouldn't have too
21 many of them volunteering to be instructors; correct?

22 THE COURT: Basically what you're saying is that
23 they're getting paid more because they actually are working
24 more hours?

25 THE WITNESS: They work generally 17 days a month and

1 we essentially guarantee them five hours of pay for every day
2 they work. I say guaranteed. It was a -- I just want to
3 clarify. There was a contractual change where we guarantee --

4 THE COURT: That's all right. I don't really need to
5 know all that.

6 BY MR. GALLAGHER:

7 Q With all of that background, Mr. Watson, can you now take
8 us back to Exhibit 80 and explain to the Court what is
9 reflected on --

10 THE COURT: Well, what's reflected on Exhibit 80 is
11 that domestic regular Atlanta MD88 captain managed to put
12 together for himself a really nice little package of flying
13 days and the person who was Pilot C who's the domestic reserve
14 Atlanta MD88 captain managed to pick up bits and pieces.
15 Something like that?

16 THE WITNESS: If I recall correctly, Your Honor, I
17 don't have it in front of me, but the Pilot C was a reserve
18 pilot. It should be indicated up on the top of the chart.

19 THE COURT: It is but he's got trip one from the 1st
20 through the 3rd. The trips are kind of here and there if I
21 might put it that way.

22 THE WITNESS: That's exactly right and that is the --
23 that is fairly typical of the reserve pilot where he is awarded
24 a series of on call days and within those on call days the
25 company would assign him to flying.

1 BY MR. GALLAGHER:

2 Q Is that why the reserves would generally go to the more
3 junior pilots because they're from a typical standpoint less
4 desirable?

5 A That is my understanding, yes.

6 THE COURT: Wait, wait. The pilots aren't less
7 desirable. The flight schedule is less desirable.

8 THE WITNESS: Exactly.

9 MR. GALLAGHER: That certainly was the intent of the
10 question, Your Honor.

11 THE WITNESS: And the intent of the answer.

12 MR. GALLAGHER: If it implied otherwise, I apologize.

13 Q Now, just going through the first trip in the first week,
14 can you explain to the Court --

15 THE COURT: Of which --

16 THE WITNESS: Of the trip one.

17 MR. GALLAGHER: The week of October 2nd, Your Honor.

18 THE COURT: Pilot A or Pilot C?

19 MR. GALLAGHER: Pilot A. That's the only exhibit --

20 THE COURT: It's really simple. He reported at 6:50
21 a.m. on that trip and he didn't get home until 8:16 on the 5th.
22 So he was overnight on the 3rd and overnight on the 4th because
23 if he wasn't he would have had a time start and a release time.

24 MR. GALLAGHER: Right.

25 THE COURT: Same thing is true for all four trips

1 that he took that were three days trips and his fourth day is
2 trip four he reported at 6:55 a.m. and was released at 1:10
3 p.m.

4 BY MR. GALLAGHER:

5 Q That was correct, was it not, Mr. Watson?

6 A We have an opening in crew scheduling if you'd like to
7 come and join us.

8 Q Now, Mr. Watson, on trip one when the pilot reported on
9 Monday morning, how long was he duty period on Monday?

10 A I don't have that information here.

11 Q What is a duty period?

12 A A duty period is really when he reports for duty for a
13 particular day and then he's released from duty on that same --
14 generally on that same calendar day as well.

15 Q So in layman's terms a duty period is equivalent to the
16 pilot's work day?

17 A That's correct.

18 Q What is a trip as distinguished from duty period?

19 A A trip is a series of duty periods that are combined and
20 really from a report at his base to a release at his base.

21 Q So the full three days that are labeled as trip one is one
22 trip with three duty periods in it?

23 A That's correct.

24 Q Now if I can ask you to turn to Page 2 of this exhibit and
25 explain to the Court -- I'm still focused on trip one. If you

1 would explain to the Court what Page 2 says about trip one.

2 THE COURT: What I'd like to know is the difference
3 between block time and total credit time.

4 A Block time --

5 THE COURT: And the time away from base is from 6:50
6 in the morning to whenever he gets home on the third day.

7 THE WITNESS: That's correct. Block time is the time
8 that a pilot actually spends at the controls of the aircraft.
9 So from the time that he -- they depart from the gate to the
10 time that they arrive at their destination at the next gate is
11 block time.

12 Credit time are -- is really -- that reflects the
13 number of hours that a pilot is paid for that particular trip
14 generally speaking. So in -- credit time is a combination of a
15 series of calculations or -- let's see if I can cover this
16 better. Credit time, there are series of calculations that are
17 done over the course of a trip that will guarantee a pilot a
18 certain amount of hours of pay.

19 THE COURT: So on trip number one he had one hour and
20 nineteen minutes of credit time.

21 THE WITNESS: Yes, that's right.

22 THE COURT: Now, would that be the half hour or hour
23 for the flight that he had to report?

24 THE WITNESS: That is included in one of the
25 calculations. It may or may not actually constitute the

1 difference of the hour nineteen.

2 MR. GALLAGHER: Your Honor, the formulas are complex.
3 So we haven't gone into the --

4 THE COURT: I understand formulas are complex. It
5 doesn't mean I can't figure out what they are.

6 MR. GALLAGHER: By no means, Your Honor.

7 BY MR. GALLAGHER:

8 Q What is a duty reg, Mr. Watson?

9 A A duty reg is a guarantee that a pilot would receive,
10 again generally speaking, two hours -- for every two hours that
11 he is on duty he will get one hour of pay.

12 Q So if a pilot is on duty, the duty period from the time he
13 reports on one day to the time he stops work for that day, if
14 the elapsed time is seven hours even though the middle three
15 hours may be on the ground between trips, the pilot is
16 guaranteed at least three-and-a-half hours of pay; is that
17 correct?

18 THE COURT: I don't understand that example. He goes
19 on duty at eight a.m. He flies for three hours. That puts him
20 up to eleven a.m. He sits and reads magazines until one p.m.
21 and he flies four hours which puts him to five p.m. Now, is it
22 the two hours from eleven a.m. to one p.m. that are his duty
23 period?

24 THE WITNESS: No, Your Honor. His duty time would be
25 starting at his report for that day until his release for that

1 day.

2 BY MR. GALLAGHER:

3 Q Seven hours elapse time, correct, in that example?

4 A Eight to twelve and then twelve to five; nine hours.

5 Q I'm sorry. Nine hours.

6 A In that example.

7 Q Under the contract he's guaranteed at least 4.5 hours of
8 pay for that. Now --

9 A There are --

10 THE COURT: No. He's guaranteed 4.5 hours of pay for
11 a trip that's shorter than 4.5 hours.

12 THE WITNESS: For the block time, for the amount of
13 block time. In that example that was less than 4.5 hours.

14 Q So in --

15 THE COURT: Where was less than 4.5 hours?

16 THE WITNESS: I think when you said that he was --

17 THE COURT: Okay. You're saying to me that even if
18 the whole day is more than 4.5 hours any one flight is
19 guaranteed to be 4.5 hours?

20 THE WITNESS: No, Your Honor. I was saying that his
21 total pay for that duty period would be -- would be guaranteed
22 to be 4.5 hours. I thought that in your example there were two
23 flights, one that was two hours in length and then the other
24 one was an hour and --

25 Q Let's walk you --

1 THE COURT: No, it was actually longer. Had three
2 hours in the morning and I had four hours in the afternoon.

3 MR. GALLAGHER: Let's walk through that if we may,
4 Your Honor, because it's a good illustration.

5 BY MR. GALLAGHER:

6 Q The first flight in Your Honor's -- in the Court's
7 example, Mr. Watson, was from report at eight a.m. So what
8 time would the flight leave if the pilot reported at eight?

9 A Generally, nine.

10 Q The Court's question said nine to eleven. So what time
11 would the flight arrive if the pilot was released at eleven?

12 THE COURT: Now, I didn't -- I was not suggesting
13 these were his report times. I was suggesting these were the
14 actual flight times.

15 MR. GALLAGHER: All right.

16 Q Then if that was the actual -- if the actual flight time
17 started at nine, what time would the pilot report?

18 A At nine -- at nine, he would report at eight. If the
19 flight departed at eight he would report at seven.

20 Q So one hour before?

21 A Uh-huh.

22 Q If the flight actually landed at eleven, when would his
23 duty end for that flight?

24 A Thirty minutes afterwards.

25 Q So for the three hours of block time in that flight from

1 eight to eleven, the pilot would get an additional hour at the
2 beginning and a half an hour at the end so the pilot would get
3 4.5 hours of pay. Is that right?

4 A No, that would be his elapsed duty time. His block time
5 would be three hours.

6 Q I misspoke. So his elapsed duty time is 4.5 and his block
7 hours are three?

8 A That's right.

9 Q Am I correct that these guarantees, these contractual
10 formulas like duty reg pay the greater of. If he actually
11 flies a larger number of hours, he gets that amount; correct?

12 A Uh-huh. That's right.

13 Q But the regs or these contractual formulas are minimum pay
14 guarantees, that he will get at least this much for a duty
15 period; correct?

16 A That's correct.

17 Q And is there also a trip reg or a trip guarantee?

18 A Yes. That is governed by his time away from days and that
19 says that for every 3.5 hours a pilot is away from his base he
20 is guaranteed at least one hour of pay.

21 Q That ratio works the same way that you calculate the
22 number of hard hours in a trip?

23 THE COURT: We look at this. It's 247 hours. So we
24 would divide 247 by three and that would give us 82 hours that
25 he would get paid?

1 MR. GALLAGHER: 3.5.

2 THE WITNESS: 3.5.

3 THE COURT: Wait. I don't -- wait. I thought you
4 told me he got paid every three hours.

5 THE WITNESS: 3.5 hours, I'm sorry.

6 THE COURT: 3.5 hours into 247 is only eight? Yes.
7 Right.

8 Never mind. Can't do math.

9 BY MR. GALLAGHER:

10 Q Now, in this instance, Mr. Watson, I presume that you or
11 your computer has done the math and identified the total credit
12 time that resulted under the contract from trip regs to duty
13 regs. Are there other contractual formulas that might also
14 enter into the equation?

15 A Yes, there are.

16 [Pause in proceedings.]

17 MR. GALLAGHER: Your Honor, Mr. Huebner has suggested
18 to me that I might have left it unclear going back to the 3.5
19 ratio for the trip rate. The way to calculate the trip
20 guarantee on this example would be 247 hours and 2 minutes
21 divided by 3.5 and that would -- I don't have a calculator.

22 THE COURT: I understood. I just -- I can't divide
23 halves. So I divide wholes.

24 MR. GALLAGHER: I understand, Your Honor, and I --

25 THE COURT: So I mean I -- it's easier for me to

1 estimate than it is for me to reach the exact number.

2 BY MR. GALLAGHER:

3 Q In this instance, Mr. Watson, you or your computer have
4 calculated the -- all of the credit time that any one of these
5 contractual formulas would generate; correct?

6 A That's correct.

7 Q That is done on either a duty period basis or a trip basis
8 and whichever pays more, either hard time or duty period
9 guarantee or trip guarantee, whichever pays more is the pilot's
10 pay for that trip?

11 A Again, there are a few other provisions in the contract
12 which would govern that, but generally speaking that is
13 correct.

14 Q In this instance the credit time -- in each instance the
15 credit time is somewhat more than the block time; is that
16 correct?

17 A In this case, yes.

18 Q Then the pay that is shown here is the credit time times
19 the hourly rate for this pilot; is that correct?

20 A Yes. Although there is in each of these trips, I believe
21 each of them there is a premium as well for night flying that
22 would also be used to calculate his total pay.

23 Q This is an actual pilot?

24 A This is an actual pilot.

25 MR. GALLAGHER: Your Honor, we've given the name the

1 pilot and the actual underlying scheduling information to ALPA.

2 THE COURT: I don't really need to know who this
3 pilot is. It wouldn't make any difference to me anyway.

4 Q How was this pilot selected, Mr. Watson? Why did you
5 choose this example?

6 A I did not choose this example. I just asked one of our
7 crew schedulers to pull up a schedule.

8 Q Is this in your knowledge and experience a typical
9 schedule for an Atlanta based captain?

10 A It is. It's very difficult to find a typical schedule.
11 There are a multitude of factors that influence a pilot's
12 schedule ranging from military leave drops to additional flying
13 that a pilot could pick up. It's really hard to predict
14 exactly what happened within a month, but I'd say as a
15 representative and somewhat intended, at least intended be
16 educational example this is a good one.

17 THE COURT: Now, if I were to actually divide the
18 247.02 by 3.5 I think I get 7 something. If I then add that 7
19 something to the block time of 71.37 I then get the total
20 credit time?

21 THE WITNESS: Well, it's calculated on a trip by trip
22 basis. So we would need to do that calculation and it's
23 reflected here for each trip actually.

24 THE COURT: Where is it reflected for each trip?

25 THE WITNESS: In the total credit time. So, for

1 example, in trip one where it's 1706 for the block time and the
2 total credit time is 1825.

3 THE COURT: Basically the block time is the time away
4 from -- I mean the total credit time is the block time plus the
5 time away from base computed in some fashion?

6 THE WITNESS: No. It's unfortunately more
7 complicated than that. There is a variety of calculations that
8 brought that 1825 including, for example, what we call minutes
9 under which is to the extent that we schedule a flight -- in
10 trip one I think this pilot flew from Atlanta to Sarasota as an
11 example. If we schedule that flight to be again, for example,
12 an 1.25 minutes long and yet it arrives in an 1.15 minutes, the
13 pilot again, generally speaking, is guaranteed to be paid for
14 1.25 even though the flight arrived early.

15 So some of the difference between the 17.06 and the
16 18.25 would be made up of this minutes under provision as well.

17 THE COURT: But what I'm asking you is if I add the
18 total block time, or however you want to calculate it that it's
19 trip by trip, to the time away from base, I should get the
20 total credit time?

21 THE WITNESS: Well, it would be -- no, the time away
22 from base would be a separate calculation. So you would divide
23 the time --

24 THE COURT: I understand I have to divide it by 3.5
25 but I'm saying that when I add those then I get the 78.45?

1 THE WITNESS: No. If you divide 247 by 3.5 I don't
2 have that number.

3 THE COURT: I get 7.

4 THE WITNESS: It will be closer to 7D, I believe.

5 MR. GALLAGHER: Your Honor, the total credit time is
6 calculated -- is not a multiplier of any of the single
7 categories.

8 THE COURT: I'm not trying to tell you that it is a
9 multiplier. I'm saying that if you divide time away from base
10 at 3.5 and you add that number to block time, is that total
11 credit time.

12 MR. GALLAGHER: No, Your Honor.

13 THE COURT: Then what is total credit time?

14 BY MR. GALLAGHER:

15 Q Mr. Watson, can you --

16 A That is the -- total credit time more simply stated is the
17 number of hours that a pilot is guaranteed or will be paid for
18 a particular trip.

19 Q That could be the result of block time being the highest
20 and if it were it would be --

21 THE COURT: All I wanted to know was -- fine. I'm
22 fine.

23 Q Now, there's -- we've walked through the first trip rather
24 carefully, Mr. Watson. I'm not going to dwell on each of the
25 subsequent trips, but does the scheduling system work the same

1 and does the pay and credit system work the same for each of
2 the subsequent trips?

3 A Yes.

4 THE COURT: It works differently for trip four
5 because it's a shorter trip; right?

6 THE WITNESS: It certainly results in a different or
7 creates a different result, but the calculations are the same.

8 THE COURT: Okay.

9 Q Now, why on trip five the report is at 11:19 a.m. and yet
10 I believe you said this is the same trip each week. What was -
11 -

12 A That's correct. There was a cancellation. The first two
13 legs of that trip were canceled and so the pilot reported
14 later.

15 Q When the first two legs were canceled, was the pilot still
16 paid for the full trip?

17 A In this case the pilot -- there is also something called a
18 rotation guarantee which simply says that to the extent that
19 legs are canceled the pilot will be paid for the legs.

20 Q So in addition to -- trip four, trip four I believe you
21 said was not on the pilot's original schedule for the month.
22 Is that right?

23 A That's correct.

24 Q How does it work? Are pilots able to simply add flights
25 to this?

1 THE COURT: He looked at something and he said that
2 seems like an easy way to earn a buck. Half days of work. It
3 wasn't a big deal.

4 THE WITNESS: Right.

5 Q By adding that trip, picking up that trip for one day the
6 pilot added \$841.00 in income; is that correct?

7 A In this case that is correct.

8 Q Then what is the per diem that's indicated at the bottom
9 of Page 2?

10 A That is the -- for every hour a pilot spends away from his
11 base he is engaged in flying or in a trip he receives -- for
12 domestic flying he will receive \$2.10 and so that is --

13 Q So time away from base in this example for this month is
14 \$247.02?

15 A Uh-huh.

16 Q So he gets --

17 THE COURT: Wait. We're looking at A?

18 MR. GALLAGHER: Yes, Your Honor.

19 THE COURT: Why isn't it \$518.78?

20 MR. GALLAGHER: The dollars is \$518.00 but time away
21 from base is \$247.02 times 210.

22 Q Correct, Mr. Watson?

23 A Yes.

24 Q That yields his per diem for that trip.

25 THE COURT: That per diem has to cover where he

1 sleeps as well as what he eats.

2 THE WITNESS: No, Your Honor. We provide --

3 THE COURT: Except when he gets to eat on the plane.

4 THE WITNESS: Delta provides hotels to pilots
5 separately from this.

6 THE COURT: So what is the per diem for?

7 THE WITNESS: That is for his food.

8 BY MR. GALLAGHER:

9 Q Who provides the ground transportation?

10 A Delta does.

11 Q Now, if -- do you have Ms. Caroline's declaration --

12 THE COURT: I take it that they are not required to
13 invoice the per diem.

14 THE WITNESS: No, Your Honor, that's a calculation
15 that we do.

16 THE COURT: The law firms used to be that way. It
17 was \$10.00 for dinner and they discovered that nobody was
18 spending \$10.00 for dinner. They were just taking it home. So
19 now you have to put in a chip.

20 BY MR. GALLAGHER:

21 Q For the per diems no chip are required, correct, Mr.
22 Watson?

23 A That's right. It's calculated.

24 Q If you would turn to Ms. Caroline's declaration if you
25 have it front of you which is in Volume 1, Your Honor, Tab 4.

1 [Pause in proceedings.]

2 THE COURT: Okay.

3 Q I want to call your attention, Mr. Watson, to Page 35. Do
4 you have that in front of you, Mr. Watson?

5 A I do. Yes, I do.

6 Q I'm focusing only on the chart at the top of Page 35. Did
7 you and/or your staff provide this data to Ms. Caroline for her
8 declaration?

