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Debtors in Possession

**UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK**

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**In re:** :  
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**DELTA AIR LINES, INC., et al.,** : **Chapter 11 Case No.**  
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**Debtors.** : **05-17923 (ASH)**  
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**DECLARATION OF TIMOTHY R. COLEMAN IN SUPPORT  
OF THE MOTION OF THE DEBTORS SEEKING A DETERMINATION  
THAT THEY SATISFY THE FINANCIAL REQUIREMENTS  
FOR A DISTRESS TERMINATION OF THE DELTA PILOTS  
RETIREMENT PLAN AND APPROVAL OF SUCH TERMINATION**

I, Timothy R. Coleman, hereby declare and state:

**I. Background and Overview**

1. I am a Senior Managing Director of The Blackstone Group L.P. (“Blackstone”), a leading global investment and advisory firm that maintains its principal offices at 345 Park Avenue, New York, NY 10154. Blackstone offers a variety of advisory services to our clients, including an extensive practice in advising large companies contemplating restructurings of their

financial obligations either out-of-court or in a chapter 11 environment. I have worked at Blackstone since 1992. Prior to my employment with Blackstone, I held various positions involving corporate finance and restructuring at Citibank, N.A. for more than 12 years. I earned a Bachelor of Arts degree from the University of California at Santa Barbara and a Master of Business Administration degree from the University of Southern California.

2. I have previously worked on many chapter 11 restructurings, advising both debtors and creditors in various cases, and have extensive experience working with companies in distressed situations. My current and previous restructuring assignments include (a) serving as Plan Facilitator in Bidermann Industries U.S.A., Inc; (b) representing Cable & Wireless USA, Inc., Mirant Corp., RCN Corporation, Xerox Corporation, Williams Communications Group, Inc., Teligent, Inc., Russell-Stanley Holdings, Inc., Indesco International, Inc., Safelite Glass Corp., R.H. Macy & Co., Inc., Barneys, Inc., Plaid Clothing Group Inc., Alliance Entertainment Corporation, Flag Telecom Holdings, Ltd., Geneva Steel Company, Garden Way, Inc., Harnischfeger Industries, Inc., Ermis Maritime Shipping, JPS Textile Group, Inc., Vencor Inc., and Cellnet Data Systems, Inc.; (c) advising various creditors of Camelot Music, Inc., Edison Brothers Stores, Inc., Warehouse Entertainment, Inc., Guangdong Enterprises, Criimi Mae, Inc., Harrah's Jazz Company, Stratosphere Corporation, Weiner's Stores, Inc., Woodward & Lothrop, Inc., Stokely USA, Inc., Vista Properties, Inc., Caterair International Corporation, Carson Pirie Scott & Co., and Liberté Investors; and (d) advising the Special Committees of the Boards of Directors of Sunbeam Corp. and Koll Real Estate.

3. I submit this Declaration in support of the motion of Delta Air Lines, Inc. ("Delta" or the "Company") and those of its subsidiaries that are debtors and debtors-in-

possession in these proceedings (collectively, the “Debtors”<sup>1</sup>) seeking a determination that they satisfy the financial requirements for a distress termination of the Delta Pilots Retirement Plan, Amended and Restated as of July 1, 1996 (the “Pilot Plan”), which is a qualified defined benefit plan governed by the Employee Retirement Income Security Act of 1974. Except as otherwise indicated, all facts set forth in this declaration are based upon: (i) my personal knowledge, (ii) my corporate finance and restructuring experience, (iii) my experience in raising exit financing for chapter 11 debtors, (iv) information concerning the operations and finances of the Debtors, (v) my review of relevant business records of the Debtors, or (vi) information provided to me by Blackstone employees working under my supervision. If called upon to testify, I would testify competently to the facts set forth in this declaration.

