

Jerry Grinstein's Roadshow
March 25, Peachtree City Georgia

Dave Davis

Insanity: doing the same thing over and over again and expecting to get different results.

Albert Einstein

Mr. Grinstein arrived about 20 minutes early with his entourage. His entourage was Kurt Shular, from the Atlanta Chief Pilot's Office. There was no slide show, just one man talking without notes or script.

The room initially had about 260 seats. A few more were brought in after the meeting started. I estimate that total attendance was about 300.

The meeting began with Brian Pickett (son of Jeff and a furloughed pilot) reading a Safe Harbor statement. The statement went something like this – "blah, blah blah blah, blah". Mr. Grinstein explained that it was not intended for this audience but was a requirement of the SEC. I think what Brian said was "don't make any investment decisions based on what you hear here today."

For about the first 30 minutes Mr. Grinstein spoke about Delta and our current situation. After that, he took questions for about an hour and a half.

Mr. Grinstein began by stating that we are not acquiring Continental and they are not acquiring us.

He then talked about liquidity, a term he would use often and said that after required pension and debt payments, our unencumbered cash would be about 1.9 billion. He encouraged each of us to read the management analysis of our current 10K. You can read , or download the 10K at - <http://investor.delta.com/EdgarDetail.cfm?CompanyID=DAL&CIK=27904&FID=950144-04-2423&SID=04-00>

Mr. Grinstein stated that he is absolutely convinced that this downturn is not a mere blip but a fundamental change in the industry. In the past, although the airlines lived "somewhat on the edge, they were able to make up for that bad times during the good times.

He just does not see a return to business as usual. Our traditional bread and butter, has been the business traveler but business traveler revenues are declining for a variety of reasons including teleconferencing. In the past we have been able to put various "filters" (14 day advance purchase / Saturday night stay) on ticket prices to keep business fares high but those "filters" are breaking down.

There is a transformation under way to what he called value fares which I understood to be walkup fares that were valued by time of day, day of week etc. They are used by Alaska and America West. They have been tried by American. These value fares are spreading and will become an important part of our pricing strategy.

There have been nine attempts to raise fares this year. All but one have failed and that one was initiated by Air-Tran.

Because of the way flights are displayed on computers, a \$1.00 difference in fares can move your off of the first page. Like it or not, there is very little if any pricing power.

In the past, Southwest was the major low cost carrier and we were able to demand about a 50% premium on our tickets over theirs and still keep market share. The travel experience on Southwest is not a particularly good one.

Enter Jet-Blue in 2000 with plenty of leg room, in-flight entertainment and low fares. Their low cost experience is a good one. Jet Blue has been growing at 20% a year and will be five times their current size on a few years. Mr. Grinstein expects to see them in the Caribbean in the near future and eventually in the Atlantic.

Air Tran is growing at about 18% a year and is moving up the "value scale". They now offer Business class and in-flight entertainment.

There will be more low cost "imitators" and they will find investors. There is an infatuation with investing in airlines but the investment dollars are going to go to the low cost carriers.

The low cost carriers have about 25% of the market today and will have about 50% in five years.

In 4Q 2003 all of the low cost carriers were profitable and all of the legacy carriers lost money.

Delta is about 70% exposed to the low cost carriers and they are cherry picking our traffic.

Jet Blue is the largest carrier at JFK.

Mr. Grinstein will be very surprised if U. S. Airways does not return to bankruptcy, probably Chapter 7 this time.

United still has relatively high costs and needs more structural changes.

Northwest costs are lower than Delta's and with the 200 million they are asking from the pilots, they will have costs lower than AA.

Delta's costs are approximately the same as United's and U. S. Airways'.

Delta's loss in Q1 2004 was the largest of any network carrier.

Not including pilot costs, Delta's labor costs are the lowest of the network carriers. When pilot costs are figured in, Delta's costs are the highest.

Delta pilot costs per seat mile are

- 59% greater than AA
- 82% greater than UAL
- 193% greater than Jet Blue
- 207% greater than Air Tran

It costs Air-Tran 65% less than DL to put a seat in the air.

The profit improvement initiative saved DL about \$700 million in 2003 and we will continue to push it this year but we cannot let it affect the quality of our product.

Mr. Grinstein's three top priorities are

1. Reach an agreement with ALPA
2. Push the profit improvement initiative
3. Address balance sheet that is 103% debt to equity.

With our current balance sheet, Delta is at a very grave risk during the next downturn or an "external" event. Our balance sheet was one the envy of the industry but is has been used to subsidize losses over the last 2½ years.

Currently AA is worth twice what Delta is worth. Air-Tran, Sky West are worth about the same, and Southwest is worth 10 times Delta's worth.

We must become profitable to pay down our debt and to survive.

Standard & Poors recently downgraded our debt rating to CCC. Only CCC- is lower without being in default. With this rating, we are having to pre-pay, in cash for services that we used to receive on credit. The CCC rating raises the interest rates on much of our debt and puts us in a position where there is no access to capital markets.

There is a strategic assessment in progress. Everything is open to question. There are no sacred cows.

Mr. Grinstein believes that the abilities of the Delta people are second to none. He would not be here otherwise.

Morale is extremely important. Recent experiences on AA and UAL were very uncomfortable. The morale is bad, there is no eye contact.

Delta's leadership will come from within the company to the greatest extent possible.

Mr. Grinstein's Goals are

1. Reduce costs
2. Get our debt cycling down
3. Assure our survival during the next downturn

This pretty much completed Mr. Grinstein's comments. Many of the questions were not phrased as questions and thusly did not necessarily receive direct answers. In many cases, the questions were actually statements that Mr. Grinstein responded to.