9 A My department did, yes.

10 Q Can you briefly describe what's represented here?

11 A This is a reflection of a few things. First, the time
12 period is December 2004 to August 2005. So the data would be
13 from that period of time.

14 Q That is after the effective date of the 2004 pilot
15 agreement?

16 A That's correct.

17 THE COURT: Can you first tell me what you mean by
18 percentage of pilots?

19 THE WITNESS: If you were to -- those are just simply
20 broken out of --

21 THE COURT: Obviously if you add 75.7 plus 24.3 you
22 get 100 percent. So that's really just telling me where the
23 break out is, where the pilots are assigned to. Yes?

24 THE WITNESS: That's correct.

25 Q If you so -- is it correct, Mr. Watson, then that

1 approximately in this time period at least, not approximately
2 but 63.2 percent of Delta's active line pilots were domestic
3 regular pilots?

4 A That's correct.

5 Q That's what that column indicates?

6 A That's correct.

7 Q 12.5 percent were reserves?

8 Q That's correct.

9 Q For international, 20.5 percent of the total pilot work
10 force were -- total active pilot work force were international
11 regular pilots; correct?

12 A That is correct.

13 Q 3.8 percent were reserves?

14 A Correct.

15 Q Now, the reserve percentage is much lower on the
16 international flights, is it?

17 A Well, this particular point in time we had a significant
18 number of early retirements. So it is slightly -- I would
19 imagine it is understated from what we would normally carry.

20 Q The pilot groups that we've reflect here, domestic regular
21 and reserve, international regular and reserve, those are the
22 same categories or groupings that you talked about earlier?

23 A Yes, exactly.

24 Q Then what is reflected in the following columns?

25 A Those represent the number of average days work by each of

1 those categories.

2 THE COURT: This doesn't make sense to me. You got
3 regular pilots without reserve on call days. They don't get
4 reserve.

5 MR. GALLAGHER: And the number doesn't change.

6 THE COURT: Because they aren't doing one?

7 MR. GALLAGHER: Right.

8 THE WITNESS: Right.

9 THE COURT: Now, the reserves are doing only -- how
10 can we have a different number for the reserves?

11 THE WITNESS: What the columns represent, the first
12 column without reserve on call days for the reserve at 13 --
13 where it says 13.58. That would reflect the number of days
14 that were actually worked in that month, worked in the sense of
15 performing flying duties. The number of reserve on call days
16 or the number of -- with reserve or the column, excuse me, with
17 reserve on call days where you see 19.34, that would as I
18 mentioned earlier, a reserve is awarded a schedule each month.
19 It has 18 on call days in a month. That would include this
20 number and it would include those on call days.

21 So even if you were not called out to perform flying
22 for Delta you would not -- that number -- that day would be
23 included in this number.

24 THE COURT: How can they work without reserve on call
25 days?

1 THE WITNESS: Oh --

2 THE COURT: There's something about the captions
3 that's unsettling to me.

4 THE WITNESS: It would always -- there are always
5 reserve on call days. The 1358 just simply represents the
6 number of day in a month that that reserve performed duty for
7 Delta, performed duty in the sense of was either at training or
8 flying.

9 BY MR. GALLAGHER:

10 Q Would an alternate label for that column be active duty
11 days flying?

12 A Or in training, yes.

13 Q Would that be a good alternate label for the middle
14 column, Mr. Watson?

15 A I believe so.

16 Q Then the right-hand column adds on the on call days but
17 that only -- that only has meaning as to the reserve pilots;
18 correct?

19 A That's correct.

20 Q Now, you mentioned training. If a pilot was in training
21 on a day that's included in here?

22 A That's correct, as noted in the footnote.

23 Q Now, how -- if the reserves are only on call for 18 days,
24 how is it that the numbers turn out to be 19.34 and 19.54 for
25 the reserves with on call days?

1 THE COURT: Well, we hadn't been talking
2 international to begin with. So we really have been talking
3 domestic reserve.

4 A It's exactly the inclusion of the training days. So many
5 times a pilot will be in training. As I mentioned before, it
6 could be up to six weeks. So that would -- these numbers would
7 include a full -- could include a full month of training for a
8 reserve pilot.

9 Q This is actual date that reflects the actual pilot days
10 worked per month?

11 A That's correct.

12 Q Mr. Watson, what are PRPs?

13 A It is an acronym for a post retirement pilot.

14 THE COURT: Can I ask a question?

15 MR. GALLAGHER: Yes, Your Honor.

16 THE COURT: All of those post retirement pilots have
17 to be under the age of 60; correct?

18 THE WITNESS: Yes, Your Honor.

19 THE COURT: So we have twelve left.

20 THE WITNESS: Not currently. We have approximately
21 150 right now.

22 THE COURT: What is the age scan? How many are you
23 going to lose to the age 60 bracket?

24 THE WITNESS: Well, we are contractually obligated to
25 remove all PRPs by the end of this calendar year.

1 THE COURT: But how many do you think would just have
2 to go anyway?

3 THE WITNESS: Very few. Very few of the 150, if any,
4 to be honest with you. I haven't -- I don't know that
5 information off the top of my head, but based on what I know of
6 the pilots that we were rehiring, most of them were well below
7 age 60.

8 THE COURT: Okay. These were your international
9 pilots predominantly?

10 THE WITNESS: They are international pilots.

11 BY MR. GALLAGHER:

12 Q Now, Mr. Watson, you told us earlier that you're
13 responsible for insuring that Delta has enough trained and
14 qualified pilots in position in time to fly its published
15 flight schedule; correct?

16 A Yes.

17 THE COURT: What messed up?

18 THE WITNESS: I don't think we should limit this
19 discussion to just this issue.

20 THE COURT: Somebody let too many pilots go or
21 actually too many of them retired I guess.

22 THE WITNESS: I would wholeheartedly agree with you
23 that there are a lot of pilots who retired early in the last
24 twelve months, really in the last three years, but we got to
25 the point where a large number of pilots retired. We did not -

1 - we simply cannot backfill a pilot quickly enough to
2 preposition --

3 THE COURT: But there's like three or four different
4 planes you fly internationally; yes?

5 THE WITNESS: Yes, Your Honor.

6 THE COURT: So they have to be qualified on a
7 particular one.

8 THE WITNESS: That's right.

9 THE COURT: Now, I understand we're trying to move
10 down to having fewer plane types. Does that also refer to the
11 international types or just the domestic types?

12 THE WITNESS: The international types will not be --
13 the number of aircraft types that are flown in international
14 service will not be reduced.

15 BY MR. GALLAGHER:

16 Q Mr. Watson, does Delta have any control over when a pilot
17 who's retirement eligible elects to retire?

18 A No.

19 Q How much advance --

20 THE COURT: Can I ask you another question?

21 MR. GALLAGHER: Yes.

22 THE COURT: If you retire before the age of 60, do
23 you get paid a pension?

24 THE WITNESS: Yes.

25 THE COURT: You get a pension -- I don't mean that

1 you're entitled to the pension when you're 60 but I'm saying
2 are you getting pension payments from the time you're retiring
3 at say 55 until 60?

4 THE WITNESS: Yes, Your Honor. The pilot would
5 receive a lump sum payment upon his retirement.

6 THE COURT: That's not what I'm talking about. I'm
7 talking about the --

8 THE WITNESS: And then their annuity as well.

9 THE COURT: The monthly payment out of the qualified
10 trust.

11 THE WITNESS: It is my understanding that is the
12 case.

13 MR. GALLAGHER: Your Honor, just to clarify. What I
14 think all the parties agreed to in the stipulation just to walk
15 through it just for a moment --

16 THE COURT: I think that stipulation is lost in some
17 bundle of papers that --

18 MR. GALLAGHER: Sure. When a pilot, let's assume
19 pre-bankruptcy for a minute which made it a lot -- without the
20 overlay of --

21 THE COURT: The \$120,000.00 which was your example in
22 the highest paid pilot, that's what I'm interested in.

23 MR. GALLAGHER: So here's how it worked. A pilot in
24 our example at the end which the parties all agreed to took a
25 pilot with \$250,000.00 of final average earning. That pilot

1 upon retirement immediately was entitled to a pension for life
2 of \$150,000.00 which was approximately like many formula 60
3 percent --

4 THE COURT: So why wouldn't they all retire? Now, if
5 he retired at 45 would it be the same or he has to retire at
6 55?

7 MR. GALLAGHER: I believe you have to be 50 or older
8 to be eligible to retire and take your pension. So if you --

9 THE COURT: That's astonishing.

10 MR. GALLAGHER: That was the marketplace at the time,
11 Your Honor, and that is --

12 THE COURT: It's still astonishing.

13 MR. GALLAGHER: So, Your Honor, just to finish the
14 example.

15 THE COURT: I mean why would you even choose to work?

16 MR. GALLAGHER: Well, I guess the answer is, Your
17 Honor, many --

18 THE COURT: You have to love it.

19 MR. GALLAGHER: Well, some of us do.

20 THE COURT: Trust me, how many years are you from
21 being 65?

22 MR. GALLAGHER: Fewer than Mr. Steinman, Your Honor.

23 A pilot retiring early or on time with a final
24 average earning of \$250,000.00 gets a pension for life of
25 \$150,000.00. Of that \$150,000.00 the amount that the qualified

1 plan is allowed to pay by IRS and ERISA regulations --

2 THE COURT: I understand it. That's not what I was
3 trying to find out. In the bankruptcy pension system if I
4 retired today I would get no pension although I would be
5 entitled to a pension because I don't get any pension until I
6 turn 65.

7 MR. GALLAGHER: Right, that is --

8 THE COURT: I can earn the pension, I can earn the
9 right to the pension, but I don't get a payment until I turn
10 65.

11 MR. GALLAGHER: That is not the case here, Your
12 Honor, and if you'll give me thirty more seconds I think I can
13 explain the rest of it.

14 The pension right of \$150,000.00 per year for life is
15 split into the qualified piece.

16 THE COURT: I know that. I know that. I just wanted
17 to know if they got any pension during that period of time
18 because it is not generally speaking the case that when you
19 engage in early retirement that you get paid a pension.

20 MR. GALLAGHER: The pension calculations in part are
21 based on the age of retirement but whatever your pension right
22 is at that time it's locked in starting that minute forever.
23 So they don't wait until 60 or 65. That's not the way our
24 pension works. Non qualified payments begin from Delta and the
25 qualified payments begin from the qualified plan itself.

1 THE COURT: Okay.

2 MR. HUEBNER: Your Honor, I realize this is an
3 interruption of direct and if you'd rather I wait for cross --

4 THE COURT: You're welcome to say anything you want.

5 MR. HUEBNER: But I can clarify one point that I
6 think will just aid in understanding part of it.

7 For each year under 60 that a pilot retires his
8 pension is reduced by 3 percent. So with pension plans you're
9 familiar there is a diminishment.

10 THE COURT: So if you reduce it -- so he loses 15
11 percent if he retires at 60.

12 MR. HUEBNER: 55. 60 is --

13 THE COURT: I'm sorry.

14 MR. SIMON: The other point, Your Honor, as to why
15 anyone in their right mind would not retire under these
16 circumstances, if we do not convince you of this course of this
17 case that the reason for that is that pilots truly do love to
18 fly and that it's been their life through their military
19 career.

20 THE COURT: I know they love to fly.

21 MR. SIMON: I will have failed in my --

22 THE COURT: I know they love to fly. I just would
23 have thought that with the financial situation that has existed
24 that they would not have thought it was in their best interests
25 to stay on and take the risk that, in fact --

1 MR. GALLAGHER: Again, Your Honor, as the stipulation
2 makes clear of 1,190 left in the last twelve months and as we
3 said last time, there's no blame here. This is a description
4 of what happened.

5 THE COURT: Anybody in their right mind would have
6 left if they were concerned about money.

7 MR. GALLAGHER: Your Honor, to Mr. Simon's point. In
8 fact, there are pilots who were 59 and 60 who did not leave.
9 So they fall all over the spectrum. Some continue to fly.

10 THE COURT: All I'm saying is if you were -- from a
11 financial point of view --

12 MR. GALLAGHER: That was arguably a rational
13 decision.

14 THE COURT: The rational decision might well have
15 been to --

16 MR. SIMON: Your Honor, my focus was not on pension
17 dollars.

18 THE COURT: I didn't say it was. I just like to know
19 things as he well knows. Right?

20 MR. SIMON: Yes, Your Honor.

21 THE COURT: You don't have to say yes, Your Honor.
22 You can just say no, I don't think so or you can say it seems
23 that way or --

24 MR. SIMON: I try not to lead too much with my chin.
25 Yes, Your Honor.

1 BY MR. GALLAGHER:

2 Q Mr. Watson, apart from what the dollar benefits are from a
3 pilot staffing standpoint -- I'm not sure if I asked you this.
4 Does a pilot -- are the pilots required to give Delta any
5 advance notice before they elect to retire?

6 A No, they can retire at 11:59 p.m. the day before they
7 retire. They can notify us at 11:59 p.m. the day before they
8 retire.

9 Q Retirements are generally effective on the first day of a
10 scheduling month?

11 A Yes.

12 Q So at 11:59 --

13 THE COURT: So what's a scheduling month, the same as
14 a calendar month?

15 THE WITNESS: Most of the time. There are occasions,
16 for example, February we extend into January and March to make
17 it a thirty-day bid period, but generally speaking they're
18 calendar months.

19 Q So on the last day of the month, of a calendar month any
20 number of pilots can walk in and retire early?

21 A That's correct.

22 Q Now, prior to recent financial difficulties, has it ever
23 been the historical pattern to your knowledge at Delta that
24 there were a significant number of early retirements?

25 A No, we've never had that as an issue.

1 Q Has the -- I take it from -- Mr. Huebner has said that
2 there has been a significant increase in early retirements.
3 Did you say in the past three years?

4 A Yes.

5 Q Have those early retirements created staffing issues for
6 you?

7 A Yes.

8 Q Can you explain the problem?

9 A Well, simply speaking, to the extent that a pilot retires
10 without much notice to my department we are clearly left in a
11 hole without knowing or without having somebody to come in and
12 backfill his availability or what he was assigned to do for the
13 following month.

14 Q By backfill you mean a trained qualified replacement?

15 A Correct.

16 Q Now, you have reserves presumably in each category. So
17 you could use your reserves; correct?

18 A Yes. To the extent that they are available, yes.

19 THE COURT: It was, as I understand it, in the
20 international area where you did not have the reserves
21 principally.

22 THE WITNESS: That is actual data, Your Honor, and so
23 that reflects the effect of some of these early retirements.
24 So as I believe I mentioned, that 3.8 percent was generally
25 lower than where I would like to see it.

1 Q And it was lower because pilots who were reserves had
2 become converted to regulars and you were still working to
3 backfill to train new pilots to be the reserve pilots --

4 A That's correct.

5 Q -- at that pay level, that category?

6 A That's correct.

7 THE COURT: No, but that category was the category
8 that was most decimated by early retirements; yes?

9 THE WITNESS: All of the international captain
10 categories were, yes.

11 Q And that's where the senior pilots tend to congregate
12 because that pays more; correct?

13 A That's correct.

14 Q Now, when did it become such a problem that the notion of
15 bringing back retired pilots came to the floor?

16 A This was last in '04. In middle to late '04 we started
17 having discussions with the Association about changing certain
18 contractual provisions to allow us to address an operational
19 problem that we expected to occur.

20 Q In light of the number of early retirements at that time,
21 were you faced with having to cancel flights if you didn't find
22 a way to bring back retired pilots?

23 A Yes.

24 Q Did you work out an arrangement with the Association that
25 allowed the company to temporarily bring back recently retired

1 pilots?

2 A Yes.

3 Q Is that a temporary arrangement?

4 A Yes.

5 Q When does it expire?

6 A At the end of this calendar year.

7 THE COURT: That's December 31, 2005?

8 THE WITNESS: Yes, Your Honor.

9 Q Did you say approximately how many previously retired
10 pilots are currently on board?

11 A We have about 150.

12 Q Will they all be gone by December 31st?

13 A They will. We have reached a tentative agreement
14 recognizing it's not fully agreed to because it's part of a
15 comprehensive arrangement with the Association that would allow
16 us to retain a few of the line check airmen. Those are the
17 pilots that I mentioned before that do the or perform the
18 operating experience for pilots when they would come out of
19 training through the February month -- through February.

20 Q The line check airmen are the senior pilots who oversee
21 that training operating experience?

22 A That's correct.

23 Q If you didn't have enough of them using PRPs, would that
24 slow down the training and backfilling of getting more of the
25 younger pilots up the ranks?

1 A Yes, it would.

2 Q So keeping the line check airmen PRPs a little longer
3 enables you to fill the regular slots faster?

4 A That's correct.

5 Q Now, in the company's proposals to ALPA, does the company
6 expect productivity improvements that will yield savings due
7 to --

8 A Yes.

9 Q -- the need for fewer pilots?

10 A Yes.

11 Q Approximately how many head count savings have you given
12 ALPA credit for in the company's costing of its own proposals?

13 A Around 170 to 180.

14 Q Does that mean that the company contemplates furloughing
15 that number of pilots?

16 A No, we have no plans to furlough pilots at this time.

17 THE COURT: What are you going to do with those 170
18 to 180 pilots?

19 THE WITNESS: We have --

20 THE COURT: Have them walk around the airport -- the
21 tickets?

22 THE WITNESS: If they're willing it might be a good
23 idea, but we are going to -- we have certain provisions in the
24 contract that allow us to adjust the amount of flying that a
25 pilot, an average pilot can do in a month. So to the extent

1 that we lower that expectation or that number then we would be
2 able to absorb that surplus of pilots to some degree.

3 THE COURT: As I understand the contract 18 flying
4 hours is the maximum?

5 THE WITNESS: 80 -- 18?

6 THE COURT: 18 or 18 days or something like that.

7 THE WITNESS: 18 only call days for reserve. There
8 are a number of limitations that apply to how much time a pilot
9 can fly both that are contractual and also that are federally
10 regulated as well.

11 THE COURT: How much difference is there between
12 what's federally regulated and the contract?

13 THE WITNESS: Currently there's not much.

14 BY MR. GALLAGHER:

15 Q Just to get all the acronyms out on the table, Mr. Watson
16 --

17 THE COURT: No, you're not going to get them out on
18 the table. The list was like a page and a half.

19 MR. GALLAGHER: Well, one more.

20 Q What are the federal aviation regulations called?

21 A FARs.

22 MR. GALLAGHER: FARs. So if we refer to that, Your
23 Honor, that's --

24 THE COURT: As in the FAR, far zone from reality.

25 MR. GALLAGHER: Your Honor, I have no further

1 questions of this witness. I would offer Delta Exhibit 80 into
2 evidence.