4. As described in the declaration of Margaret M. McDaniel (the “McDaniel Declaration”), the Pilot Plan emerged from “liquidity shortfall” by a small margin on July 1, 2006. If it did not, it is virtually certain to emerge by October 1, 2006. As described in the declaration of Edward H. Bastian (the “Bastian Declaration”), Delta anticipates that hundreds of Delta’s senior pilots (Delta’s best estimate being 800 to 1,000 – but the number, based on Delta’s analysis, could be even more) would immediately take early retirement to take advantage of the lump-sum option if the Pilot Plan were no longer in liquidity shortfall and lump sum distributions became available. As described in the declaration of David Watson (the “Watson Declaration”), these mass early retirements would immediately ground a substantial portion of

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<sup>1</sup> The Debtors are the following entities: ASA Holdings, Inc.; Comair Holdings, LLC; Comair, Inc.; Comair Services, Inc.; Crown Rooms, Inc.; DAL Aircraft Trading, Inc.; DAL Global Services, LLC; DAL Moscow, Inc.; Delta AirElite Business Jets, Inc.; Delta Air Lines, Inc.; Delta Benefits Management, Inc.; Delta Connection Academy, Inc.; Delta Corporate Identity, Inc.; Delta Loyalty Management Services, LLC; Delta Technology, LLC; Delta Ventures III, LLC; Epsilon Trading, Inc.; Kappa Capital Management, Inc.; and Song, LLC.

the Company's fleet, and would cause an extremely serious operational disruption and financial crisis at Delta that would last for an extended period of time. This financial crisis would severely challenge Delta's near-term survival, and would render Delta unable to emerge from chapter 11. Among other things, it would also cause Delta, within a matter of months, to violate one or more covenants in its Debtor-In-Possession financings ("DIP Financings" or "DIP"). DIP lenders, perceiving the serious operational and financial crisis as dramatically increasing the probability of their loans not being repaid, could well decide to exercise remedies (including with respect to their collateral), which could lead to a liquidation or fire sale of Delta.

5. Even if Delta were to survive such a severe crisis, unless the Pilot Plan is terminated, Delta will not find lenders willing to provide exit financing necessary for it to emerge from bankruptcy. If the Pilot Plan is not terminated, and 800 to 1,000 pilots retired early, Delta's exit financing requirements would increase from an estimated \$2 billion to between \$5.2 billion and \$6.6 billion. These larger amounts would be required to fund operational disruptions as well as required contributions to the pension plans. If there were 1,200 pilot early retirements, the exit financing need would be \$7.7 billion. As described below, Delta could not raise this huge amount of additional borrowing.

6. Further, the continuation of the Pilot Plan would cause a weakened Delta to bear continued and unpredictable operational and financial risks – including the continuing risk of future waves of early retirements by pilots who decide that either their highly-leveraged employer or the Pilot Plan remains at risk. Subsequent waves could be triggered at any time, by a bad earnings quarter or any other event that adversely affects Delta's financial results or resources. Compounding these problems, Delta will need to continue to compete against low

cost carriers (“LCCs”) that do not have defined benefit pension plans, and other legacy carriers such as United Airlines and US Airways that have terminated their defined benefit pension plans. As a result, even if Delta could somehow obtain this massive amount of exit financing, it will not be able to service this debt, operate as a viable and competitive enterprise and successfully continue in business outside the chapter 11 reorganization process. Thus, unless the Pilot Plan is terminated, Delta will be unable to submit a plan of reorganization that would satisfy the “feasibility” test for emergence from bankruptcy under section 1129 of the Bankruptcy Code. In sum, I believe that Delta will not be viable or financeable and will not be able to emerge from bankruptcy unless it terminates the Pilot Plan.<sup>2</sup>

## **II. Blackstone’s Role in Advising Delta**

7. 2004. Blackstone was first retained by the Debtors in May 2004 to serve as the Debtors’ advisor in connection with raising additional financing, as well as considering possible courses of action to restructure its financial obligations through either an in-court or an out-of-court restructuring. I was personally involved in negotiating additional financing for the Debtors, which was completed in November 2004.