Q.- Did Fred Reid have a non-complete clause in his contract.

A. – He did not have a contract but his SERP did have a clause prohibiting direct, substantial, and immediate competition. Delta is carefully watching Fred Reid and he knows it. We will enforce the non-compete clause. Don't worry too much that Fred took any secrets with him.

Q. – If we have executives in this just for the compensation, then we don't want them – Much applause

A. – Mr. Grinstein agrees. There are going to be people leaving because he won't meet the salary demands. He'd like to keep some of these people but if working for Delta is not "in your gut" then look elsewhere for employment.

Q. - If you get the pilot concessions you need is the debt manageable?

A. – I believe so. If we can start earning (a profit) again, we can go back to “the street”. There are currently six network carriers. He believes that in five years there will be two. His job is to assure that Delta is one of the two. The survivors will be fundamentally different than they are today.

Q. – What happens if costs come down? Do we buy back stock?

A. – No, we issue new stock to improve our capitalization. (There was comment in passing here that I have heard Mr. Grinstein make previously – although he won’t talk about it in detail, I am convinced that he voted against the SERPS and against the stock buy backs.)

Q. – Why are our capital expenses so high? Why are we buying RJs?.

A. – In effect the RJs are a freebie. It costs us nothing out of our pocket, the loans are guaranteed by the Canadian government and each RJ turns a profit.

Q. – Analogy, if the team is doing badly, the coaches blame the team and the coaches are rewarded for the team’s sacrifices. Do we continue to be buffeted by the shifting sands of management?

A. – If what I want for you and for Delta is of no benefit to you, then you should run me out of town on a rail. If we are not on the same page, then it is up to you to let me know.

The old coach is gone. There will be other management changes. The SERPS breached the social contract between management and the rank and file.

Q. – We need consistency and a track record. We need someone like Dave Garrett. How do we know we can trust you.

A. – You have to trust someone – That someone is me. Dave Garrett lives in the area. Call him and ask him if you can trust me. – (Note – I (Dave Davis) have remained friends with Dave Garrett over the years and he has been unwavering in his praise for Mr. Grinstein. Another retiree and I had lunch with Mr. Garrett in late October. At that time Mr. Garrett told us, as he had previously, that Mr. Grinstein was the only man on the BOD that understood the airline business. After the announcement that Mr. Grinstein was coming to Delta, Mr. Garrett related a bit about the Delta / Western negotiations and how Mr. Grinstein’s major concern was the Western employees.)

Here a comment from Mr. Grinstein that Delta is not steel and glass, it is people. When he was chairman of Burlington Northern in Fort Worth, he spent a lot of time with Herb Kelleher. They both have the philosophy “take care of your people” and they will take care of you.

He continued to talk here and said that the two survivors most certainly would be strong in the Atlantic, the Pacific, and Latin America. He felt that we would be flying bigger airplanes on longer stage lengths.

Q. – Will the work rule changes you are asking for result in more furloughs?

A. – I hope not, but probably. A tough decision for the pilot group is whether to give up money to prevent furloughs.

Q. What is the “plan”

A. – there is no precise blueprint. Delta will look very different in one year. Must work to assure that we are one of two survivors.

Here Mr. Grinstein made the statement that Einstein defined insanity as doing the same thing over and over and expecting different results.

Q. – Song?

A. – He didn’t like the idea. Doesn’t like the idea of an airline within an airline. Song has taught us some things about aircraft utilization and turn times. He did put Song on hold but surprisingly it made money in January and February and had higher loads than Jet Blue.

He still is worried about dedicated North-South airplanes in the summer months and although the 757 has low seat mile costs, it has a high plane mile cost.

Q. – Why don’t we go after more passengers?

A. – We will with better fleet efficiencies but we won’t pull airplanes out of the desert. He “can’t wait to go after Air-Tran” once he gets the cost structure he needs.

Q. The B word

A. – He is determined that Delta will exist. He will fight like hell to avoid Chapter 11. It takes a toll on lives. A bankruptcy judge’s job is to protect the creditors not the employees.

Delta must create a market identity. An RJ from DFW to LGA is NOT a quality experience.

The “bag tag” marketing is atrocious and it drives him crazy.

We don’t want to be a marginal survivor, we want to flourish.

Q. - Why is it only the pilots who must make concessions

A. – Others have already given and given. Also, pilots have been receiving raises over the last few years while the other employees have not. Minus pilot costs Delta is the lowest cost legacy carrier. With pilot costs, Delta is the highest cost legacy carrier.

It is difficult to re-negotiate leases with a CCC rating but they are trying.

Q. - Why not an intermediate step in pilot concessions.

A. – That would be misleading. The table position was an approximation of Delta's needs a year ago. If we go to section six, Delta will ask for far more.

Even 600 million in concessions does not get the debt down and that is what we must do. This can't be a "you go down 10, I come up 10 negotiation. We must change our mindset. Either we pay our debt down or we disappear."

Additional comments here that DL sent a mixed message in November when they predicted a breakeven 2004 and a profitable 2005. Message may have been for analysts.

ALPA will once again see the financials in April.

The negotiations must be brought to a conclusion relatively soon.

He has been accused of bluffing. He thinks bluffing is pretending that you have a hand you don't have. He is not bluffing, nothing is secret.

Keep an eye on the liquidity.

Q. – Do we have a plan to brand ourselves?

A. – Yes, we must brand ourselves, we will not survive as a commodity. As Gordon Bethune says – "You can make a pizza so cheap that no one will eat it".

We can never win at cheaper, we must win at better.