3 THE COURT: Okay. Do you have any objections to
4 Delta Exhibit 80 coming into evidence?

5 MR. WINSTON: No objection, Your Honor.

6 (Schedule, Debtor's Exhibit 80, Received.)

7 MR. WINSTON: Good afternoon, Your Honor. My name is
8 Michael Winston, one of the attorneys representing Airline
9 Pilots Association.

10 CROSS-EXAMINATION

11 BY MR. WINSTON:

12 Q Mr. Watson, Pilot A is a, in the category of MD88 captains
13 based in Atlanta; is that correct?

14 A Yes.

15 Q Pilot A is fairly senior, isn't he?

16 A I did not look at his seniority number.

17 Q You didn't check his seniority?

18 A I did not.

19 Q Now, Pilot A is flying if you look over here at Exhibit
20 80, the first page. He's flying in his line that he bid on
21 which is, if I'm not mistaken, his trip one, trip two, trip
22 three and trip five. Correct?

23 A That is correct.

24 Q He bid for a line in which he has three days on and four
25 days off; correct?

1 A That is the result, yes, right.

2 Q Do you know how many lines there are for MD88 captains in
3 Atlanta that were in the bid package for October 2005?

4 A No, I don't off type top of my head.

5 Q Is it over 400, do you think?

6 A I don't believe it would be that high, no.

7 Q Approximately 400?

8 A Total lines?

9 Q Reserve and regular.

10 A It seems reasonable.

11 Q That seems reasonable, about 400.

12 Do you know how many lines there were that are published
13 where there are trips like this where there's three days on and
14 four days off?

15 A I have no idea.

16 Q Does about four sound correct?

17 A I have no idea.

18 THE COURT: What is the point of what you're doing?

19 MR. WINSTON: The point is, Your Honor, is that what
20 they've presented as Pilot A as a typical pilot --

21 THE COURT: I don't think that they presented it to
22 me as a typical schedule because what they gave me as C is
23 somewhere between what you never want to have to do. They
24 presented me with A because they wanted to show me certain
25 things about this. It is perfectly easy for me to see that

1 Exhibit A is someone's dream flight schedule and that therefore
2 that's going to be somebody at the very top and that the
3 Exhibit C, which is now 82, isn't that schedule. I don't think
4 they represented that as the schedule. It was just a schedule.
5 It happens to be a very nice schedule but what difference does
6 it make how many of them there are.

7 MR. WINSTON: The reason being, Your Honor, is is
8 that Mr. Watson testified that upon questioning by Mr.
9 Gallagher that this was a typical and in fact was
10 representative and was a good one for the category of Atlanta
11 MD88 captains.

12 MR. GALLAGHER: Objection, Your Honor.

13 THE COURT: Do you want to know something? I think
14 that you're hearing things that I don't hear because they don't
15 mean anything to me and they're not relevant to this unless
16 there's some provision in your proposal that deals with
17 changing the way bidding works on these schedules.

18 MR. WINSTON: Okay, Your Honor. I'll move on.

19 MR. GALLAGHER: If I may, Your Honor, for the record.
20 I believe Mr. Winston mischaracterized the witness' testimony.
21 The record will reflect the witness said he wasn't sure there
22 was such a thing as a typical schedule.

23 MR. WINSTON: But he did say it was a good one,
24 didn't he?

25 THE COURT: Well, but what I'm asking you is I don't

1 understand what it has to do with what we're here for.

2 MR. WINSTON: Because it's not a typical schedule,
3 Your Honor. This is a very senior pilot.

4 THE COURT: But we have a -- typical schedules are
5 not, as far as I know -- I mean are they part of your proposal,
6 are they part of the debtor's proposal. I don't think so. I
7 think they're part of the debtor's presentation to me of
8 background information about flying.

9 MR. WINSTON: I understand that, Your Honor.

10 THE COURT: It doesn't take a rocket scientist to
11 look at Exhibit 80 and understand there can't be a lot of them
12 particularly when you look at Exhibit 82 and you go oops.

13 BY MR. WINSTON:

14 Q Mr. Watson, on trip one on Page 2 -- well, let me step
15 back for a second.

16 You mentioned before that there's a concept called minutes
17 under.

18 A Yes.

19 Q And that's where a pilot flies to the location before the
20 schedule calls for him for landing there; is that correct?

21 A He arrives before his scheduled arrival, that's right.

22 Q That's a benefit to the company; correct?

23 A Of course.

24 Q With regard to Pilot A, his trip one, the reason he was
25 given the credit time of 18 hours and 25 minutes is because of

1 the fact that --

2 THE COURT: Sir, I really think I need to take a
3 recess because I don't think that you are on anything that
4 matters at all to what we're doing. What it is that Delta was
5 doing was making a presentation that gave me a background
6 glimmer of how the schedule looked for a pilot or two pilots.
7 They were not trying to teach me how to schedule. I mean none
8 of the proposals that you people have made involve dealing
9 with, for example, the per diem. It would be perfectly
10 possible for you to have proposed to reduce the per diem
11 because -- while your second pilot because he's away a lot
12 might spend close to \$566.00 on food, your first pilot is not
13 going to spend \$518.00 on food and one can take the view that
14 even if they have to spend some of their own money on food they
15 have to eat anyway.

16 So I think I better take a recess and let you --

17 MR. WINSTON: Your Honor, could I just say one thing
18 with regard to this issue on the pertinence of this issue?
19 Minutes under is actually part of Delta's proposal.

20 THE COURT: Well, I don't know because I don't have
21 the proposals that are in front of me, but what I'm trying to
22 get at is you're going to spend two hours on this and it's not
23 worth two hours because it was really a brief overview of what
24 the schedules looked like. It wasn't intended to show me
25 everything and if it's going to be part of your proposals then

1 fine. I don't know where my --

2 MR. WINSTON: That's what I'm suggesting, Your Honor,
3 is that this does pertain to Delta's proposals.

4 THE COURT: Well, I don't know where Delta's proposal
5 is any more. Your proposal is illegible in a sense that --
6 unless you tell me what section it's talking about.

7 Let's take a half an hour and take lunch now and then
8 we'll come back.

9 MR. WINSTON: Thank you, Your Honor.

10 (Lunch recess taken from 1:45 p.m. until 2:51 p.m.)

11 THE COURT: You may be seated. I think we were on
12 cross of Mr. Watson.

13 MR. WINSTON: Your Honor, we have no further
14 questions of this witness.

15 THE COURT: Do you have any redirect?

16 MR. GALLAGHER: We do not, Your Honor.

17 THE COURT: Mr. Watson, you may step down.

18 MR. WINSTON: Your Honor, we have what I think is a
19 better copy of the counterproposal of November 11, 2005.

20 THE COURT: How could it be a better copy unless it
21 was --

22 MR. WINSTON: Clearer. More easily readable.

23 THE COURT: Trust me, if it looks like this --

24 MR. WINSTON: I think it's the gray --

25 THE COURT: It does not look -- if it looks like this

1 it's not readable. It's not because of the color but because
2 it's written in airline arabic.

3 MR. WINSTON: The wording isn't any different.

4 THE COURT: Definition of permitted aircraft type,
5 Section 1B 17C. Block hours, Section E, November 9, 2005.
6 Section 1, sink all provisions. Here's one -- 6A2, 6A 2F.
7 They're not readable without -- here's one, 385. Unless you
8 get the agreement and match the agreement, I don't know what
9 the dates on it are supposed to mean like November 9, 2005. I
10 could find 26S -- J5, but --

11 MR. WINSTON: Your Honor, we will be providing
12 testimony that will help clarify some of these provisions.

13 THE COURT: All I'm saying to you is -- now, here's
14 one that says 1.1A, company proposal, retain current practice.
15 ALPA proposal, in a case of DB plan termination for any reason
16 the pilots will receive the following. I mean -- and then it's
17 crossed out halfway down that paragraph. So I don't know
18 whether that's what's crossed out is what was on the original.
19 I'm just saying to you I understand that if I take one and I --
20 here's one. I love this one. Inverse assignment, Section
21 23U3. Now, as best as I understand it inverse assignment is
22 one where you are required to fly the plane upside down.

23 It says a man 23U3 to change double pay no credit to
24 1.5 pay no credit. Sink all provisions. I think they're going
25 to sink the plane but I don't know.

1 MR. WINSTON: I think this is language that the
2 parties have gotten used to.

3 THE COURT: I understand that but they all are only
4 partial discussions of the subject. They are just the little
5 line out of a big paragraph that you might be willing to
6 change.

7 MR. WINSTON: Your Honor, that's why we're going to
8 have witnesses in order to illuminate these provisions for you

9 THE COURT: Your next witness.

10 MR. GALLAGHER: Yes, Your Honor. The company would
11 call Mr. Ed Bastian to the stand.

12 THE COURT: He has how many affidavits, two or three?

13 MR. GALLAGHER: Three, Your Honor, and we will be
14 moving all three at the end if people want to get them out for
15 reference.

16 [Pause in proceedings.]

17 THE COURT: Mr. Bastian, you understand that you are
18 testifying under oath under penalty of perjury?

19 MR. BASTIAN: I do.

20 (Edward Bastian, Delta's Witness, Sworn.)

21 DIRECT EXAMINATION

22 BY MR. GALLAGHER:

23 Q Mr. Bastian, you have several binders in front of you. If
24 you would locate your first, second and third declarations.

25 A I have.

1 MR. GALLAGHER: Your Honor, I'm going to start with
2 Exhibit 76.

3 THE COURT: Exhibit 76? I don't have any numbered
4 exhibits.

5 [Pause in proceedings.]

6 THE CLERK: Can you spell your last name?

7 THE WITNESS: It's B-A-S-T-I-A-N.

8 Q For the record, Mr. Bastian, you are the chief financial
9 officer of Delta Air Lines?

10 A I am.

11 Q You previously testified before the Court?

12 THE COURT: How long have you had that position?

13 THE WITNESS: I've been the chief financial officer
14 since July of this year.

15 THE COURT: Do you belong to some other organization
16 like -- financial officer?

17 THE WITNESS: I am. I do.

18 THE COURT: What organization is that?

19 THE WITNESS: Financial Executives Institute.

20 THE COURT: I mean one word like -- not that you
21 belong to it, but I mean the practice in these cases is to hire
22 outside presidents, CFOs, whatever. You're not that kind. You
23 just happen to come in like a real person.

24 THE WITNESS: I am a real person, yes.

25 BY MR. GALLAGHER:

1 Q Mr. Bastian, so that the Court knows, how long have you
2 been employed at Delta Air Lines?

3 THE COURT: Yes.

4 Q How long have you been employed at Delta?

5 A Well, I originally was employed at Delta from 1998 up to
6 January of this current year and then I left Delta earlier this
7 year and returned in July when they asked me to come back as
8 chief financial officer.

9 Q Prior to 1998, what were your professional activities?

10 A Prior to '98 I was a partner with Price Waterhouse here in
11 New York City and I left there after some time and I was in
12 senior -- a couple of different senior financial positions at
13 Pepsico.

14 Q Do you have an MBA --

15 THE COURT: Pepsico?

16 THE WITNESS: Pepsico, yes, the beverage company.

17 THE COURT: I cannot believe that you would have
18 chosen to work with Pepsico.

19 THE WITNESS: I actually worked at the Frito Lay
20 division of Pepsico in Dallas.

21 THE COURT: I mean you're from Atlanta. Anybody from
22 Atlanta knows perfectly well that you're supposed to work for
23 Coca-Cola.

24 THE WITNESS: Actually I am here from New York here
25 and so when I --

1 THE COURT: So you failed the Atlanta test?

2 THE WITNESS: No, I never lived in Atlanta until I
3 came to Delta. They were actually more upset that I went to
4 work in Atlanta than I left the company.

5 BY MR. GALLAGHER:

6 Q Mr. Bastian, would you turn to Company Exhibit 76 and tell
7 us what it is, please.

8 A It's the press release that reports our September 2005
9 quarterly earnings or losses, rather.

10 Q When was this issued?

11 A This was issued last week.

12 Q Are you responsible for the preparation of the information
13 reflected in this release?

14 A I am.

15 Q Without going item by item, would you briefly advise the
16 Court of what your third quarter financial results were?

17 A Well, we reported a loss in the third quarter of this year
18 of \$1.1 billion. That does include some special items relative
19 to aircraft rejections and reorganization items. So the
20 operating loss excluding unusual items was \$438 million.

21 Q How does that compare to your prior year financial report
22 for the third quarter?

23 A It was -- I'd have to look through here. The loss was
24 \$592 million in the prior third quarter. So it was a little
25 bit better, not much.

1 Q Does --

2 THE COURT: Despite the fact that in this third
3 quarter you had unusual items.

4 THE WITNESS: Those two numbers, Your Honor, are
5 excluding the unusual items.

6 THE COURT: Okay.

7 Q Does this release describe your cash position as of
8 September 30th?

9 A It does. It indicates our unrestricted cash position was
10 \$1.4 billion at the end of September.

11 Q Now, if --

12 THE COURT: Now, I don't want -- would like to read
13 the whole thing. Where is the \$1.4? The one I read is as of
14 September 30, 2005 Delta had \$2.6 billion in cash and cash
15 equivalence and short term investments of which \$1.4 billion
16 was unrestricted. Now, what are the restrictions on the \$2.2
17 billion?

18 THE WITNESS: It's actually \$1.2 billion, Your Honor,
19 and that's the -- primarily the holdbacks.

20 THE COURT: I can't do math. I told you I can't do
21 math.

22 THE WITNESS: That's okay. It's actually the credit
23 card holdbacks that were being held at the end of September.
24 That counts for the bulk of the difference.

25 THE COURT: It's really a little but unfair to say

1 that it's -- I mean it is restricted but it's nevertheless
2 there.

3 THE WITNESS: Well, it's not. We don't have access
4 to that cash. We're required --

5 THE COURT: I understand that, but I mean it is cash
6 which you will access as you move forward, that is gradually
7 they'll decide that there's another number that might work for
8 them.

9 THE WITNESS: Well, we're contractually obliged with
10 these credit card holdbacks so actually not until such time as
11 the contracts expire will they be able to release the holdbacks
12 to us.

13 THE COURT: When are they going to expire?

14 THE WITNESS: The U.S. Bank agreement, I believe,
15 expires in two years.

16 THE COURT: Is this what they were for the last three
17 years or so?

18 THE WITNESS: No. We had minimal, if any, holdbacks
19 over the last three years.

20 THE COURT: So these are the holdbacks that you
21 agreed to at or about the time the case was filed?

22 THE WITNESS: That's correct.

23 BY MR. GALLAGHER:

24 Q Did Delta initiate or suggest these holdbacks, Mr.
25 Bastian?

1 A No. We fought vigorously not to have the holdbacks
2 implemented but we -- since our credit card processing
3 agreement was expiring in August we really had no choice. We
4 needed a Mastercard and Visa credit card processor.

5 Your Honor, that's why we tell both numbers, the \$2.6 and
6 the \$1.4.

7 THE COURT: I know. But when you say it's restricted
8 it doesn't quite carry the same meaning that sometimes we mean
9 when we say something is restricted like the pension plan
10 funds. They're just plain restricted.

11 THE WITNESS: That's correct.

12 THE COURT: Can't get no finger on them no how, no
13 way.

14 THE WITNESS: That's right.

15 THE COURT: This is not restricted in quite that way.
16 Let's say your sales went up. They might be willing to lower
17 the amount they kept.

18 THE WITNESS: Again, contractually were required
19 or -- it's in their ability to --

20 THE COURT: I understand it's contractually required.
21 Have you ever heard of anybody terminating a contract, ever
22 heard of anybody amending a contract? I'm sure you've heard of
23 both of those things.

24 How much is \$1.2 billion compared to what you're
25 putting through on a weekly or monthly basis?

1 THE WITNESS: Well, the \$1.2 billion consists of
2 several different things. The credit card holdbacks are the
3 biggest individual items but there's also workers comp
4 insurance reserves which are about \$300 million of that number
5 as well. So I don't want to indicate it's only credit cards.

6 THE COURT: Why haven't you paid the workers comp?

7 THE WITNESS: We have. Again, it's collateral that
8 the workers comp insurance coverage companies require us to
9 post in order to provide workers comp insurance.

10 THE COURT: Wait, wait. There's something I'm
11 missing here. Don't you pay workers comp in advance?

12 THE WITNESS: Certainly, the premiums.

13 THE COURT: So how much of this is workers comp?

14 THE WITNESS: I believe about \$300 million of the
15 \$1.2 billion.

16 BY MR. GALLAGHER:

17 Q Mr. Bastian, just to be clear.

18 THE COURT: Wait. That still doesn't answer my
19 question. How much money are you putting through to credit
20 card companies on a monthly basis?

21 THE WITNESS: Just on those that we have holdbacks or
22 all credit card companies?

23 THE COURT: Well, on the ones that you got holdbacks.

24 THE WITNESS: With the U.S. Bank which is the only --
25 it's the major holdback we have presently, we put through --

1 it's about 45 percent of our receipts go through there. So
2 it's between \$600 and \$700 million a month.

3 THE COURT: \$600 and \$700 million a month?

4 THE WITNESS: That's correct.

5 THE COURT: And they want two months security or a
6 month-and-a-half security?

7 THE WITNESS: It's a 100 percent holdback for the
8 amount of tickets that have been purchased but not yet flown.

9 THE COURT: Which card are they on?

10 THE WITNESS: Mastercard and Visa.

11 THE COURT: I think you should be having people use
12 American Express.

13 THE WITNESS: We agree. If I could just clarify
14 that. If you may recall, Your Honor, American Express had also
15 instituted a holdback before we filed. So \$225 million of that
16 number was also due to American Express. They subsequently
17 released the holdback and returned the cash to us in October.

18 THE COURT: That was nice.

19 BY MR. GALLAGHER:

20 Q Now --

21 THE COURT: But then again Mastercard and Visa were
22 the two major companies that got Congress to change the laws to
23 make it "more difficult" for credit card holders to discharge
24 their debts. So there ought to be willing to give you more
25 money since they're supposedly collecting more money from their

1 credit card holders.

2 Anyway, you can keep going.

3 MR. GALLAGHER: Thank you, Your Honor.

4 BY MR. GALLAGHER:

5 Q Mr. Bastian, when did your prior credit card processing
6 agreement expire?

7 THE COURT: August 31, 2005.

8 Q As --

9 THE COURT: Right?

10 THE WITNESS: That's correct.

11 Q As you approach that deadline, were other credit card
12 processors clamoring and competing with each other to get your
13 business?

14 THE COURT: No, because one of them had just gone
15 under because he had been stealing the money and they were all
16 trying to find out what -- they were all trying to figure out
17 what to do because there wasn't anybody else around. I'm
18 serious.