8. 2005. In May 2005, the Debtors re-engaged Blackstone to advise on further financial restructuring matters. I have served as the leader of the Blackstone team through both retentions. In connection with this assignment, Blackstone has analyzed the Debtors’ liquidity, current and projected operating performance, and overall business plan in order to advise them

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<sup>2</sup> Moreover, were Delta to face a liquidation or fire sale in the near term, or otherwise be unable to emerge from bankruptcy, the separate Delta non-pilot pension plan (covering all non-pilot employees) – which Delta currently hopes to save if pension reform legislation just passed by Congress is enacted – would also be terminated (in addition to the Pilot Plan, which Delta believes cannot survive regardless of the pension reform legislation).

on restructuring alternatives. Blackstone has also overseen the process of soliciting and obtaining DIP financing proposals from potential lending sources. Blackstone solicited the interest of several potential lenders with respect to providing DIP financing and six proposals were submitted to the Debtors. The Debtors ultimately negotiated the DIP Financings, which consist of a \$1.9 billion DIP facility from General Electric Capital Corporation and Morgan Stanley, and a \$300 million DIP facility from American Express Corporation. The DIP Financings are secured by substantially all of the Debtors' assets.

### **III. The Pilot Plan, If Not Terminated, Will Trigger a Crippling Operational and Financial Crisis That Will Prohibit Delta From Emerging From Bankruptcy**

9. As discussed in paragraph 4, absent termination of the Pilot Plan, Delta anticipates that there would be 800 to 1,000 early retirements when lump sum payments to retirees were again available. As described in the Watson Declaration, these early retirements would immediately cause the cancellation of thousands of flights; Delta's mainline capacity would be immediately reduced between 29% and 41%. For international routes – the aggressive expansion of which has been a central feature of Delta's restructuring plan – Delta estimates that its capacity would be immediately reduced by approximately 43% to 50%, since those routes are flown by the most senior Delta pilots. Nor will this be a short term problem. As described in the Watson Declaration, significant time is required to train and certify 800 to 1,000 replacement pilots to fly different aircraft types under the FAA approved training programs. Thus, significant disruptions to Delta's operations will continue for many months, Delta's best estimate being 14-16 months.

10. Delta has estimated the loss to net operating cash flow that would result if 800 to 1,000 pilots elected early retirement. I have reviewed the financial analysis that Delta has used to determine the net operating cash flow loss under this scenario, which is described in the Bastian Declaration. I believe that these assumptions and analysis are reasonable. During the 14-16 month period following the early retirement of 800 to 1,000 pilots, the associated net operating cash flow loss is forecasted to be between \$1.3 billion and \$2.1 billion. In comparison, as of May 31, 2006, Delta's total unrestricted cash and short term investment balance was \$2.5 billion. Thus, the anticipated operational disruption would cause a massive drain on Delta's only source of liquidity (since the DIP Financings are fully drawn).