19 MR. GALLAGHER: I understand.

20 THE COURT: Am I missing something? They were
21 continuing to allow that person, that entity to process cards
22 because they didn't have anybody else that could do it. They
23 just were having the armed guards and the thugs in there
24 keeping them straight. It took them about three or four weeks
25 to be able to change over to somebody else.

1 BY MR. GALLAGHER:

2 Q Did Delta have any leverage or any competitive
3 opportunities to get a better deal from somebody else?

4 A We certainly negotiated for six months prior to the
5 expiration of the contract looking for any better alternatives.
6 The best we could find was a one hundred percent holdback
7 uniformly across the business.

8 THE COURT: Can I ask you a question? How come you
9 do Mastercard and Visa with U.S. Bank -- how do you get
10 assigned to a particular bank?

11 THE WITNESS: Well, there's various banks that do the
12 processing on behalf of Mastercard and Visa. So you negotiate
13 really with the bank which is the processor.

14 THE COURT: So it's just one of those things, you
15 just pick one?

16 THE WITNESS: Whoever gives you the best terms.

17 Q If I understand you correctly, Mr. Bastian, you tried to
18 get better terms and couldn't in the market?

19 A That's absolutely right.

20 Q Let me make clear I am not a finance expert. I'm just a
21 labor lawyer. So I want to make sure I understand what the
22 terminology is.

23 THE COURT: Well, it's really simple. They put in
24 their receipts every day and a percentage is taken out of their
25 receipts which is the percentage that Mastercard and Visa takes

1 and if you're a really good credit, Mastercard and Visa take
2 less than if you're a dog credit. If you're a dog credit they
3 want more and they can charge you back for the bad ones. So
4 when you're a little business you play games with them by
5 telling them that the chargebacks really aren't any good and
6 you sort of go back and forth and the money stays there; it
7 goes back here and it comes back there.

8 Now, one of the reasons the banks -- one of the
9 reasons that the banks don't prefer American Express is that
10 American Express takes a higher percentage of the revenue than
11 does Mastercard and Visa. Yes?

12 THE WITNESS: That's absolutely correct.

13 BY MR. GALLAGHER:

14 Q Now, Mr. Bastian, the \$1.2 billion that's restricted, can
15 you access that cash --

16 THE COURT: He already said no.

17 Q -- to pay your bills?

18 A No.

19 THE COURT: He already said no.

20 MR. GALLAGHER: Very well, Your Honor. I'll move on.

21 THE COURT: He already agreed that assuming they fly
22 all those flights that it's their money and probably they'll
23 fly 90 to 95 percent of those flights.

24 THE WITNESS: We hope to fly a hundred percent of
25 those flights actually.

1 THE COURT: Well, I mean you hope to fly that but
2 there will be some people that will decide they don't want to
3 fly with you or they really didn't want to go skiing or
4 whatever.

5 Q Since the bankruptcy filing, Mr. Bastian, are you current
6 -- is Delta currently paying all of its obligations?

7 A We're paying -- we're not paying our pre-petition
8 obligations.

9 Q So you have had a holiday from some of your ongoing cost
10 in the regular course of business?

11 A That's correct.

12 Q Has that holiday resulting from the bankruptcy filing on
13 certain obligations improved your cash position?

14 A Yes, it has.

15 THE COURT: \$116 million I can tell you that they
16 didn't pay to the pension.

17 Q But for that I take it the operating loss would have been
18 worse?

19 A The cash position would have been worse.

20 Q How much cash is Delta burning through each day?

21 A At the present time we're in our weaker part of the year
22 and we are actually looking at over the next ninety days a cash
23 burn of somewhere around \$500 million.

24 Q What does that translate to per day?

25 A That's a little over \$5 million a day.

1 THE COURT: Why are you going to burn up that much
2 cash?

3 THE WITNESS: Well, that's the --

4 THE COURT: Why, you think putting dollar bills in
5 the planes are cheaper than putting -- gasoline is?

6 THE WITNESS: Well, unfortunately for one matter this
7 is the slower time of the season for the airline business. So
8 this is the season -- a weak period in terms of receipts.

9 Secondly, our cost are still substantially higher
10 than our revenues. So there's more cash going out than there
11 is cash coming in and that's the situation we have to get
12 corrected.

13 THE COURT: Well, let's ask a question. How much
14 space do you have on the planes to increase your revenues?

15 THE WITNESS: Space in terms of load factor
16 availability?

17 THE COURT: Yes.

18 THE WITNESS: Our planes are running fairly full.
19 It's eighty percent plus or minus load factors which
20 historically in the industry is pretty close to as full as you
21 get over the course of an entire week. There may be a little
22 bit of additional opportunity but probably not a lot because
23 they tend to -- the availability tends to be at very, very
24 early mornings, late evenings, times people generally don't
25 want to fly.

1 THE COURT: Just fly it to get the other people home.
2 So you're telling me that you're going to burn up
3 \$500 million in cash over what period of time?

4 THE WITNESS: The next ninety days.

5 THE COURT: And that you don't have any more space
6 that you could sell and that the difference is all your costs?

7 THE WITNESS: That's correct.

8 THE COURT: How much of that is fuel?

9 THE WITNESS: I don't have the fuel numbers in front
10 of me. I can tell you for the month of October just concluded
11 fuel was approximately a little over forty percent of our total
12 revenues just went out to pay for the cost of fuel. So for the
13 month of October that was probably about \$550 million alone.

14 THE COURT: So it would be fair to say that if fuel
15 costs were lower then your \$500 million would be lower?

16 THE WITNESS: If fuel costs would be lower our fuel
17 bill would be lower, that's correct. There may be an impact on
18 the revenues though because certainly as fuel comes down in
19 this industry prices tend to follow fuel a little bit. So
20 there may be slightly some offset on the revenue line but
21 generally what you said is correct.

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

23 THE COURT: Certainly.

24 BY MR. GALLAGHER:

25 Q Mr. Bastian, if you're projecting a \$500 million cash burn

1 over the next ninety days, what is your business plan for '06?

2 Will you continue to burn cash?

3 A Well, the \$500 million is in line with what we've been
4 projecting in the business plan. So that's not new news and
5 it's in accordance with what we went to the market with our DIP
6 financing program. However, our business plan for 2006 is such
7 that our cash flow would basically be a break even proposition.
8 So any cash losses that we've been sustaining would be turned
9 around and we'd be cash flow break even for the full year of
10 2006.

11 Q So you do have -- the business plan contemplates a
12 turnaround?

13 A Absolutely.

14 THE COURT: So that two-thirds of that \$500,000.00 is
15 going to somehow be evened out by the rest of 2006?

16 THE WITNESS: Yes, as the \$3 billion program as we've
17 announced in terms of our restructuring program starts to
18 materialize our costs savings start to show up over the course
19 of 2006. That will do a lot to help reverse the outflows.

20 Q Mr. Bastian, your company is in bankruptcy. Why should
21 the Court give any credence to the notion that you know how to
22 turn it around?

23 A Well, the numbers are large and we don't deny that but
24 when we look at the 2005 plan that we put forward just a year
25 ago, we actually are right on our plan with one exception, that

1 being the uncontrollable price of fuel. So our revenues are on
2 plan, our controllable costs are on plan. So I think using
3 2005 as a basis, I think what we're doing in terms of
4 forecasting and projecting, in terms of hitting our targets in
5 the business plan.

6 Q What does your business plan project for cash flow for
7 2007?

8 A 2007 our plans actually degenerate a billion dollars of
9 positive cash flow after paying required debt payments and
10 capital payments, \$1 billion.

11 THE COURT: Try that one on me again.

12 THE WITNESS: In 2007 --

13 THE COURT: You lose a billion dollars?

14 THE WITNESS: No, I'm sorry. In 2007, our business
15 plan is actually to generate a positive \$1 billion of cash
16 after we paid our debt and capital and all our cost. Break
17 even in '06; \$1 billion positive in '07.

18 Q Well, to ask the question of you before Mr. Simon does, if
19 you're going to have \$1 billion of free cash flow, you're home
20 free, you don't need the pilot's money, do you?

21 A I would say in a business of this sort \$1 billion is not a
22 lot of money to be projecting two years out for one. Secondly,
23 there's a lot of assumptions in that statement. Certainly the
24 price of fuel is a very, very significant assumption in terms
25 of where we anticipate fuel being. The ability to execute on a

1 revenue delivery is a big part of the assumptions as well.

2 Q So there's some assumed revenue positives and revenue
3 enhancements in the business plan?

4 A Absolutely. Indeed, there's also -- as you know, this is
5 a very volatile industry and whether it be a fuel price spike -
6 - historically the surprises that come to this industry have
7 been negative and not positive. We can't predict what negative
8 surprises may be out there.

9 Q Why do you need to generate \$1 billion of positive cash
10 flow?

11 A Well, assuming we can deliver \$1 billion, which is what
12 the business plan projection is, our balance sheet is in deep,
13 deep need of repair. We have a huge amount of debt that we
14 need to start paying back, not the least of which is our DIP.
15 Our \$2.2 billion DIP financing needs to start to be paid down
16 in order to be refinanced at the end of that period.

17 Q Well, why can't you just borrow more money?

18 A We have no assets or anything to loan against.

19 Q But you just went out and raised a big DIP financing.

20 A That DIP financing was based on the last remaining
21 collateral values we had available to use and then actually
22 incremental debt facility that's based on our ability to turn
23 the company around not asset backed.

24 THE COURT: When you say debt, somewhere in these
25 volumes I think actually in your first affidavit there's a list

1 of like fifty or sixty bond issues. Is that something I'm
2 saying that you're not familiar with?

3 THE WITNESS: I'd have to turn to it and recall.
4 You're talking about airport bonds and facility --

5 THE COURT: Yes. It's Page 12 of your first
6 affidavit.

7 [Pause in proceedings.]

8 THE COURT: Mine begins with 8 and an 8, retail bonds
9 2039.

10 THE WITNESS: Okay. I've got it.

11 THE COURT: Now, is it your thinking that those are
12 all going to be paid off as part of the plan?

13 THE WITNESS: No, not all. There's a caption on
14 there as to whether it's secured or unsecured. Certainly the
15 unsecured debt we're not anticipating would be paid off in cash
16 anyway.

17 THE COURT: Well, my understanding is that you have
18 to discount that a bond that's not due until 2039 would be
19 discounted to present value and you wouldn't pay the full
20 amount of that; you would discount it to present value.

21 MR. HUEBNER: Your Honor, if I could just help for a
22 minute. As I think we said in the first day presentation, a
23 lot of those are aircraft back 1110 secured debt facilities
24 that we really have very limited ability to restructure. As
25 Your Honor --

1 THE COURT: That's what I'm saying. Here's ones 2039
2 and I'm saying if you were going to pay it off as I understand
3 the code you would discount it to today's date, but if you're
4 not going to pay it off you're going to pay it off in 2039.

5 MR. GALLAGHER: We agree, Your Honor. I think what
6 Mr. Bastian was talking about the cash flows for the next two
7 years. He certainly did not say or assume that we would be
8 paying off debt that otherwise has not matured.

9 THE COURT: I know. I just moved on to a different
10 topic.

11 MR. GALLAGHER: Understood, Your Honor. Thank you.

12 THE COURT: Don't worry about me. Don't assume that
13 what I've said has anything to do with what somebody said just
14 before. He was talking about paying off debt and in looking at
15 this list of debt which is part of what it is that ultimately
16 has to get paid off a lot of it isn't due for many years. To
17 me that meant okay, if you're going to pay off you're going to
18 pay it off at a discount or else you're going to pay it off as
19 and when it becomes due and owing.

20 THE WITNESS: We had no intent to prepay any of our
21 debt due dates, no.

22 THE COURT: Good. I didn't think it would be a good
23 idea.

24 THE WITNESS: We don't think it would be a good idea.

25 THE COURT: I didn't think it would be a good idea.

1 So therefore you couldn't do it.

2 BY MR. GALLAGHER:

3 Q Mr. Bastian --

4 THE COURT: That's not really. You get to do things
5 even if I don't think they're a good idea.

6 THE WITNESS: We'll try not to.

7 MR. HUEBNER: Could you let us know which ones,
8 please, Your Honor?

9 THE COURT: I will say that I did have one
10 conversation with a junior associate at your firm which you did
11 not mention and I did not mention it because he proposed
12 sending out 3,500 notices of the fact that people had another
13 ten days to take an appeal and I said to him, I said who can
14 take an appeal from an order and he said to me only somebody
15 that objected to it. I said well, how many people objected to
16 it and he said nobody, and I said so, why are you sending out
17 3,500 notices.

18 THE COURT: As you know, Your Honor, we are more
19 often criticized by not giving enough people enough notice than
20 the converse --

21 THE COURT: I know. I'm just saying it was one of
22 those things which I thought if I brought up in court it was
23 just going to get too complicated but it was funny. What was
24 really funny was he actually knew the right answer which was
25 nobody needed to get the notice. He just decided that because

1 you always give notice that you have to 3,500 notices.

2 So the answer is there are sometimes things that you
3 can't do.

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

5 THE COURT: You may.

6 BY MR. GALLAGHER:

7 Q Mr. Bastian, were you involved in negotiations for the DIP
8 financing that Delta secured?

9 A I was.

10 Q That DIP financing was relatively successful, was it not?

11 A We believe it was, yes.

12 Q In the sense that you got the money.

13 A It was, yes.

14 Q Did you get all of the terms that you wanted? Were they
15 favorable terms?

16 A Well, we got the terms that we were provided. I'm not
17 sure they were the best -- the most favorable financing terms
18 I've ever seen.

19 Q Did you have a business plan that you shared with the
20 potential lenders?

21 A Absolutely.

22 Q Was that discussed with them?

23 A In great detail.

24 Q Did they do their own due diligence on your books and
25 records?

1 A They certainly did.

2 Q Ultimately, as the Court is aware, certain lenders elected
3 to lend and that those loans were premised on the business plan
4 you tendered to the lenders at that time?

5 A That's correct.

6 MR. GALLAGHER: We're going to talk about that
7 business plan a little bit, Your Honor. I have several
8 additional exhibits I'm going to tender to the Court and the
9 witness.

10 THE COURT: I think you ought to have Delta acquire
11 an interest in the paper company.

12 MR. GALLAGHER: You're not the first to suggest it,
13 Your Honor, and I'm not sure in this case if it's the airline
14 or the lawyers at fault.

15 THE COURT: I don't know that it's necessary fault
16 involved. It's just expense. Somebody is making a profit on
17 it.

18 (Delta Revenue Performance, Debtor's Exhibit 81, Marked.)

19 Q Mr. Bastian, let me call your attention to the document
20 marked for identification as Delta Exhibit 81. Can you tell
21 the Court what this represents?

22 A This is a picture of what's happened to our domestic
23 ticket prices over the last five years, and yields is an
24 industry term for ticket revenue generation basically.

25 Q Is that related to ASM's available seat miles?

1 A Yes, exactly. That's right.

2 What this exhibit shows is that over the last five years
3 our domestic tickets had prices in general across the board by
4 23 percent.

5 Q What does --

6 THE COURT: That prices is not necessarily related to
7 how many seats are filled.

8 THE WITNESS: That's the total amount of revenue that
9 we can --

10 THE COURT: What I'm saying to you is revenue does
11 not tell you how many seats you filled. It does not tell you
12 what percentage capacity you are flying at.

13 MR. GALLAGHER: That's called load factor, Your
14 Honor.

15 Q Is that right, Mr. Bastian?

16 A That's correct. The yields -- these are on actual tickets
17 sold. This is the tickets we generated and the pricing of
18 those tickets over the last five years on the domestic system
19 is down 23 percent.

20 Q Well, that -- the bar on the left from 11 to 16, that
21 scale, what's that in?

22 A That's what yield -- that would be in fractions of a
23 penny. So it would be your yield per seat mile basically.

24 Q Is --

25 THE COURT: I don't understand something.

1 Q It was fifteen cents?

2 THE COURT: I don't understand something. I thought
3 I asked a question and I got one answer. I'm now getting
4 another answer. What I thought I was getting was an answer
5 that somehow told me how much your tickets had gone down. Now
6 I seem to be getting an answer that tells me how many seats are
7 being filled.

8 THE WITNESS: No, I'm sorry. These are not seats.
9 These are actually the revenue component per seat. So the
10 yield is approximately for the ticket price per seat per mile.

11 Q That is -- and it was --

12 A And it's down 23 percent over a five-year period.

13 Q So if I read this correctly you were slightly over fifteen
14 cents per seat per mile in 2000?

15 A That's correct.

16 Q And now it's down it looks like below twelve cents per
17 seat per mile?

18 A It's approximately that, that's right.

19 Q Now, that doesn't sound like a lot to me, Mr. Bastian.
20 Can you translate it into dollars?

21 A Well, this 23 percent reduction has actually cost us \$3
22 billion over that five-year period. So on an annual basis our
23 revenues are down \$3 billion on the same ticket volume
24 essentially if you were to compare it to what it would have
25 been in 2000.

1 THE COURT: I don't understand something. I don't
2 understand the 2001 to 2002 drop. I don't understand the 2004
3 to 2005 drop.

4 THE WITNESS: The reason for that?

5 THE COURT: Yes.

6 THE WITNESS: The reason for that is the competition
7 in the marketplace.

8 Q Does that mean prices have been going down, Mr. Bastian?

9 A Prices have been on a steady decline over the last five
10 years particularly down. In fact, historically over a very
11 long period of time really yields are down in this industry but
12 it's taken an accelerated reduction over the last five years.

13 Q Now, to ask what may be a simpleton question, why don't
14 you just raise your fares?

15 A We try on a daily basis many, many times a week and
16 generally they're not -- sometimes they're successful. More
17 often than not they're not.

18 THE COURT: The only time they're really successful
19 is around Thanksgiving and around Christmas for the people who
20 didn't buy their tickets early enough.

21 THE WITNESS: Sometimes that's true, yes.

22 Q When you say they're not successful, what do you mean?

23 A Well --

24 THE COURT: They can't sell the ticket.

25 A If there is a competitor on the marketplace that doesn't

1 match an increase the consumer, and price is the number one
2 driver of the -- of revenue and the -- why an individual out
3 there is buying a specific airline, that airline will get the
4 price.

5 Q Does Delta do surveys of consumer, market surveys of what
6 drives carrier selection?

7 A Yes, we do.

8 Q What are the drivers of why people pick one airline over
9 another?

10 A Pricing is number one, two and three.

11 Q So if you raise your fares and the other guy doesn't?

12 A We generally don't get the revenue.

13 THE COURT: I don't think that pricing is one, two
14 and three. I think pricing is maybe one but two is route.

15 THE WITNESS: I'm sorry. I was trying to make a
16 point.

17 THE COURT: I know that but I'm saying I don't want
18 to fly early on a plane that's going to make me go through
19 Greensborough. I don't want to fly back through Charlotte. I
20 don't want to fly back through Pittsburgh.