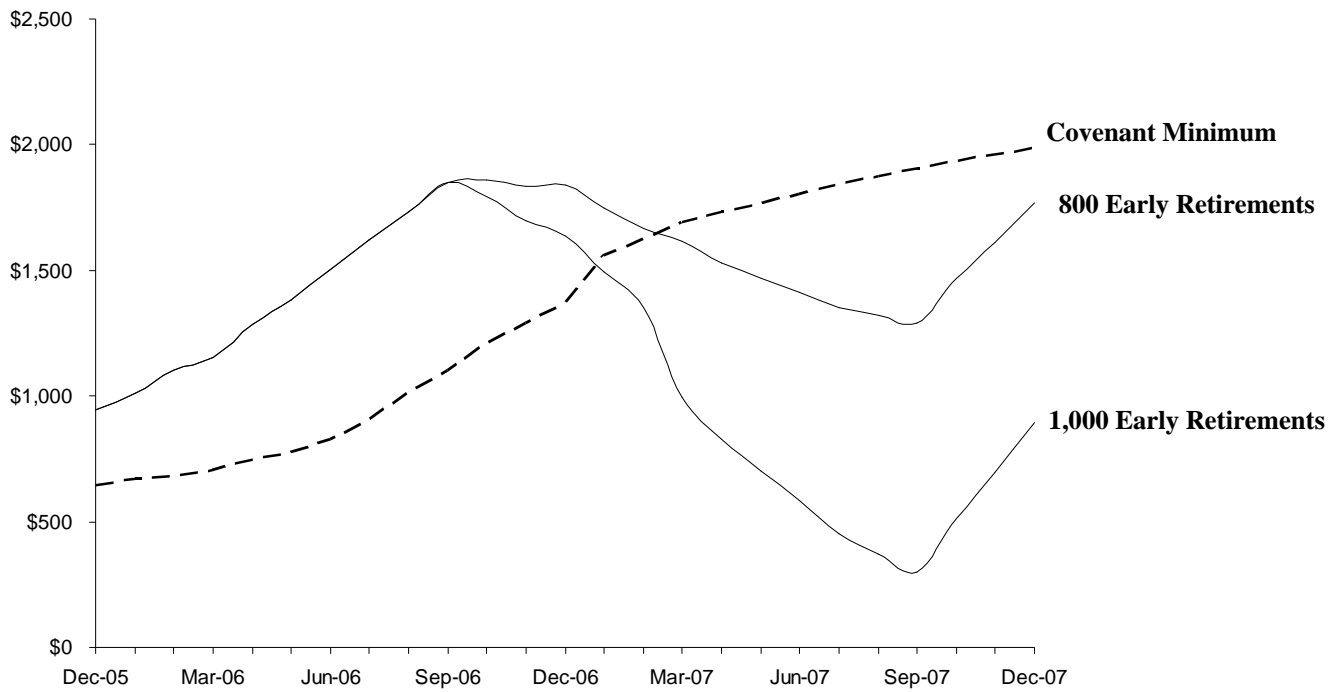
11. The immediate early retirement of hundreds of Delta's senior pilots and the associated grounding of a significant portion of Delta's fleet (particularly its international fleet), would cause a serious financial crisis for Delta that would trigger covenant defaults under the DIP facility, keep Delta from exiting bankruptcy and may cause the Company's liquidation. The DIP Financings require Delta to maintain a gradually increasing minimum level of "EBITDAR" (defined as Earnings Before Interest, Taxes, Depreciation, Amortization, and Aircraft Rent). The loss of EBITDAR as a result of the grounding of scores of aircraft during the months required to train replacement pilots would cause Delta to violate the EBITDAR covenant in the relatively near term. Assuming 800 to 1,000 early retirements as of October 1, 2006, the loss of EBITDAR would cause Delta to breach its EBITDAR covenant by approximately January - March 2007<sup>3</sup>.

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<sup>3</sup> Moreover, in the event there are 1,000 early retirements, the Aggregate Cash on Hand covenant in the DIP Financings would also be breached by April 2007 (or earlier if there were more than 1,000 early retirements).

**EBITDAR Covenant Violated Within  
Months of Lump Sum Window Opening**

**PROJECTED EBITDAR (\$MM)**



12. As described above, EBITDAR would rapidly decline, triggering a default of the EBITDAR covenant within months and effectively crippling Delta both financially and operationally. With no solution for stopping the cash flow drain, immediately resuming the flying of grounded aircraft, and stopping all other negative consequences caused by the pilot early retirements and continuation of the Pilot Plan (including the increased likelihood of Delta being unable to propose a “feasible” plan of reorganization as further described in paragraph 17), the DIP lenders will have little choice but to act to protect their over \$2 billion loans. I therefore

would expect the DIP lenders to pursue their rights under the DIP Financings to protect the DIP loans, including possibly calling events of default, accelerating the DIP loans and seeking immediate repayment, and exercising remedies with respect to collateral.