21 THE WITNESS: Right.

22 THE COURT: And the one time I flew through Cleveland
23 it just -- it quit, let us overnight. So I mean that is
24 another factor in flight choice.

25 THE WITNESS: Yes, schedule frequency is certainly --

1 time of day is a factor, but assuming it's a comparable non
2 stop one airline to the next, we get surveys --

3 THE COURT: I don't disagree with you but I have not
4 often found that there was comparability. Different times of
5 day.

6 THE WITNESS: Sure. There's clearly other factors
7 that go into it but price clearly is important.

8 THE COURT: If I have to get up at 6:00 in the
9 morning, that's not a comparable flight.

10 Q Mr. Bastian, I want to make sure I understand. Did you
11 say \$3 billion per year revenue impact?

12 A Yes. This has cost us \$3 billion on an annual basis from
13 where we were just a few short years ago.

14 Q So your weak financial performance in 2005, part of the
15 reason or \$3 billion worth of reason is that you're generating
16 \$3 billion less revenue on the same tickets that you sold in
17 2000?

18 A Well, if you were to go back to 2000 which was our last
19 profitable year the comparable revenues of this airline on the
20 domestic system were down \$3 billion.

21 THE COURT: I don't understand something. Now, when
22 you say the year 2000, you mean 2000 to 2003.

23 THE WITNESS: I just meant the calendar year 2000.

24 THE COURT: That's what I meant. Because you didn't
25 mean the one that's 2001 to 2002?

1 THE WITNESS: No, no. I was just talking about the
2 year 2000.

3 BY MR. GALLAGHER:

4 Q So looking now the fares are down so much that it's a \$3
5 billion hit to your revenues; is that right?

6 A Yes. The competition in the marketplace has driven our
7 revenues down \$3 billion over that five-year period.

8 Q When you say over that five-year period, you don't mean
9 that it was \$600 million a year?

10 A No, it's \$3 billion in 2005 alone.

11 Q If you would look at Slide 82 and tell the Court what this
12 represents.

13 A This slide depicts what the cost of fuel has been over
14 that same comparable period of time in terms of price per
15 gallon and as you can see in the year 2000 we paid roughly on
16 average about \$.65 to \$.70 a gallon where we're paying today
17 the way the current price is it's up to about \$1.80 though it's
18 been much higher over the last several weeks.

19 THE COURT: You have to understand something about
20 this. Carlson Tucker, who is a conservative and free marketer,
21 does not think that this is a free market price. He believes
22 that this is not a free market price and that Congress needs to
23 get involved because these are not free market prices. If that
24 is in fact the case as it was in connection with the California
25 electric situation, it may go down.

1 THE WITNESS: We certainly hope they do.

2 MR. GALLAGHER: We would welcome it, Your Honor.

3 Q But in the meantime, Mr. Bastian, we're paying it;
4 correct?

5 A Yes. We were actually paying in the month of October
6 \$2.50 a gallon. It has moderated in the last several weeks and
7 today it's currently about \$1.80 is what we're paying for jet
8 fuel per gallon.

9 Q What fuel price projection is in your business plan for
10 2005 from the time of bankruptcy filing to the end of the year?

11 A Over the last three months of 2005 if I understand your
12 question, October, November and December, our business plan was
13 for fuel to be approximately I think \$2.10 per gallon over that
14 three-year period -- three-month period, sorry.

15 Q Will your business plan be over or under?

16 A Well, for the month of October we were substantially worse
17 in price because it was \$2.50 versus \$2.10. If prices hold
18 over the balance of the year at \$1.80, we might get a little
19 bit -- we would get a benefit from that. At the end of the day
20 though, relative to the business plan we put out to the
21 marketplace, it's still a net bad guy in terms of the cash cost
22 to the business since we filed that business plan with the DIP
23 lenders.

24 Q So the three months of October, November, December, your
25 current view is that you will not meet the projection -- your

1 cost will exceed those you projected in the business plan?

2 A The cost will slightly exceed the business plan, yes.

3 Q So the recent moderation is a welcome --

4 A But I would go back to the September month too because
5 September was also part of the business plan preparation
6 process for the DIP.

7 Q Well, how about next year, what is the fuel --

8 THE COURT: Weren't you still looking at 83 or are we
9 just talking about fuel?

10 THE WITNESS: We're still on fuel, Your Honor, Number
11 82.

12 THE COURT: Okay.

13 Q What price for fuel is reflected in the business plan for
14 2006?

15 A Our 2006 --

16 THE COURT: There's nothing reflected on my page for
17 2006.

18 MR. GALLAGHER: No, there isn't, Your Honor. I'm
19 talking -- the exhibit is the actual price.

20 THE COURT: I know that. That's what I'm trying to
21 find out, where we are at. You told me that was back at that
22 schedule only I'm not.

23 MR. GALLAGHER: I'm sorry, Your Honor. I misspoke.
24 What I'm asking the witness about is the business plan, and we
25 don't have it in front of you what the schedule is on fuel

1 prices in the business plan, but I believe Mr. Bastian is aware
2 of them.

3 A In the 2006 business plan our price per fuel is \$1.73 a
4 gallon.

5 Q If today's price holds going forward, you would again --
6 your cost would exceed your business plan?

7 A If today's price holds we would slightly exceed the
8 business plan but it would be pretty close.

9 Q What is the -- what has been the impact in 2005 of the
10 fuel price escalation reflected on Exhibit 82?

11 THE COURT: It caused their costs to go way up.

12 Q How far up did they cause it to go, Mr. Bastian?

13 THE COURT: Three times what it was in 2000.

14 Q What does that translate to in dollars?

15 A If you were to compare what our fuel prices were in 2000
16 versus what they are for this year, 2005, that's another \$3
17 billion impact cash out to us.

18 Q So let me make sure --

19 THE COURT: It's clear that when you look at this
20 beginning in 2003 you see a slight increase, a greater increase
21 in 2004 as in 2005. It goes wild.

22 Q So if I understand correctly, Mr. Bastian, you've had a \$3
23 billion negative hit on your revenues --

24 THE COURT: My things are not in the same order that
25 yours are in. I have the pictures in the middle.

1 MR. GALLAGHER: I'm sorry, Your Honor. Exhibit 81 is
2 headed Delta revenue performance.

3 THE COURT: That's fine.

4 MR. GALLAGHER: Exhibit 82 is Delta fuel price.

5 THE COURT: Right.

6 Q Mr. Bastian, if I understand Exhibit 81, the revenue
7 performance, you've had a \$3 billion per year hit decrement in
8 your revenue performance due to competition; is that right?

9 A Over the last five years, that's correct.

10 THE COURT: Now, it's not due to competition.
11 Everybody else in the airline business got the same problem. I
12 mean the only person that's hedged is Southwest. They're the
13 only one that admitted to being hedged. Now, there may be some
14 other people that are hedged, but --

15 MR. GALLAGHER: That's certainly true for fuel, Your
16 Honor, and that's Exhibit 82, but there's two interrelated
17 problems here.

18 THE COURT: What I'm saying to you is if you could
19 have hedged a year ago you wouldn't have had the same fuel
20 problem. It appears that the only airline that has the money
21 to hedge and they don't hedge all of their fuel is
22 Southwestern.

23 THE WITNESS: That's correct. The \$3 billion we're
24 referring to is actually the earlier exhibit on how much the
25 ticket prices have cost us.

1 Q So we have two exhibits and each one is -- interrelates.
2 It's a double whammy, is it not, Mr. Bastian?

3 A It is. There's \$3 billion impact on ticket pricing, low
4 prices and there's --

5 Q That lowers your revenues?

6 A Which lowers our revenues and there's --

7 Q And a separate \$3 billion hit on your costs in fuel?

8 A That's correct.

9 Q So that's a \$6 billion swing.

10 A That's correct.

11 Q How on earth have you coped with that?

12 A It's been a difficult process.

13 THE COURT: Well, they did what everybody else has
14 done. They engaged in creative accounting.

15 Q Well, is that true, Mr. Bastian?

16 A That is certainly not true.

17 THE COURT: That's good. I mean that's what Enron
18 did.

19 Q How much in --

20 THE COURT: Worldcom did.

21 Q How much in direct cost has Delta Air Lines taken out of
22 its operating costs in the past three years?

23 A Well, over the last three years we are -- we set a program
24 that had a couple of iterations to it but prior to filing was
25 on a run rate to generate \$5 billion of annual savings to

1 offset these two problems.

2 Q Let me make sure I understand. What do you mean a run
3 rate?

4 THE COURT: That we were going to be running really
5 hard to make this \$5 billion and if we ran hard enough we'd
6 catch it and then we would have it.

7 A That's true. Run rate I was referring to actually though
8 is the annualized value of the benefits.

9 Q If that was your target, did Delta actually achieve that
10 target?

11 A We are on plan to achieve the target. In fact, the target
12 of \$5 billion was to be achieved by the end of '06 and through
13 where I sit today we're actually about 90 percent of the way
14 through.

15 Q Some of those items have long lead times and can't
16 generate savings immediately?

17 A Absolutely.

18 Q But so you have succeeded in taking out more than \$4
19 billion I take it?

20 A Yes, that's correct.

21 Q Was there any discussion with the DIP lenders about
22 whether that performance demonstrated anything about this
23 management's ability to deliver on cost containment?

24 A The fact that we had set the targets out there on
25 controllable costs and hit those targets and we're very public

1 about our needs, went a long way towards building the
2 credibility in the financial markets despite the fact Delta was
3 getting ready to file and had a fairly weak asset base to loan
4 against, gave the credibility to the marketplace that this
5 management team does know its cost structure.

6 Q Approximately how many jobs were eliminated in the course
7 of that \$5 billion cost reduction program?

8 A I don't have the exact numbers in front of me, but I
9 believe over the last four years we've eliminated about 25,000
10 jobs.

11 THE COURT: Can I ask you a question?

12 THE WITNESS: Yes.

13 THE COURT: Does that mean you were overstaffed
14 before?

15 THE WITNESS: No. What it refers to is we have
16 implemented significant amount of productivity initiatives
17 through technology and change work rules. It were not to be
18 able to drive the cost out of the business. We've outsourced
19 certain functions which has also contributed.

20 THE COURT: I know that but outsourcing is just
21 another way of paying for the same thing.

22 THE WITNESS: No, actually we've done with different
23 companies and different processes. For example, yesterday you
24 mentioned payroll. We actually already implemented the
25 outsource payroll module earlier this year and whatnot.

1 THE COURT: And you upgraded your website so that
2 somebody can figure out how to buy a ticket from it.

3 THE WITNESS: That's correct. So we've done an awful
4 lot. Also part of it is that we have shrunk the airline a bit
5 too. So we've had lower needs in terms of our flight crews and
6 some of the ground staff to support the -- so that's also been
7 part of that 25,000 job loss.

8 BY MR. GALLAGHER:

9 Q Well, one example given in your declaration, Mr. Bastian,
10 relates to the check-in Kiosks. Can you briefly explain --

11 THE COURT: I know what a check-in Kiosk is. You
12 take out whatever one of your credit cards you think you still
13 got a line on and you stick it into the machine and the machine
14 decides it knows who you are and it says welcome and then it
15 says are you really that person and you say yes, and they say
16 are you going to this place, and you say yes. Then they print
17 out your little piece of paper and you try not to crumble it up
18 because the piece of paper is pretty thin and then you take out
19 your card. If you want to check your bag you press the little
20 button that says bag check and you get a ticket for your bag
21 and you walk over to the nice lady that's standing behind the
22 bag counter and she takes your bag and puts it on the --

23 THE WITNESS: Carousel.

24 THE COURT: Yes.

25 Q Mr. Bastian, does the use of those Kiosks decrease Delta's

1 need or the number of ticket agents?

2 THE COURT: You want to know something? I do not
3 understand why people won't use them. It's like they think
4 that somebody is going to steal their credit card because there
5 is usually space available at those Kiosks and there are people
6 standing in line for twenty minutes. I don't stand in line for
7 fifteen minutes, let alone twenty minutes.

8 MR. HUEBNER: Your Honor, if you could ask the
9 reporters in the courtroom to pick up that comment and
10 publicize it. It would save us a lot of money.

11 THE COURT: They are terrific.

12 THE WITNESS: They are.

13 THE COURT: They really are and they're terrific even
14 if you have a bag to check because it's really simple and the
15 other thing that is absolutely terrific is now that the
16 Government has decided that terrorists aren't checking luggage
17 is you just go to the curb man and hold your \$2.00 in your hand
18 and he checks your bags and gives you the ticket and you give
19 him the \$2.00. Either way you never had to stand in line and
20 wait for some lady behind the counter who doesn't know what
21 she's doing to look at your ticket and say where are you going.

22 THE WITNESS: We actually have over 75 percent of our
23 customers that do use the check-in. In fact, we've also
24 implemented a new feature. You can check in on line from home
25 now too.

1 THE COURT: I saw that you could but I still don't
2 think you can check in your luggage from home.

3 THE WITNESS: Not the luggage.

4 MR. GALLAGHER: We're working on it, Your Honor.

5 THE WITNESS: That will take some creativity, yes.

6 MR. GALLAGHER: We're working on it, Your Honor.

7 BY MR. GALLAGHER:

8 Q So, Mr. Bastian, these Kiosks I take it are part of the
9 productivity you need fewer ticket agents as a result of having
10 Kiosk?

11 A We've reduced the size of our airport staffing models
12 substantially to actually pay for the Kiosks.

13 Q Even at the gates where you --

14 THE COURT: The Kiosks just have to be cheaper. I
15 mean it's like -- I don't know. It was ten or twelve years ago
16 I went to an ABA meeting and they were talking about a court in
17 Delaware that had put in a computer model to handle the papers
18 in one of their large cases. I came back and I told our clerk,
19 I said we must computerize. We have too many papers not to
20 computerize. It took us two or three years. We're the first
21 one that was all computer in the country and you see those guys
22 out there. Well, I'm not so sure that I like it. I mean why
23 do you think it's worse than the computer -- these are judges
24 and you want to go oh, dear, you've never lived even near New
25 York where a computer is as likely to get your information from

1 point A to point B as any other means.

2 MR. GALLAGHER: Delta relies very -- it used to rely
3 on clerks, Your Honor, to process those paper tickets and add
4 them up and those days are long gone.

5 Q Are they not, Mr. Bastian?

6 A They are.

7 THE COURT: Now they just put them -- there's
8 actually some kind of a little funny machine that the girls put
9 little things through.

10 MR. GALLAGHER: Bar code scanners.

11 THE WITNESS: The bar code scanner just to recognize
12 you and get you on the plane, that's right. It feeds right
13 into our operations control center to let us know you're on.

14 Q Mr. Bastian, could you tell the Court what's reflected on
15 Company Exhibit 83?

16 THE COURT: Well, what this looks to me like it says
17 is that we lost more money in 2004 than we lost in 2005 except
18 that there's this little tiny footnote that says excluding
19 special items.

20 MR. GALLAGHER: The exclusion is in both places, Your
21 Honor.

22 THE COURT: I know that.

23 MR. GALLAGHER: So it's apples to apples.

24 A What this chart shows is that in 2004 indeed we lost a
25 little over \$2.2 billion on an airline centric basis.

1 Q On what revenue base is that, approximately?

2 A I believe it was close to \$14 to \$15 billion.

3 Q What else does this exhibit reflect?

4 A What it shows is that in 2005 in fact we are projecting to
5 lose just under \$2.2 billion. Now, there's two other lines in
6 the middle, one which shows the amount of improvements we've
7 made over the last twelve months to our revenue as well as our
8 non fuel expenses, those expenses which are much more
9 controllable.

10 THE COURT: So that number is not the total revenue
11 and non fuel expenses. That's the savings?

12 THE WITNESS: Those are the savings on a year over
13 year basis. We actually had \$1.6 billion of improvements to
14 the operation. About half of that with the pilots as we talked
15 about with respect to Letter 46 and there's other -- many other
16 initiatives across the business that help generate that \$1.6
17 billion in savings.

18 Unfortunately, fuel prices are also substantially
19 higher and they've consumed much of that gain. Pricing fuel is
20 actually \$1.5 billion higher in 2005 than it was in 2004.

21 THE COURT: Just think of where you would be if you
22 hadn't saved that money. There would be no way you could
23 recover.

24 THE WITNESS: That's absolutely right.

25 Q Now, that \$1.6 billion that you saved in 2004, Mr.

1 Bastian, did you say approximately half of that is attributable
2 to the pilots?

3 A '04 versus '05 roughly half of it, that's correct, yes.

4 Q What is the -- who or what is the other half attributable
5 to?

6 A We took cuts across all of our non pilot categories as
7 well in terms of pay cuts this year already. This is not this
8 November one. This was one implemented the 1st of January. We
9 have many other additional productivity initiatives including
10 some that increased outsourcing. We also have had some revenue
11 enhancements to the business as well.

12 Q Well, this gets you through 2005 to your \$2.1 billion loss
13 but that's still not a good position to be in even after you've
14 saved \$1.6 billion in expenses; is it?

15 A No, it's not and that's why, in fact, we have looked at
16 what the plan going forward is in terms of restructuring the
17 business and it's the source of which we came up with a \$3
18 billion improvement program to eliminate that \$2.2 billion
19 loss.

20 Q Well, I want to make sure I don't get things confused.
21 You've already cut \$5 billion out of the company.

22 A Since 2002, that's correct.

23 Q Now you're proposing to cut another \$3 billion of expense
24 or in revenue enhancements?

25 A That's correct.

1 Q What are your gross revenues this year?

2 A It would be about I think just under \$16 billion.

3 Q And you've already cut \$5 billion of operating costs and
4 you're talking about taking out another \$3 billion?

5 A That is correct.

6 THE COURT: Have you ever figured out how many people
7 you need per plane? You got 425 planes and you just get rid of
8 25,000 people. I mean the number of people you have per plane
9 is just -- I don't understand how you could need that many
10 people.

11 THE WITNESS: Well, we currently have roughly 50,000
12 people at Delta covering the 400 and some odd planes that we
13 have. Those ratios were much higher in prior years in terms of
14 many more people per aircraft than we've got today.

15 THE COURT: Do you serve peanuts?

16 THE WITNESS: I believe it's one of our snack
17 offerings, yes.

18 THE COURT: Well, I don't think you should.

19 THE WITNESS: That's why we have five snack
20 offerings.

21 THE COURT: That's why -- well, I know. I used to go
22 with my daughter and there would only be peanuts on whatever
23 flight we were on and she's highly allergic to them and then
24 they wouldn't have anything else or the stewardess would say
25 I'm sorry, I can't give you anything but peanuts. That's all

1 we are allowed to give out today.

2 THE WITNESS: We actually offer also Sun Chips and
3 animal crackers.

4 MR. HUEBNER: Granola bars.

5 THE WITNESS: Granola bars.

6 THE COURT: That's good.

7 MR. HUEBNER: Cheese and crackers.

8 THE WITNESS: Cheese and crackers. We tried them
9 all.

10 MR. HUEBNER: Your Honor, remember on the first day
11 when we discussed Tata Air and baskets, that is now the snack
12 we agreed to in general which has the --

13 THE COURT: You didn't move to the liquor model.

14 MR. HUEBNER: No. We said that at the time. In lieu
15 of your two bottles we have the five

16 THE COURT: Maybe they had three but they just -- all
17 the way down the end of the line everybody had their glass in
18 five minutes.

19 MR. HUEBNER: I do not believe we will be doing that,
20 Your Honor.

21 THE COURT: You don't think so. It was quick.
22 Elegant, no.

23 MR. GALLAGHER: Your Honor, may I proceed?

24 THE COURT: Yes.

25 (Outline of \$3 billion confirmation plan, Debtor

1 Exhibit 84, Marked.)

2 BY MR. GALLAGHER:

3 Q Directing your attention, Mr. Bastian, to a three-page
4 document which has been marked for identification as Company
5 Exhibit 84, can you tell the Court what this is?

6 A Well, this exhibit outlines the key tenants and the
7 objectives of our \$3 billion transformation plan.

8 Q Have you shared the content of these three pages with ALPA
9 and others in the Delta work force?

10 A We shared it with ALPA. We have shared it with many front
11 line presentations to our work group, yes.

12 Q Indeed you've done what they call road shows, have you
13 not?

14 A We have.

15 Q Would you -- for the Court's information, what is a road
16 show?

17 THE COURT: It's when you take three people and you
18 dress them up really nice and you get color copies and you send
19 them out and you have them tell people what the color copies
20 show. Is that about it?

21 THE WITNESS: We do a little more than that but that
22 was part of it, yes.

23 Q What aspect --

24 THE WITNESS: I wear a nice tie that day, yes.

25 MR. GALLAGHER: Mr. Bastian always looks nice, Your

1 Honor, but one of the things about an airline is that it
2 operates continuously. So it's never possible to get all the
3 workers together in one place --

4 THE COURT: I understand that.

5 MR. GALLAGHER: So they do go out and hold a series
6 of meetings around the system to try to reach out to a lot of
7 employees at different times.

8 THE COURT: Now there's one thing I don't like on
9 this Page 1, Paragraph 3. It says sacrifices must be shared
10 equally or equitably --

11 MR. GALLAGHER: Equitably.

12 THE COURT: -- across stakeholder groups. I don't
13 know what you mean by equitably.

14 MR. GALLAGHER: We will get into that if we may, Your
15 Honor. I'd like to address -- ask Mr. Bastian to explain --

16 THE COURT: That is something that I really think is
17 really the bottom line on this hearing or is what you are
18 asking equitable.

19 MR. GALLAGHER: That's why it's there, Your Honor,
20 and we're going to discuss it.

21 THE COURT: Okay.

22 BY MR. GALLAGHER:

23 Q Mr. Bastian, can you describe what is set forth --

24 THE COURT: You can start back at the beginning. I'm
25 not asking you to start from some place in the middle.

1 Q If you would, Mr. Bastian, explain what is set forth on
2 Page 1 for your own description -- let's take them item by
3 item. It talks about objectives. What is the first objective?

4 A The first objective is to stop the cash flow bleeding of
5 the company to enable us to stop borrowing debt, to stop using
6 debt to fund operating losses and to be able to create a
7 platform for long term cash positive flow rather than negative.

8 Q Why do you need a long term viable cash flow?

9 THE COURT: Because not too many companies that lose
10 money every year stay in business.

11 MR. GALLAGHER: Very well, Your Honor.

12 Q But, Mr. Bastian, you have --

13 THE COURT: Is there some other answer to that
14 question that I'm not aware of?

15 MR. GALLAGHER: No. Your Honor, the next question is
16 but you have all this borrowed money. You've got over \$1
17 billion of borrowed money. Why isn't that sufficient?

18 THE COURT: Because for some reason people think it's
19 cheaper to borrow money than it is to use their own. I don't
20 know. It's kind of like cash flow. If I borrow that money I
21 can use it today, get it back to you next week.

22 A Over the last five years actually our expenses have
23 exceeded our revenues by a tune of \$10 billion and as a result
24 we've borrowed a lot of money and so adding any more debt load
25 onto this company would be -- which we've already had added on

1 through the DIP on top of that would be disastrous.

2 Q Well, are you in a position to add debt on top of it?

3 A We are not in a position at the present time that I'm
4 aware of anyway.

5 THE COURT: Unless you find somebody that's fool
6 enough to think that you can make money losing money.

7 Q Will this company -- will Delta Air Lines be able to
8 reorganize, Mr. Bastian, if it does not achieve a long term
9 viable cash flow?

10 A There's no business that can succeed over the long term if
11 it doesn't have a long term viable cash flow strategy.

12 Q Let's move to Item 2, create a competitive cost structure
13 with low cost carriers. You heard Your Honor -- the Court say
14 yesterday that perhaps we shouldn't be interested in what other
15 carriers do. Their finances are different. Why is it
16 important to have a competitive cost structure?

17 A As we were talking a little earlier, this is a
18 competitive, a very, very competitive industry. In fact, our
19 revenues are down over the last five years by 23 percent, our
20 ticket prices.

21 THE COURT: I think that this one is where I have a
22 problem that's much larger than using the words low cost
23 carriers. You have Delta Central. You have Song. You have
24 Comair and maybe you have somebody else. Now, I don't
25 understand which one is going to be your low cost carriers and

1 which ones are going to be your, what I'll call medium or more
2 old fashioned carriers. I mean for those of us who are no
3 longer young flying across the Atlantic like this is not
4 possible. We need a little more room.

5 I don't really understand -- I mean whether what
6 you're trying to do with this particular pilot agreement is to
7 move these pilots now into the low cost pilot category or not
8 because you've got two low cost carriers and the last time or
9 several times before some of you came in here from the Delta
10 side and said some works pretty well so now we can close it
11 down because we know how to make it work and I thought now that
12 really doesn't sound like a smart thing to me.

13 Maybe I misheard but I thought to myself why are you
14 going to close something down that works.

15 Q Mr. Bastian, can you explain to the Court what Delta's
16 position and rationale is on Song?

17 A Song has been very successful. I don't want to leave you,
18 Your Honor, with the impression that we're closing it down.
19 What we're doing actually is adopting many of the Song
20 practices more broadly across Delta given its success point
21 one. So we're actually going to be looking to add some of the
22 amenities, some of the in flight entertainment, some of the
23 better --

24 THE COURT: Well, that's good because I was sitting
25 there saying to myself now, that is the dumbest thing I ever

1 heard of. You figure out something that works and then you say
2 oh, I was just trying to see if it works and so now I'm going
3 to close it down.

4 THE WITNESS: No, it was --

5 THE COURT: I was having trouble with that.

6 THE WITNESS: It was a great experiment but quite
7 honestly much of what Song is Delta truly needs to turn into
8 and morph into to succeed in the new model.

9 THE COURT: That's fine. Then somehow what I took
10 from what somebody said to me was wrong. Now, this is why I'm
11 having trouble with your low cost carriers because I do not
12 understand what I would call Delta Central which is the pilots
13 I've got here are low cost pilots.

14 MR. HUEBNER: Your Honor, if I could help this for
15 one second. Delta pilots fly the aircraft that are logo'd as
16 Song. Song is not a separate airline. It is not a separate
17 certificated carrier. It is Delta airplanes marketed with a
18 different brand image and it has separate flight attendants,
19 but to be clear there's no such thing as a Song pilot. The
20 Delta mainline pilots fly for the single certificated carrier
21 that operates under two sort of marketing divisions, Delta and
22 Song.

23 THE COURT: But Comair --

24 MR. HUEBNER: Comair has a separate bargaining unit.
25 They are a regional feeder airline that is very different in

1 what we're talking about today.

2 THE COURT: But then I'm still having a problem with
3 how do I relate this union with your idea of low cost carriers
4 since as I understand it you think low cost carriers pay pilots
5 less money than you do.

6 MR. GALLAGHER: They do, Your Honor, and that
7 includes U.S. Air and Northwest and America West, all ALPA
8 carriers, all pay significantly less than Delta does even
9 after --

10 THE COURT: But what I'm saying to you is in one
11 sense it may be totally indifferent because you don't know what
12 the costs of airplanes are. You don't know what some of their
13 other costs are and their other costs could be what makes it
14 up.

15 MR. GALLAGHER: Well, Your Honor, as a result of the
16 catharsis that's gone through the industry with all of the big
17 six, the old major carriers going through this tremendous
18 financial distress many of their financials are public, many of
19 their cost cutting efforts are public.

20 THE COURT: I understand it but I don't think that
21 what we've got today is something which is going to result in
22 creating a competitive cost structure for airline pilots with
23 low cost carriers.

24 MR. GALLAGHER: That is the goal, Your Honor, not
25 only for pilots but across the board.

1 THE COURT: Is that the goal of your \$335 million
2 plan?

3 MR. GALLAGHER: Yes, Your Honor. It's the goal of
4 our \$3 billion plan to get --

5 THE COURT: You have a \$3 billion plan for pilots.
6 You have a \$335 million plan for pilots.

7 MR. GALLAGHER: That's part of a larger plan, Your
8 Honor. It's not just pilots.

9 THE COURT: But I'm not talking --

10 THE COURT: That's what Mr. Bastian is going to tell
11 you about right now.

12 THE COURT: I'm not interested in what else somebody
13 else is giving. I want to know what the present you want from
14 the pilots is.

15 MR. GALLAGHER: Well, Your Honor, I do want to
16 emphasize that you said yesterday that perhaps we were picking
17 on the pilots and Mr. Bastian's evidence will show you that
18 that is demonstrably not true.

19 THE COURT: Well, I think that in one sense you are
20 picking on the pilots and that's because I look at it from the
21 perspective of what is it that you had been paying the pilots,
22 what is it that you're asking these pilots to give up. It's a
23 very big difference between hiring on at a given number and
24 being asked to give up. They're not the same thing.

25 MR. GALLAGHER: We agree, Your Honor.

1 THE COURT: Frankly I don't believe, and maybe I
2 don't understand all of the things that you ask but I think I
3 do, that what you asked in your \$325 million plus the
4 unscheduled money was going to get you to that point.

5 MR. GALLAGHER: Well, Your Honor, we don't dispute
6 for a minute that the pilots are certainly the subject of this
7 motion and in that sense they are the targets.

8 THE COURT: I understand they are but I'm saying I
9 don't think that what you proposed unless it's contained in
10 that whole area where you've said oh, I can't give you any
11 numbers for that but you were supposed to give them to me
12 today --

13 MR. GALLAGHER: We will get to that with another
14 witness, Your Honor. We wanted to lay the foundation for the
15 financial --

16 THE COURT: What I'm saying to you is I don't see
17 where you want to get there. Now, I think that some other
18 places where you could get there are not the places where you
19 have proposed to get there.

20 MR. GALLAGHER: That's what negotiations are for,
21 Your Honor.

22 THE COURT: I now. But I'm saying to you, for
23 example -- I realize this is not something that will sit well
24 with the pilots. I do not see why pilots should receive
25 pension money for the time between 55 and 60. You don't get

1 your pension until you've retired. You retire when you're 60.
2 If you want to leave when you're 55 and go climbing then save
3 up your money and do it. But to me while that's a -- that's
4 what I call a benny, something that's a benefit but it cost you
5 a lot of money and it isn't customary in non -- in other
6 industries to offer people to pay them their pension at either
7 end.

8 I can understand if we've got somebody that is not
9 legally entitled to fly. That's maybe a different thing but I
10 don't understand these people are retiring because they can't
11 legally fly.

12 MR. GALLAGHER: That's true, Your Honor, but there
13 anti cutback provisions in ERISA which make it impossible to
14 take away accrued benefits under pension plans.

15 THE COURT: Well, how accrued is a pension -- how
16 accrued is that benefit if you haven't even turned 50?

17 MR. GALLAGHER: I'm going to have to get the ERISA
18 experts to answer, Your Honor, but my understanding is --

19 THE COURT: What I'm saying to you is bottom line of
20 this case is that somebody from Delta's side never bothered to
21 add up what it was going to cost to pay the pensions or the
22 pilots. If you give every one of them \$1 million you only have
23 to get what, 1,000 to get up to a billion. You get four or
24 5,000 of them you get 4 or 5 billion. It is ultimately those
25 numbers which are going to kill you because if there is no way

1 you can change those figures then there's no point in doing any
2 of this because -- I mean I know. What you'll do is you'll
3 dump it all on the PBGC but I'm saying I certainly don't know
4 anything of substance about ERISA except I can use the acronym
5 as well as anybody else.

6 There are other aspects of the job benefits that
7 certainly could be cut down or out without --

8 MR. GALLAGHER: We agree with Your Honor and I want
9 to make clear that --

10 THE COURT: But they're not necessarily the ones that
11 you have picked.

12 MR. GALLAGHER: Well, Your Honor, we're open to
13 discussions on alternatives. I want to make that clear. I
14 also want to make clear, Your Honor, that we readily
15 acknowledge two parties signed this agreement. We are not
16 pointing fingers. We are not assigning blame. We are where we
17 are today and we must find a solution for the future, but this
18 is not a blame game and this is not an effort to in any way
19 suggest --

20 THE COURT: All I'm suggesting is they didn't care
21 about adding these numbers up. Your guys were the ones that
22 should have been caring and should have been looking at what
23 those numbers were really going to mean.

24 MR. GALLAGHER: Right.

25 THE COURT: Because you had to pay them. They were

1 going to get to receive them.

2 BY MR. GALLAGHER:

3 Q Mr. Bastian, what were the years of the most record
4 profits for Delta Air Lines?

5 A In the late '90s, '97, '98, '99, 2000 we absolutely -- I
6 think for three of those years anyway we generated over \$1
7 billion of profits in each of those three years.

8 THE COURT: Which one of those years did you buy \$2.4
9 billion worth of Delta stock?

10 THE WITNESS: I don't think it was any one of those
11 years. I think it's probably a cumulative number of a five-
12 year period.

13 Q Mr. Bastian, at that time in the year 2000, what was the
14 funding level of Delta's defined benefit plans?

15 A If I recall, we were actually over funded. In fact, our
16 assets were higher than our liabilities at that point in time.

17 THE COURT: I don't -- you can tell me that every day
18 of the week but when you do the numbers they don't work.

19 THE WITNESS: Certainly not that level but in 2000
20 however any measure you want ERISA would not -- we actually had
21 many more assets than liabilities in 2000.

22 THE COURT: I'm not trying to say you didn't but if
23 you had looked at where you were going to be when these people
24 got older -- I mean I have the old non Santo which is now
25 called Solutia and guess what they got. They got all of the

1 pensioners, 20,000 people. I mean the number of people that --
2 these companies come down and down and down and we -- pensions
3 stay where they were but the number of workers left to pay them
4 is much smaller.

5 THE WITNESS: I can't personally -- it's certainly --

6 THE COURT: I'm not asking --

7 THE WITNESS: This was many years ago bargained but
8 clearly -- I do want to set the record straight. I'm sure our
9 people calculated and made a business decision that with
10 hindsight might have not been the right one.

11 BY MR. GALLAGHER:

12 Q Mr. Bastian, what is reflected on Page 2 of Exhibit 84?

13 A Page 2 outlines the methodology we utilized to outline the
14 \$3 billion of benefits that we needed to achieve to transform
15 Delta.

16 Q Now, you're under oath, Mr. Bastian. Are you not?

17 A I am.

18 Q Are you the architect of the transformation plan?

19 A I was one of the architects that helped build this, yes.

20 Q Did you all get together and decide the first thing let's
21 do, let's go after the pilots?

22 A No, not at all.

23 THE COURT: No one has suggested that. It has not
24 been suggested by your adversary. I do not believe -- I think
25 what has been suggested is that you are asking more sacrifice

1 from them than is appropriate considering the sacrifice that
2 they already made last year because I got back something that
3 gave me \$91 million in line items they were prepared to deal
4 with and I think it's the total number, the 325 number that
5 they disagree with because they believe that they gave you a
6 very significant amount last year.

7 MR. GALLAGHER: And we agree that they did, Your
8 Honor.

9 Q What did you go for first, Mr. Bastian?

10 A Well, first of all, we carefully analyzed the network
11 which we refer to as our flying schedule towards looking at any
12 opportunities to enhance revenues, to reduce or eliminate any
13 flying that's not profitable, to make certain that we're
14 changing the supply and demand equation reducing supply in the
15 weakest yielding markets.

16 Q Let's put some flesh on those bones and use --

17 THE COURT: You were right sizing.

18 MR. GALLAGHER: Not only right sizing, Your Honor.

19 Q What was the story with Song? What is the problem that
20 caused some restructuring?

21 A One of the things we looked at with Song is that we have a
22 great product. However, it flies in somewhat we refer to as a
23 lock rotation given that it's a specific product sold for a
24 specific market. As a result if we could better utilize those
25 aircraft to flow more freely through the system we thought

1 actually we would generate more revenue with that.

2 Q Where is --

3 THE COURT: Where is it that they fly from to?

4 THE WITNESS: Well, today largely we fly from the
5 northeast of Florida and trans -- from New York out to the west
6 coast.

7 Q Are those relatively speaking particularly the northeast
8 of Florida routes low yielding routes because of price
9 competition?

10 A There's tremendous price competition and generally we
11 don't make very good revenues on those routes.

12 Q So you had your --

13 THE COURT: Do you make more than they cost?

14 THE WITNESS: No, we don't.

15 THE COURT: So flying Song is a cost leader -- a loss
16 leader?

17 THE WITNESS: We were hoping to make a profit with
18 Song but quite honestly it's not a profitable venture at the
19 moment.

20 THE COURT: Well, was it profitable before gasoline
21 went up, fuel went up?

22 THE WITNESS: Prior to the huge spike in gas prices
23 we -- Song was probably close to break even. Some months we
24 made money. Other months we lost money.

25 THE COURT: That's great That's great. Our favorite

1 product is not one that makes money. I love it. Anyway, let's
2 take a break for about fifteen minutes and then we can keep
3 going.