#### **IV. Termination of the Pilot Plan Is Necessary to Secure the Exit Financing Necessary For Delta To Successfully Emerge From Bankruptcy**

13. Even if the Debtors survive the immediate and severe operational and financial consequences of the mass pilot early retirements and the DIP defaults, they could not emerge from chapter 11 without terminating the Pilot Plan because they would not be able to obtain the necessary amount of exit financing. Assuming 800 to 1,000 early retirements, and assuming 126 other eligible pilots retirements,<sup>4</sup> Delta would need between \$5.2 billion and \$6.6 billion of exit financing to fund its liquidity needs at emergence and the costs associated with the continuation of the pension plans. However, the collateral to support an exit financing would be the same pool of collateral that currently supports the DIP Financings of \$2.2 billion. The available collateral is insufficient to support an exit financing that will be 2.4 to 3.0 *times* the size of the DIP Financings. Moreover, Delta's credit profile will be substantially worsened by the estimated pension contribution requirements to the Pilot Plan, and by payments in respect of the pilot non-qualified plan that Delta is obliged to continue if the Pilot Plan is continued.

14. *The Expected Range of Capital Needed by Delta to Successfully Emerge from Bankruptcy if the Pilot Plan is Continued is \$5.2 to \$6.6 Billion.* Table 1 below indicates that

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<sup>4</sup> I am informed that approximately 1,820 Delta pilots are eligible to retire early on October 1, 2006. In addition, there are 126 pilots (mostly on disability) who are above age 60 and retirement eligible. For all calculations made in the following paragraph in Table 1, it has been assumed that the 126 other retirement eligible pilots over age 60 also retire to secure their lump sums.

Delta would need \$5.2 billion (assuming 800 pilots retire early) to \$6.6 billion (assuming 1,000 pilots retire early) of exit financing if the Pilot Plan is not terminated.

**Table 1:**

(Dollars in millions)

<b>Financing Required at Emergence<sup>(1)</sup></b>		
<b>(Assumes Enactment of Pension Legislation Passed by Congress)<sup>(2)</sup></b>		
	<b>800 Pilots</b>	<b>1,000 Pilots</b>
Cash at 3/30/07 <sup>(3)</sup>	\$1,570	\$1,181
<i>Liquidity Needs at Emergence<sup>(4)</sup></i>		
DIP, Priority Claims and other <sup>(5)</sup>	(\$2,157)	(\$2,157)
Qualified Pilot Pension Plan <sup>(6)</sup>	(1,205)	(1,495)
Non-Qualified Pilot Pension Plan <sup>(7)</sup>	(130)	(130)
Qualified Non-Pilot Pension Plan <sup>(8)</sup>	(25)	(25)
Required Operational Liquidity <sup>(9)</sup>	(2,000)	(2,000)
Cumulative Cash Shortfall	(\$3,947)	(\$4,626)
<i>Incremental Liquidity Needs over 12 Month after Exit</i>		
Qualified Pilot Pension Plan <sup>(10)</sup>	(\$195)	(\$220)
Non-Qualified Pilot Pension Plan <sup>(11)</sup>	(95)	(100)
Qualified Non-Pilot Pension Plan <sup>(12)</sup>	(70)	(70)
Incremental Interest Expense <sup>(13)</sup>	(370)	(525)
Post-emergence net cash flow loss <sup>(14)</sup>	(541)	(1,021)
Cumulative Cash Shortfall	(\$5,218)	(\$6,562)
<b>Total Cash Shortfall / Financing Required</b>	<b>\$5,218</b>	<b>\$6,562</b>

**Notes:**

(1) The required pension plan contribution numbers in this table (i) have been provided to me by Delta or its actuary and (ii) assume that the Independent Fiduciary of the Pilot Plan prevails in its interpretation of the methodology of determination of amount of “liquid assets.”

(2) Please refer to the McDaniel Declaration for description of the proposed pension legislation.