4 THE CLERK: All rise.

5 (Recess taken from 4:16 p.m. until 4:51 p.m.)

6 THE COURT: You may be seated.

7 MR. GALLAGHER: May I proceed with Mr. Bastian, Your
8 Honor?

9 THE COURT: You may.

10 BY MR. GALLAGHER:

11 Q Mr. Bastian, when we broke we were on Company Exhibit 84
12 and I was about to ask you questions relating to Page 3 and
13 your methodology for finding or determining that \$3 billion is
14 the amount of financial benefits needed.

15 Can you tell the Court how you went about that process?

16 A Sure. First, as I was mentioning, we went through the
17 network, analyzed the route structures, looked for
18 opportunities to improve the ticket pricing. We're making a
19 lot of dramatic changes to the network. As you may know, we're
20 increasing international by 25 percent, pulling down on some of
21 our domestic service.

22 Q Why are you increasing the international?

23 A The reason for it is it's a much more profitable venture
24 for the aircraft to be flying international.

25 THE COURT: If you fly into Europe, the Euro is out

1 of sight.

2 THE WITNESS: It is.

3 Q So is that --another word for that higher yield?

4 A Those are higher --

5 THE COURT: I think another word for that is more
6 money.

7 THE WITNESS: Yes, more cash.

8 Q So what you've been doing is trying to figure out how to
9 maximize --

10 A Opportunities to change the network to get the most amount
11 of revenue performance in and to try to extend that loss that
12 we've been experiencing on the domestic side in terms of ticket
13 prices coming down.

14 Q All those popular features of Song that were used in a
15 situation where they weren't making much money, if any, are
16 going to be exported around the Delta network; is that right?

17 A That's correct. That's going to be a component of
18 improving the revenues for the entire company

19 THE COURT: What is right sizing CVG?

20 THE WITNESS: CVG is actually the airport code for
21 Cincinnati.

22 THE COURT: What are you doing to simplify the
23 Atlanta hub?

24 THE WITNESS: Atlanta we instituted a new procedure
25 this year where we call it a D peak in terms of a -- a more

1 continuous flow. We talked yesterday about the aircraft being
2 on the ground for extended periods of time.

3 THE COURT: Do you think perhaps you could have them
4 chop off about a good half of that airport?

5 THE WITNESS: We would prefer never to do that. It's
6 our most --

7 THE COURT: It's a horrible airport. It is an
8 extraordinarily long walk to walk anywhere in there.

9 THE WITNESS: It's the largest airport in the
10 country.

11 THE COURT: Well, it needs some more internal ground
12 transportation.

13 THE WITNESS: We are working with actually the
14 airport facility to improve the airport structure especially
15 the gate areas -- excuse me, the security areas.

16 THE COURT: Well, I'm serious. I mean I got off a
17 plane there, reserved a car. By the time I walked from where I
18 got off to the car they said you're too late, you already
19 missed the half hour. I thought I was supposed to be able to
20 get here faster than that.

21 THE WITNESS: We apologize for that.

22 THE COURT: You do need a lot of sidewalk, moving
23 sidewalks.

24 THE WITNESS: It's a very, very large airport though
25 and quite honestly it's the most important facility we have in

1 our entire company.

2 THE COURT: It may be but I have a physical handicap
3 that makes it hard for me to walk. I have two artificial knees
4 and boy, that airport is one of the worst.

5 BY MR. GALLAGHER:

6 Q Mr. Bastian, can you explain what you mean by D peak
7 Atlanta hub?

8 A D peak is --

9 THE COURT: That means that there is standard flying
10 and a spoken wheel, they're flying more straight point to
11 point. Yes?

12 THE WITNESS: That's part of it. That's part of it.
13 We're also trying to keep the airplanes more continuously
14 through the schedule so that we're getting greater aircraft
15 utilization, greater utilization of our crews and better
16 productivity for the entire system.

17 Q Those are the types of activities that you have identified
18 specifically with an aggregate value under the going forward
19 business plan to generate an additional \$1.1 billion a year of
20 either revenue enhancements or cost savings; is that right?

21 A Yes. Those are primarily revenue enhancements, that's
22 correct.

23 Q Has your department got a detailed broken out plan to get
24 there?

25 A We certainly do. We're continuing to work on the

1 execution of the tactical plan but we know where we got to go.
2 We believe we know where we got to go to get it.

3 Q So this isn't just a dream. This is the actual plan?

4 A It's the actual plan, yes.

5 Q This number wasn't pulled out of thin air?

6 A No. In fact, the advisors to the unsecured creditors
7 committee and many of the bankers have gone through the details
8 of the plan in terms of what we're going to do to implement
9 these revenue enhancements.

10 THE COURT: How far from the airport is the Delta
11 headquarters? I don't mean the one in the post office box, but
12 I mean the real one.

13 THE WITNESS: It's approximately two miles off the
14 airport -- that's depending on what part of the airport
15 property you're talking about. It's one to two miles off.

16 THE COURT: So you really couldn't do much to improve
17 that location.

18 THE WITNESS: The Delta headquarters?

19 THE COURT: Yes.

20 THE WITNESS: We are looking at reducing some of the
21 administrative overhead at that facility, yes, we are.

22 THE COURT: I just said you couldn't do much to
23 improve the location.

24 THE WITNESS: No, I don't think so.

25 Q What is the second element?

1 A After we spent a lot of time analyzing the network and
2 tasking ourselves, we looked at what other controllable cost we
3 could actually reduce from the system particularly that which
4 the bankruptcy process provides for, the in court savings as we
5 refer to it. We looked at the mark to market on our lease, our
6 aircraft leases, and there's a significant amount of the \$970
7 million which will come from working through the -- whether it
8 be lease rejections, whether it be mark to market reductions in
9 terms of the costs of aircraft lease. We're going to be
10 working through facilities in terms of some of the airport
11 bonds and seeing if there's ways to reduce the cost, reduce the
12 footprint, return some space.

13 We're going to be renegotiating vendor contracts across
14 the entire system. Many thousands of contracts will be
15 analyzed and evaluated whether they're contracts we want to
16 retain, simplify, consolidate, eliminate, et cetera.

17 Then the first item which I neglected to mention is
18 unsecured debt restructuring where I think we were talking
19 before we're not going to be needing to pay out in cash at
20 least the unsecured debt of the business. It's just under \$4
21 billion and so the principal and interest savings on that is a
22 significant amount over the bankruptcy period of time.

23 Q Once again --

24 THE COURT: But that's going to be satisfied
25 presumably under plan by giving it stock?

1 THE WITNESS: That would be our expectation.

2 Q Now, once again, Mr. Bastian, is this a number that you
3 pulled out of the blue or is there a work product behind this
4 number about the size of your fleet and the market rates of the
5 aircraft?

6 A No.

7 THE COURT: Yes, exactly \$3 million.

8 A Well, this component is \$970 million but it has many
9 subcomponents to it and we've -- in certain areas that are
10 outside of our area of expertise such as fleet restructuring,
11 we've used outside advisors to help us take the size of the
12 savings, but each one of these items I mentioned has a very
13 detailed analysis behind it.

14 Q Have you shared that analysis with ALPA, among others?

15 A I've shared the contents in terms of what the 970
16 represents to ALPA, yes, I have.

17 Q Have you also shared with ALPA the contents behind the
18 revenue and productivity of \$1.1 billion?

19 A We've made open -- any request they had about that
20 information to them, yes.

21 Q They have the business model and the supporting back up
22 data?

23 A I certainly believe so.

24 Q How then after the \$1.1 -- after identifying \$1.1 billion
25 and \$970 million, how and why did you conclude that you needed

1 an additional \$930 million?

2 A Well, we -- after we went through those two areas we
3 looked at the value of the savings which is about \$2 billion
4 and as I mentioned earlier to begin the testimony --

5 THE COURT: Wait, wait, wait. This says \$3 million -
6 - \$3 billion.

7 MR. GALLAGHER: The first two.

8 THE WITNESS: I'm sorry, Your Honor. The first two
9 components. I'm coming to the third component.

10 THE COURT: Okay. I'm just trying to figure -- make
11 sure I know how to add.

12 THE WITNESS: You're doing good.

13 A The \$2 billion from the first areas, as you know, we're
14 losing over \$2 billion a year and we look at the size of our
15 cash flow drain. It still wasn't sufficient to close the gap.
16 As we said, our objective was to eliminate the losses on cash
17 flow to at least in 2006 drive the operation to a cash flow
18 break even and then start to repair the balance sheet in 2007.
19 We were still short by approximately a little under a billion
20 dollars a year from that task.

21 Q So you were solving for cash flow, positive cash flow to
22 support the business on an ongoing basis?

23 A Fundamentally, yes.

24 Q So were you solving for any particular caesium or --

25 A Absolutely not. We are looking for ways to save money,

1 generate improved revenues and cash in all other areas before
2 we went to -- ask our employees for more contributions. We are
3 very sensitive to the size of the contributions. Our employee
4 groups gave over the last year, which is what Letter 46
5 represents with the pilos, as well as all other non union
6 employees across the company. So it was absolutely the last
7 place we'd ever want to touch is our employee base because
8 they've been contributing over many years to this process.

9 THE COURT: Can I ask you a question?

10 THE WITNESS: Sure.

11 THE COURT: Have you taken the employees' pensions
12 away or have you told them that new employees will not be
13 getting a pension?

14 THE WITNESS: We have hard frozen the non pilot plan
15 and so any new employees coming on the payroll would not have a
16 defined benefit plan. They'd have a -- I believe it's a cash
17 balance plan.

18 Q That hard freeze is actually the same thing we're
19 proposing to ALPA, is that not correct?

20 A That is correct, yes.

21 Q So from a pension standpoint --

22 THE COURT: I don't understand how you can hard
23 freeze it but you can't make a change because of ERISA.

24 MR. GALLAGHER: The hard freeze --

25 THE COURT: There's something I'm missing here.

1 MR. GALLAGHER: The hard freeze, Your Honor, stops
2 the accrual of any new benefits.

3 THE COURT: I understand it and I don't need to go
4 into it now, but there's -- if there's an ERISA problem with
5 what else -- what I was discussing then I don't understand why
6 there's not an ERISA problem with this. Now, we don't need to
7 keep going on that now but you can tell me the next time.

8 Q Mr. Bastian, once you identify \$930 million as a target,
9 would -- first of all, did you exhausted all the other
10 opportunities to find other places to find the money before
11 getting to employment costs?

12 A Yes, absolutely. I just want to remind you we got a \$5
13 billion program that we're still in the process of finalizing
14 the implementation. So we've looked high and low in many
15 different areas for the company over the last several years.
16 The incremental \$2 billion, the first two categories on this
17 chart was another \$7 billion. So quite honestly, if there was
18 any other opportunities to save money we were looking high and
19 low for that but we just couldn't find anything else.

20 THE COURT: I don't understand why when you fired
21 25,000 people it doesn't save a fair bit of money.

22 THE WITNESS: It saves an enormous amount of money
23 and that's a key component of the \$5 billion of annual savings.

24 THE COURT: But it has nothing to do with the
25 employment costs on this sheet.

1 MR. GALLAGHER: That's right, Your Honor. That was
2 already done.

3 THE WITNESS: That was already done. When we -- in
4 getting to the employment cost we -- and we have announced this
5 already, that we are going to be eliminating up to 9,000 jobs,
6 new jobs on top of the 25,000 that have already been eliminated
7 in terms of implementing this restructuring program which is
8 also a key component of this \$930 an the \$1.1 billion.

9 BY MR. GALLAGHER:

10 Q So let me make sure I understand, Mr. Bastian. This \$930
11 million of savings and employment costs going forward includes
12 7 to 9,000 jobs being eliminated?

13 A It does.

14 Q How many of those jobs are pilot jobs?

15 A At the present time we have no plans to furlough any
16 additional active pilots.

17 Q So all of those furloughs are coming out of non union
18 employees?

19 A That's correct.

20 THE COURT: You told me yesterday that you needed
21 6,000 pilots to fly 425 planes. I asked you that. So you
22 can't get rid of any of them because that's the number of
23 pilots you need.

24 THE WITNESS: We will certainly through the process
25 of the -- the court process be rejecting the number of aircraft

1 and reducing and retiring certain aircraft. So those many
2 formulas may change as we move through the course of the case.
3 But at the present time I think that the numbers are maybe up
4 to 300 excess pilots in terms of the size needs over the next
5 two years, but given that we'd be eliminating the PRP program,
6 the retired pilots, we believe there's probably no need at the
7 present moment to implement any planned furloughs. So all the
8 9,00 would be coming from non pilot categories.

9 BY MR. GALLAGHER:

10 Q Mr. Bastian, can you put in front of you Company Exhibit
11 61?

12 MR. GALLAGHER: This was submitted with our reply
13 brief, Your Honor, and it should be in Volume 4.

14 THE COURT: 61?

15 MR. GALLAGHER: Yes, Your Honor.

16 THE COURT: I got this one.

17 Q Can you identify this document, Mr. Bastian?

18 A Yes, I can.

19 Q What is it?

20 A It is a presentation that I received on November 9th from
21 ALPA, their internal economic department as well as Milestone
22 who is their external bankers.

23 Q Were you present at a meeting where the ALPA
24 representatives made a presentation of this document?

25 A Yes, I was there for it.

1 Q Which individuals made the presentation?

2 A The principal participants were Anna McCaren Schultz who's
3 with ALPA's economic department.

4 Q She's internal to ALPA?

5 A I believe she is.

6 Q Who else?

7 A And Jean Wile who is with Milestone.

8 Q They are outside financial advisors to ALPA?

9 A I believe so.

10 Q I am not going to have you read through every page of this
11 document, but can you tell us generally what you understood to
12 be their thesis or the point of their presentation?

13 A Well, they requested this meeting to present this with a
14 view that the company's ask for \$325 million was excessive
15 because we were not providing already the full billion dollars
16 of savings that Letter 46 called for and as a result if we were
17 to fully implement Letter 46 we could reduce the amount of
18 savings that the pilots would need by \$200 million or so, round
19 numbers.

20 Q If that were true, if there were \$200 million more in cash
21 somewhere, would you be prepared to accept far less as the
22 company's request?

23 A If there was another \$200 million I'd be delighted.

24 Q Indeed, have you already searched for all the money you
25 can possibly find?

1 A We continue to look for it, yes.

2 Q In your view, is there any way that there's another \$200
3 million unaccounted for somewhere that you could use it as
4 cash?

5 A I cannot find any, no.

6 Q Now, is there -- if you would page through to Pages 7 and
7 8. These pages are not numbered.

8 [Pause in proceedings.]

9 Q Can you tell the Court what is reflected on these pages as
10 you had them presented to you by the ALPA representatives?

11 A I'm not sure which page number 7 is. What's the title on
12 it?

13 Q Form 41 data as adjusted for fully realized LOA 46.

14 A Okay.

15 Q Can you briefly tell us what you understood to be the
16 point of this page?

17 A My understanding from the presentation made was that as
18 compared, if you were to compare pilot cost in the second
19 quarter of 2005 to what those same pilot costs were in the
20 second quarter of 2004, one would see that on a year over year
21 basis we area actually realizing savings of approximately \$190
22 million. However, if you were to have assumed that there's \$1
23 billion that Letter 46 provides, that would suggest there's \$60
24 million unaccounted for in accordance with Letter 46 and the
25 \$60 million on a quarterly basis annualized is \$200 million

1 plus or minus that the company still has to realize from Letter
2 46 implementation that the company is not giving the pilots
3 credit for.

4 Q So they were telling you that somehow you had misled them,
5 that there still was \$60 million a quarter or \$240 million a
6 year credit coming to them; is that right?

7 A I don't believe anyone claimed that we were being misled
8 or they were misleading us. I think they were looking at the
9 numbers and indicating that they can't see the savings and
10 there must be something wrong with our numbers and our analysis
11 as a result of that.

12 Q Then if you would look at Page 8 and tell us what is
13 reflected here.

14 A Is that the page right behind?

15 Q Yes.

16 A Sorry.

17 Q It's headed DAL Bankruptcy Business Plan.

18 A This outlines the salaries and benefit cost for the
19 pilots, the flight operations group in 2004 on an annual basis
20 and 2005 and 2006, and if you look at that variance, and I
21 think particularly they zeroes in on the 2007 making some
22 adjustments, they indicate that there was \$200 million of
23 expected savings yet to occur that the company hasn't realized
24 in its business plan.

25 Q So is this an alternate way of them saying the same thing,

1 that there is more than \$200 million of savings yet to be
2 obtained from Letter 46 that they haven't gotten credit for?

3 A I believe that's what they were saying, yes.

4 Q During the course of this presentation, did they simply
5 stand up and present and you listened or was there a dialogue?

6 A Well, there's a dialogue. The analysis was, I have to
7 acknowledge at least for myself personally, it was a little
8 hard to follow because it was jumping around a little bit. But
9 it was a dialogue and we were trying to be given the
10 sensitivity and the importance of the matter and, in fact, if
11 there was \$200 million I'd be the first one to want to know
12 about it. I was very keenly interested in what they were
13 presenting and the opportunity, hopefully the opportunity to
14 add some fact base to it.

15 Q Did you have a response to any part of the presentation?

16 A Well, I did. As it was being presented, and this is the
17 first time I was hearing about this, I did point out to the
18 representatives that there were certain items from Letter 46
19 that for accounting purposes, and again these are accounting
20 numbers, these are not necessarily cash numbers, these are
21 accounting numbers, were already reflected in the 2004
22 baseline, some of the benefits, one of which was pension, the
23 pension benefits as a result of the reduced rates going out
24 into the future. The way the accounting rules require us to
25 account for that pension benefit is actually a reduction, was a

1 reduction in 2004 expense, not in 2005.

2 So if you were to compare 2004 and 2005 you wouldn't find
3 a change because it was already in the '04 baseline and the
4 value of that was roughly \$140 million as we subsequently
5 determined.

6 Q So this was credit they thought they weren't getting in
7 the jump from '04 to '05 and you're saying in fact it's because
8 they got the credit in the '04 number.

9 A The credit is clearly in the \$1 billion and the credit is
10 already reflected in the accounting results of the company
11 starting in 2004.

12 Q Did you explain that back to the ALPA representatives at
13 the time?

14 A I indicated that's what I thought one of the reasons why
15 this discrepancy existed. I told them I need to go back and
16 validate it and talk to my staff. We did it, in fact. I think
17 it was either that evening or the next morning when we came
18 back and indicated indeed that was part of the reason.

19 Q Did you also identify with your staff other reasons why
20 this over \$200 million disagreement was not a correct analysis?