- (3) Per current Delta forecast, estimated unrestricted cash and short-term investments at 3/30/07 assuming termination of Pilot Plan is approximately \$2.3 billion. Due to the estimated \$728 million to \$1.1 billion pre-emergence net operating cash flow losses caused by the 800 and 1,000 pilot early retirements, the estimated cash-on-hand (assuming Delta survives) is \$1.6 and \$1.2 billion, respectively. See Bastian Declaration.
- (4) The numbers for the pension contributions at emergence include the amounts that would be due within two weeks thereof (the April 15, 2007 quarterly calculation).
- (5) Includes payment on GE and AMEX DIP of \$2,015 million, and \$142 million of estimated miscellaneous priority claims and expenses.
- (6) Amounts shown in chart reflect amounts owed under proposed legislation. Under current law, Delta would owe \$1,270 million at exit (or within 15 days) for 800 pilot early retirements and \$1,570 million for 1,000 pilot early retirements. See McDaniel Declaration.
- (7) Delta is currently obliged to continue this plan if the Pilot Plan is continued. These amounts would be the same under current law. See McDaniel Declaration.
- (8) Delta could not afford its obligations to the non-pilot plan under current law, though it currently hopes to save the non-pilot plan if pension legislation is enacted. Under current law, Delta would owe approximately \$535 million at exit (or within 15 days). See McDaniel Declaration.
- (9) Delta has estimated that it will require \$2 billion of minimum operational liquidity at exit. See Bastian Declaration. I have reviewed the financial analysis that Delta has used to determine this number, and have conducted analysis of my own, and believe that this number is reasonable.
- (10) Table 1 reflects the enactment of the legislation just recently passed by Congress. If it is not enacted, for 800 pilot early retirements, this amount would be approximately \$185 million for the 12 month period following exit and would aggregate to \$1,965 million through the end of 2010. For 1,000 pilot early retirements, this amount would be approximately \$220 million for the 12 month period following exit and would aggregate to \$1,955 million through the end of 2010. See McDaniel Declaration.
- (11) Delta is currently obliged to continue this plan if the Pilot Plan is continued. Through the end of 2010, Delta would owe an aggregate of \$485 million for 800 pilot early retirements and \$505 million for 1,000 pilot early retirements. See McDaniel Declaration.
- (12) Delta could not afford its obligations to the non-pilot plan under current law, though it currently hopes to save this pension plan if the pension legislation is enacted. If it is not enacted, this amount would be \$1,240 million for the 12 month period following an assumed exit on 3/30/07 and would aggregate to \$2,420 million through the end of 2010. Assuming legislation is enacted, Delta would owe \$400 million to the non-pilot plan through the end of 2010. See McDaniel Declaration.
- (13) Represents additional interest expense. Under the 800 pilot early retirement scenario, calculated as 11.5% (the blended rate on the DIP) on \$3.2 billion of additional financing over

the \$2 billion existing DIP Financings. Under the 1,000 pilot early retirement scenario, calculated as 11.5% on \$4.6 billion of additional financing over the DIP Financings. If there is no legislation, incremental borrowings will result in incremental interest expense of \$595 million to \$753 million.

(14) This represents the estimated cash loss for the 12 months post-emergence, including the financial impact of 800 to 1,000 pilot early retirements. See Note 3 for pre-emergence impact.

As reflected in Table 1 above, assuming Delta survives, and in each case assuming the 126 other eligible pilots retirements, for 800 pilot early retirements, Delta's estimated exit financing requirement is \$5.2 billion and for 1,000 pilot early retirements, the estimated exit financing requirement is \$6.6 billion. If there were 1,200 early pilot retirements, Delta's exit financing requirement would increase to \$7.7 billion. For reasons I explain below, I do not believe Delta could obtain this amount of new capital.

15. *The Only Feasible Source of Exit Capital for Delta would be the Secured Debt Market.* Under circumstances where the Pilot Plan is not terminated, the only capital source that would consider providing exit capital to Delta would be the secured debt market. If the Pilot Plan is not terminated, Delta's credit and competitive profile would be severely weakened (see paragraph 17 for further details), and its business would be subject to the ongoing risk of pilot early retirements and the resulting operational and financial disruptions. Providers of equity capital and unsecured debt will conclude that the aforementioned risks and consequences far outweigh the potential return on capital of either an unsecured debt investment or an equity investment. Therefore, Delta will only be able to turn to the secured debt markets for exit capital. The existing DIP lenders required \$3.1 billion in non-cash collateral for \$2.2 billion in DIP Financing with super-priority status. Exit lenders will not provide financing materially

above the outstanding DIP loans without additional collateral coverage, which Delta cannot provide.

16. *Delta Does Not Have The Collateral Base To Support \$5.2 To \$6.6 Billion Of Exit Financing.* Delta pledged substantially all of its assets to support the \$2.2 billion DIP Financings. Based principally upon the most recent third-party appraisals, the value of Delta's non-cash collateral is approximately \$3.1 billion. Approximately \$1.7 billion of the collateral is considered "hard" collateral, consisting of fixed assets including accounts receivable, planes, engines, spare parts, and equipment. Approximately \$1.4 billion is considered "soft" collateral, consisting of routes and slots as well as equity in various subsidiaries. Delta has virtually no unencumbered assets today and does not anticipate having additional unencumbered assets at emergence from chapter 11. On the basis of this collateral, the DIP lenders, even with the benefit of the super priority status of the DIP loans, advanced \$2.2 billion in DIP Financings to Delta. Exit lenders will not be willing to provide between \$3.0 billion and \$4.4 billion of borrowings *in excess of the amounts lent under the DIP* but supported by only the same pool of collateral and without the super priority status a DIP lender receives. A value-to-loan ratio (a "VTL ratio") is an important measure used by the secured debt market to measure collateral protection. It is calculated by dividing total collateral value by the total loan amount (with the result being the ratio). The higher the VTL ratio, the greater the collateral coverage and therefore the greater the likelihood that the particular loan would be repaid at maturity or in a liquidation of the underlying collateral. Conversely, a lower VTL ratio means less collateral cushion and therefore a greater likelihood of receiving less than a 100% recovery of the debt under a liquidation. Secured lenders require a collateral cushion above the loan amount. If the

Company's survival is at risk – as would be the case if the Pilot Plan is not terminated – lenders would likely require even more cushion, or a greater VTL ratio.

**Table 2:**

*(Dollars in billions)*

	<b>VTL (Value to Loan Ratio Analysis)</b>		
	<b>DIP</b>	<b>800 Pilots Retire</b>	<b>1,000 Pilots Retire</b>
Cash Covenant Amount	\$0.8	\$1.0 <sup>(1)</sup>	\$1.0 <sup>(1)</sup>
Other Hard Collateral <sup>(2)</sup>	1.7	1.7	1.7
Soft Collateral <sup>(3)</sup>	1.4	1.4	1.4
Total Collateral <sup>(4)</sup>	\$3.8	\$4.1	\$4.1
Facility <sup>(5)</sup>	\$2.2	\$5.2	\$6.6
<b>Value to Loan Ratio</b>	1.7x	0.8x	0.6x

**Notes:**

- (1) Assumes a \$1 billion minimum cash covenant.
- (2) Includes eligible accounts receivable, aircraft, spare parts, engines and other equipment.
- (3) Includes slots, routes and other soft collateral.
- (4) Based on September 2005 appraisals.
- (5) Initial borrowings under the DIP and the exit facilities.

At the time of the DIP financing, Delta's total collateral base of \$3.8 billion (which included \$750 million of balance sheet cash) covered its DIP Financings of \$2.2 billion, representing a VTL ratio of approximately 1.7 (See Table 2). As was the case for Delta's DIP financing, exit lenders will, at times, give credit in the collateral base for the minimum level of cash required under the credit agreement. If the Pilot Plan is not terminated, the required exit financing of \$5.2 billion to \$6.6 billion would translate to VTL ratios of between approximately 0.8 to 0.6 (See