21 A There were several other -- yes, we did. We identified
22 several other areas, some of which we mentioned at the meeting.
23 When I heard it we recalled real time some of the problems of
24 the analysis. Others we had to go back and look at the
25 document a little more carefully to understand it better.

1 corrections to the ALPA presentation.

2 Q So did your department prepare and provide to Ms. Caroland
3 the information reflected here?

4 A They did.

5 Q This e-mail communicates specifically the dollar amounts
6 of adjustments that ALPA missed and the reasons for them; is
7 that right?

8 A That's correct.

9 Q If these adjustments are accepted and you use ALPA's own
10 analytical framework, how much is the annual savings needed
11 from ALPA?

12 THE COURT: Assuming that the other allocations are
13 appropriate.

14 MR. GALLAGHER: Correct.

15 A It's actually \$325 million or maybe slightly more.

16 THE COURT: But if you reallocated the other items
17 one of the questions is is that an appropriate proportion of
18 the sum total to allocate to ALPA.

19 MR. GALLAGHER: And we will address that further,
20 Your Honor, .

21 Q But I do ask you, Mr. Bastian, as you sit here under oath,
22 is it your testimony that ALPA was mistaken by failing to
23 credit \$143 million in pension and disability survivor expense
24 to their numbers for calendar year 2004 expense?

25 A The analysis was faulty to that extent, yes.

1 Q You are certain as you can be as a financial professional
2 that that is their error?

3 A I'm a hundred percent certain of that fact.

4 Q Likewise, on the --

5 THE COURT: Can I ask you a question? Are you in
6 agreement with that or not?

7 MR. SIMON: No, Your Honor.

8 Q The next item, Mr. Bastian, is it your testimony as you
9 sit here today under oath that ALPA's analysis is flawed for
10 failure to account for the pay increase in which -- in May of
11 2004 and the result adds \$23 million to calendar year 2004
12 expense?

13 THE COURT: What pay increase? I never heard of no
14 pay increase.

15 MR. GALLAGHER: In May 1 of '04, Your Honor. I think
16 it's undisputed the pilots got a 4.5 percent increase in pay
17 raise.

18 Q Mr. Bastian --

19 A Yes, if you were to analyze -- annualize the value of that
20 which is what was done in evaluating the \$1 billion
21 contribution you would need to annualize that pay increase over
22 2004 to locate the \$1 billion as compared to 2005. Yes, that's
23 an appropriate adjustment that needed to be made to the
24 analysis.

25 THE COURT: There's something I don't really --

1 there's something I don't understand here. There was a 32.5
2 percent pay rate reduction. How do you have a pay rate
3 reduction at the same time you have a pay rate increase?

4 MR. GALLAGHER: It wasn't at the same time, Your
5 Honor. The pay rate increase was in May 1st and that was under
6 the contract that was signed in 2001. The parties were in
7 negotiations at that point but it wasn't until December 1st
8 that there was an agreement on the 32.5 percent pay cut. So
9 that 32.5 percent cut was off rates that had been six months
10 earlier increase.

11 THE COURT: So it was a net 28 percent?

12 MR. GALLAGHER: I think that's fair, Your Honor,
13 without doing the math.

14 THE COURT: I think four from 32 is 28.

15 THE WITNESS: It is.

16 Q Likewise, Mr. Bastian, the third adjustment that you
17 listed here in this e-mail, is it your testimony under oath
18 that you find this to be ALPA's mistake in failing to credit
19 the fact that the pay increase -- pay decrease went into effect
20 in December and that would result in a \$45 million adjustment?

21 A It is. If you were to look again at the 2004 to 2005
22 comparatives you would need to take into account that \$45
23 million --

24 THE COURT: I think that's really something that's
25 really open to dispute because it is not at all clear to me

1 that that was in fact intended to be part and parcel of what
2 the cut was and that it may have been that the parties actually
3 had already factored that in in considering the 32 --

4 THE WITNESS: There's no question it's part of the 32
5 percent. What we were doing though or what I was doing -- I
6 was responding to ALPA's presentation where if you were to take
7 the 2004 actual numbers which already actually Letter 46
8 started December 1st of 2004 and compare that to 2005 actual
9 numbers you should find \$1 billion of lower costs.

10 One of the explanations why don't when you look at
11 that is that the pay cut actually started December 1st of '04.
12 We're not trying to mention -- say anything about the 32
13 percent, but what we're trying to do is say that you would need
14 to recognize the pay cut actually started earlier than 2005.
15 So \$45 million is an adjustment to the analysis as it was being
16 presented.

17 MR. GALLAGHER: If I may, Your Honor, what we
18 understand that ALPA was trying to do was to use 2004 as a
19 baseline as if the full year 2004 --

20 THE COURT: You want to know something. I don't
21 think you should tell me what ALPA's trying to do because I
22 really believe that they can tell me themselves.

23 MR. GALLAGHER: Well, what we're trying to tell
24 you --

25 THE COURT: I'm trying to tell you that you should

1 tell me what you want to tell me and I'm just asking questions
2 that are along the lines of what you're talking about.

3 MR. GALLAGHER: What we've tried to do, Your Honor,
4 is --

5 THE COURT: I know what you tried to do. Please
6 don't tell me.

7 BY MR. GALLAGHER:

8 Q Mr. Bastian, would you turn to Exhibit 63 and tell us
9 what --

10 THE COURT: I don't understand this net effect of
11 network contraction.

12 Q Would you explain that, Mr. Bastian?

13 A Sure. The \$1 billion was premised that Delta would be a
14 certain size in 2005 and beyond. That was the basis for the \$1
15 billion contribution. We are a smaller airline today than what
16 we actually had intended a year ago to be. So thus the size of
17 the savings is actually a little smaller.

18 THE COURT: So you're saying to me that you shouldn't
19 give him credit for what they agreed to last year because it
20 isn't really fair since you decided to change your plans and it
21 isn't quite going to be as much as it would have been if you
22 had done what you were going to do?

23 THE WITNESS: It's not a question of getting credit
24 back and forth. It's just in the analysis it's to identifying
25 where the \$1 billion is. It needs to be factored in. That's

1 all. We fully agree with the comment that the growth
2 projections were supplied by the company.

3 THE COURT: And they should get the credit for it
4 whether or not you didn't make it or not.

5 THE WITNESS: Well, it's \$50 million of cash we
6 didn't receive.

7 THE COURT: Well, it's \$50 million of cash they
8 agreed to give you if you could figure out how to earn it.

9 THE WITNESS: I agree with that.

10 BY MR. GALLAGHER:

11 Q Would you turn to Exhibit 63, Mr. Bastian, and tell us
12 what's reflected here?

13 A This is what we had sent over to ALPA I think two days
14 after the presentation to us of the missing \$200 million. In
15 it we make the following corrections to the analysis that we've
16 just been talking about that shows that indeed the full billion
17 dollars can be accounted for in these various components.
18 Thus, in 2005 you would not expect to have seen a full billion
19 dollars on a year over year comparative.

20 Q Is a fair way to say what we have here, Mr. Bastian, is
21 you take ALPA's own analytical approach as reflected in Exhibit
22 61 but plug in correct numbers. Is that right?

23 THE COURT: No, you plug in your version of the
24 numbers.

25 MR. GALLAGHER: That's what our witness is

1 testifying, Your Honor.

2 THE COURT: Because I think this \$50 million, the net
3 effect, the network contraction is open to debate as to whether
4 or not that was or wasn't part of the deal.

5 MR. GALLAGHER: Your Honor, there's no debate. That
6 was part of the deal. We gave them full credit for what this
7 debate is about, Your Honor, is something different. They're
8 saying why doesn't -- if we gave you \$1 billion why doesn't it
9 show up in your financials next year as \$1 billion. We're
10 saying well --

11 THE COURT: Then I don't know what this is because it
12 doesn't tell me anything.

13 MR. GALLAGHER: We didn't do the ALPA analysis, Your
14 Honor.

15 THE COURT: Why don't you try -- but you did this.
16 So why don't you try telling me what this is.

17 Q Mr. Bastian, can you walk through this and explain to the
18 Court?

19 A Certainly. The top section which is the 2004 baseline --

20 THE COURT: Right.

21 A The 2004 actual pilot cost were \$2.1 billion, the first
22 number.

23 Q Then we all agree that that is an actual real number.

24 THE COURT: Sir, honestly, please don't interrupt
25 him.

1 MR. GALLAGHER: I apologize, Your Honor.

2 A Then there were certain items that Letter 46 which we've
3 given ALPA full credit for in the \$1 billion. However, the way
4 the accounting rules worked or the way the letter was actually
5 implemented December 1st actually required some adjustment to
6 get to what we consider to be the more appropriate baseline off
7 the measure whether the full \$1 billion has been received and
8 accounted for or not. Those items are the three items
9 mentioned. It's the pension savings, which is \$143 million of
10 the difference. In our -- the financial accounting rules
11 require --

12 THE COURT: The financial accounting rules have
13 nothing to do with what they agreed to. You may have to
14 account for it in one way or another but it doesn't necessarily
15 mean that that's what they agreed to. What you're saying is
16 that in essence they agreed to a number of \$2,000,223,000.00
17 rather than \$2 billion 112.

18 THE WITNESS: What's not in dispute is the \$1
19 billion. What we're saying is though since they were starting
20 with the accounting numbers so we can't ignore the accounting
21 because that was their -- their own analysis started with the
22 accounting numbers. We had to reflect in what year did the \$1
23 billion actually get reflected in the accounting records.
24 There's actually three items that -- or two items anyway, and
25 the third is the annualization impact. It actually shows up in

1 the 2004 numbers, not in 2005.

2 THE COURT: I'm going down from 2323. I get the
3 targeted savings of \$1 million and then the net effect of the
4 network contraction that you add back to them. Yes?

5 THE WITNESS: That's correct.

6 THE COURT: So now they've only gotten \$950 million
7 and then you go and you do the same thing again for 2007 and
8 you only get the required pilot cost reductions of
9 \$1,323,000.00.

10 THE WITNESS: Sorry if I could interrupt, but the
11 billion 323 is actually not the cost reductions but that's the
12 baseline comparative.

13 THE COURT: Then your target 2007 pilot cost
14 including \$325 million pilot cost reduction, that's what you're
15 trying to get now. That would get you 998; right?

16 THE WITNESS: That's correct.

17 THE COURT: But if you included it in Line 2 why is
18 it also -- why is that not double counting when you come down
19 to 325?

20 THE WITNESS: Well, the 998 is when we talked about
21 our business model.

22 THE COURT: This is not supposed to be a subtraction
23 or anything else, that last one. It's just supposed to be
24 something.

25 THE WITNESS: Yes. The 998 is actually the pilot

1 costs that are in our 2007 business plan, the projected --
2 assuming we get the \$325 million of savings.

3 MR. GALLAGHER: If I may, Your Honor, perhaps over
4 the break before the next hearing we can prepare the company's
5 version of this rather than simply trying to correct ALPA's
6 version because all we were doing here was responding to what
7 we saw in their brief last week. We'd be happy to lay it out
8 in a more --

9 THE COURT: I'm happy to have you plead your case in
10 whatever way you want to plead it. If you want to plead it so
11 I can understand it, that's fine. If you want to plead it so I
12 have to keep asking questions, that's fine. But I'm too old to
13 tell you how to practice law and you're too old to have me tell
14 you how to practice law. I don't mind telling the kids that
15 they shouldn't send out 3,250 notices to people who won't
16 understand what they say.

17 MR. GALLAGHER: I'm sorry to acknowledge, Your Honor,
18 that I'm no longer in the kids' category, but I'm prepared to
19 move on and come back on this subject when we reconvene.

20 BY MR. GALLAGHER:

21 Q Mr. Bastian, you've heard discussion in Mr. Simon's
22 opening statement about the Delta culture being dead. Did you
23 hear that?

24 A I did hear that.

25 Q What do we mean by the Delta culture?

1 A Well, I think Delta has a very special bond with its
2 employee, not just its pilots, all of its employees, and it has
3 a legacy of cooperation. It has a legacy of service and it's a
4 legacy of -- but honestly cost efficiency and productivity as
5 well.

6 THE COURT: You mean all of those 9,000 people just
7 love Delta for firing them?

8 THE WITNESS: They certainly don't today.

9 THE COURT: That's what I think. But I'm just saying
10 we have to take account of the fact that what you're doing is
11 contracting sizably a business.

12 THE WITNESS: Absolutely.

13 THE COURT: And that that is naturally going to
14 change the culture.

15 THE WITNESS: No question about it and the culture I
16 was referring to is the historical culture.

17 Q Are dedicated Delta employees that work today --

18 THE COURT: It's the culture that you had 75 years
19 ago when you flew out of that field with your plane and in
20 which the reporter from the Atlantic Constitution didn't
21 understand why I told them that I flew out of a -- not much
22 bigger field fifty years ago. You guys are flying out of
23 airports that are so big now they don't even begin to compete
24 with what we had then.

25 Q Mr. Bastian, you were at Delta for seven years from 1998

1 to 2005?

2 A I was. Six-and-a-half to be accurate.

3 Q Why did you leave?

4 A Well, I left because I wanted in my career to be a chief
5 financial officer. I was being significantly solicited by many
6 outside proposals from outside the company to be a chief
7 financial officer. I think I've got the credentials, very
8 strong credentials to be a very fine chief financial officer
9 and there was a chief financial officer at Delta and the job
10 wasn't open. I talked to Jerry Greenstein openly about that
11 and he concluded he had a chief financial officer and then
12 maybe I needed -- if I wanted to be a chief CFO go somewhere
13 else to do it.

14 Q When you went somewhere else, did you get an increase in
15 your total compensation?

16 A Sizeable.

17 THE COURT: So what happened to the CFO at Delta?
18 When you left he didn't like it and he left and then you came
19 back.

20 THE WITNESS: I can't speak for him, Your Honor.

21 THE COURT: No, but I mean that's what happened
22 basically is that he left and then you came back.

23 THE WITNESS: He left in July of this year and Gerry
24 had called me and asked me if I would consider coming back and
25 being the CFO.

1 THE COURT: I don't really think it makes any
2 difference whether he can make more money if he worked for
3 somebody else. Bill Gates makes more money than any of us and
4 that's the way life is. Some companies pay you more; some
5 companies pay you less.

6 MR. GALLAGHER: Well, Your Honor --

7 THE COURT: You've got some people at Delta who were
8 very highly paid and you got one of them that's getting a
9 pension of \$782,000.00 a year that's out of the defined pension
10 benefit after having already gotten several million dollars.

11 MR. GALLAGHER: Our point here, Your Honor, is that
12 Mr. Simon made reference to Mr. Bastian coming and going
13 yesterday which we --

14 THE COURT: Mr. Simon -- it was not that kind of a
15 reference. I don't understand why you keep thinking -- Mr.
16 Simon is like I am. Mr. Simon makes the same kind of comments
17 I do.

18 MR. HUEBNER: I move to recuse Mr. Simon.

19 THE COURT: He isn't -- how can you complain about
20 somebody coming in and going for six months? I mean it's just
21 kind of like --

22 MR. GALLAGHER: But I do want the record to reflect,
23 Your Honor, that it was at substantial financial sacrifice to
24 Mr. Bastian that he came back because he's part of the Delta
25 culture.

1 THE COURT: I guess what I'd say to you is all that
2 means to me is that Mr. Bastian is not driven by money because
3 if he were really driven by money he would have stayed where he
4 was. He's driven by a desire to work at a certain company and
5 that's the price they pay because if he really wanted to make
6 more money he wouldn't have come back.

7 MR. GALLAGHER: We think, Your Honor, that that's
8 characteristic of many thousands of loyal dedicated Delta
9 employees.

10 THE COURT: You want to know something? My view is
11 that most loyal dedicated employees just like having a job and
12 that they get a job and their boss don't get on their case all
13 the time they'll just stay there. They like the people they're
14 working with, they'll just stay there. We get people down in
15 the clerk's office, been there 25 years and they don't get paid
16 great, but they like the atmosphere. They like the boss.
17 Those are the sorts of things that give people their job
18 satisfaction. They also like something that I've never had,
19 which is they get to come to work at a fixed time and they get
20 to leave at a fixed time and nobody says why don't you read
21 three volumes of Delta books that we're going to deliver to you
22 at 9:00 before tomorrow's hearing.

23 MR. GALLAGHER: I agree with Your Honor. I often
24 like a fixed schedule as well. But I hope, Your Honor, that my
25 timing is good. I'm ready to finish with this witness if I can

1 have --

2 THE COURT: You can.

3 BY MR. GALLAGHER:

4 Q Mr. Bastian, you have submitted three declarations in the
5 course of this proceeding. I believe you have them in front of
6 you. Is everything that's in those declarations remain true
7 today?

8 A It is.

9 Q Do you adopt and incorporate those declarations in your
10 testimony?

11 A I do.

12 MR. GALLAGHER: Your Honor, I would move the
13 admission of the three Bastian declarations and Company Exhibit
14 61, 62, 63, 76 and 81 through 84.

15 MR. SIMON: No objection, Your Honor.

16 THE COURT: These are admitted.

17 MR. GALLAGHER: Thank you, Your Honor. I have no
18 further questions for this witness.

19 THE COURT: It's twenty minutes of six. So I think
20 we will not start. I believe that you've already been told
21 that we are starting at noon on the 28th. We'll go the 29th
22 and the 30th if necessary and we could go on the 2nd.

23 MR. GALLAGHER: Your Honor, I'm advised that I may
24 have one or two more questions for Mr. Bastian but I assure you
25 it won't be long when we resume.

1 THE COURT: In the likelihood that you could go away
2 for a week and not have something else you wanted to ask him
3 would be very surprising.

4 MR. GALLAGHER: Thank you very much, Your Honor.

5 THE COURT: Everybody thinks of another question. If
6 I would have just asked that final key question.

7 MR. GALLAGHER: We wish Your Honor a Happy
8 Thanksgiving.

9 THE COURT: Actually, my daughter is coming home
10 tomorrow with her new husband on some airlines that I have
11 probably never heard of because she is somehow extremely adept
12 at using the computer to find low airline fares on airlines
13 that I wouldn't want to know what they were like.

14 MR. GALLAGHER: We would like to get her onto Delta,
15 Your Honor.

16 THE COURT: I think after I flew Tata that was
17 probably the last time I'm doing something like that. When the
18 U.S. Embassy won't let their own employees fly on the airline
19 because it's not safe you sort of have to begin to have a
20 wonder about these things.

21 So we will see you in a week.

22 MR. GALLAGHER: Thank you, Your Honor.

23 THE CLERK: All rise.

24 * * * * *

25

1 I certify that the foregoing is a court transcript from an
2 electronic sound recording of the proceedings in the above-
3 entitled matter.

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Shari Riemer

7 Dated: 11/21/05

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