Table 2), meaning that under both scenarios the collateral value is substantially *less* than the total amount of the loan. This range of VTL ratios indicates substantially weaker collateral coverage for prospective exit financing providers than that enjoyed by the DIP lenders. In fact, assuming \$6.6 billion of financing, for every \$1 of debt, lenders would have only approximately 62 cents of collateral coverage. In other words, they would not get fully paid in a liquidation. In contrast, United Airlines' exit financing had a VTL ratio of 2.3<sup>5</sup>, or \$2.30 of collateral for every \$1 lent (calculated assuming United's collateral base only includes cash at the cash covenant level of \$1.2 billion). Comparing this to Delta, the United Airlines exit financing was supported by approximately 2.9 *times* to 3.7 *times* more collateral coverage than Delta's prospective collateral coverage for an exit financing. Separate from the sufficiency of collateral protection, Delta's obligation to make an immediate post-exit contribution of between \$1.4 billion and \$1.7 billion to its pension plans (rather than investing in its operations to improve long term viability) and the volatility in its cash needs due to risk of additional waves of pilot early retirements would make an exit facility even less attractive to exit lenders.

## **V. Termination of the Pilot Plan Is Necessary For Delta To Satisfy The Feasibility Test For Emergence From Bankruptcy**

17. *If the Pilot Plan is not terminated, Delta's Credit And Competitive Profile Will Not Support A Feasible Plan Of Reorganization.* A feasible plan of reorganization will depend on the Company's success at obtaining the necessary exit financing, achieving and maintaining an appropriately capitalized balance sheet and competitive cost structure, maintaining access to capital markets, preserving liquidity, competing effectively and generating profits. All of these

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<sup>5</sup> Calculations and comments based upon data in UAL 8-K filing dated January 7, 2006.

have been central goals for Delta's reorganization in light of the dramatic changes in the airline industry that have increased competition and led to large losses in the airline industry as a whole. Because of the cash funding obligations posed by the Pilot Plan and incremental interest expense and debt amortization from the massive required exit financing (if financing could even be obtained), Delta would have little ability to maintain profitability while also pricing its fares competitively and defending itself against price cuts by lower cost rivals. Recent airline industry trends have included, among others, (a) overcapacity; (b) continued expansion of LCCs, which compete with Delta for 70% of its domestic revenues (on an origination and destination basis); (c) renewed competition from reorganized legacy carriers and (d) historically high and unpredictable jet fuel prices. To ensure viability in the face of these industry trends, Delta must have a cost and revenue structure competitive with those of LCCs and other reorganized legacy carriers. The continuance of the Pilot Plan would severely weaken Delta's cost competitiveness and capital structure. LCCs such as Southwest Airlines, JetBlue and AirTran do not have qualified defined benefit pension plans, and both United Airlines and US Airways terminated their previously sponsored qualified defined benefit plans during their respective bankruptcy reorganizations. In addition to the issue of cost competitiveness, a serious ongoing risk will be built into Delta's business if it is forced to continue the Pilot Plan – the risk of additional operational and financial disruptions of additional early retirements by large segments of Delta's maturing pilot population. Waves of early retirements in the period preceding Delta's bankruptcy filing were largely driven by Delta's financial woes. If the lump sum option is available and Delta experiences another period of financial tightness, pilots would likely again accelerate their early retirements to access the lump sum pension payments under the Pilot Plan. Given all of these circumstances, it is my opinion that, absent termination of the Pilot Plan, Delta

could not submit a “feasible” plan of reorganization, a plan that enables Delta to emerge from bankruptcy, continue as a viable enterprise, and have a reasonable probability of success in avoiding further reorganization or a liquidation.

18. Unless the Pilot Plan is terminated, Delta may not survive the severe operational and financial crisis that would be caused by hundreds of pilot early retirements. In the event Delta survived, I do not believe that lenders will provide exit financing to Delta, or that Delta will be able to submit a plan of reorganization that satisfies the “feasibility” test for emergence from bankruptcy under section 1129 of the Bankruptcy Code. Thus, I believe that Delta will not be able to reorganize or emerge from bankruptcy unless the Pilot Plan is terminated.

I, the undersigned, declare under penalty of perjury that the foregoing is true and correct.

Executed this 4th day of August 2006 in New York, New York.

/s/ Timothy R. Coleman  
Timothy R. Coleman