

## Notes from Jerry Grinstein's Town Hall meeting, SLC 19May04

*(Thanks to those who were good enough to take notes, and organize and share them.)*

Hello Everyone

The following are paraphrased notes from Mr. Grinstein's meeting in SLC. It was well attended with over 250 in attendance. Everyone present was impressed by Mr. Grinstein's candor, sense of humor, and leadership. He was very well received, often applauded, and well attended by line Maintenance.

From sidebar conversations and comments after the meeting the feeling was we are in the hands of a solid, well balanced leader at the helm with heavy emphasis on character.

Without fanfare or introduction Mr. Grinstein took the stage and seemed to have an immediate bond with the audience.

Mr. Grinstein.....

I recognize many of you from the December meeting. There have been many changes since then. Today we installed a new leadership team, all of whom were chosen because they understand the airline industry. I chose them because they:

- They understand and are committed and have it from the gut
- Did not ask for titles, nor try to negotiate contracts, or discuss pensions, or bonus
- Asked for no special consideration and made no demands

They just signed on. Some of them may be chosen to lead Delta into the future. Some like Vicky Escarra took positions that they had already had in the past because it was necessary.

Before you make any comments about my choosing of Michael Palumbo who worked for TWA, Pan Am and Western all of whom are gone, I know there is a perception that he is jinxed! But what you may not know is that he worked for most of these companies while they were in good financial health. He is credited for keeping TWA alive as long as it was. He also fostered the successful sale of TWA to American.

I need everyone to know that our first quarter announcement of possible bankruptcy filing is not taken lightly. In bankruptcy everything has to be paid cash up front. The liquidity changes are huge. We have got to get our costs down very soon or we will not survive. Operating in debt, is in effect slowly liquidating the company. We've got to get on with it [cost containment] fast.

The combination of change in the economy plus the change in our distribution plus the Low Cost Carrier [LCC] factor are transforming the industry. We are in the end stage of de-regulation and the LCC phenomenon was inevitable.

In the fourth quarter [2003] all LCC's made money and all [Legacy] carriers lost money. Some companies do not keep pace with the market (for instance Wang, Commodore in the computer industry.) There are no villains, it is just something that happens.

The way I see it playing out is that inside of five years, LCC's will continue to grow to about 50% of the market and then their growth will flatten out. Right now in terms of purchase value, AirTran is more valuable than Delta.

**Step 1 - WE MUST ADAPT.**

I have met with the pilots and we don't want to treat them as villains. We will all come together again [when the contract is settled.] Within five years there will be two US global carriers remaining. Mergers,

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acquisitions and liquidations will happen to the remaining [legacy] carriers. American will probably be one of the two. [They are demonstrating that they will do what is necessary to adapt and thrive in the new market.] We are 20 billion in debt [and with oil at \$40.00 a barrel we have big hurdles to clear.]

Step 2 - Once we get our costs in order we must follow American's model of doing everything possible to pay down debt. Sell equity and pay down the debt. The longer we are exposed to the debt the more vulnerable we are.

### STRATEGIC ASSESSMENT REVIEW

Don't look at the strategic assessment as a silver bullet. It is only a guide to keep perspective. It will:

- Tell us what business processes we need to change
- Tell us what our services ought to be
- Probably redefine our pricing to match the simplification the market demands (transparent pricing)
- Clarify our hub placement and network strategies
- Result in fleet simplification
- Look at our distribution channels
- Redefine our market(s)

We must keep an open mind to dynamic change to remain competitive. What we don't want is to end up like US Air who ended up in a third round of negotiations with their unions and they still don't know where they need to be. We want to cause people [competitors] to respond to us instead of reacting to [and following] others.

The current flight banking in Atlanta is inefficient. When the tiniest cloud shows up around the airport it jumbles the operation. We need to flatten out the banks. [This would make the traffic flow more smoothly, something American did in 2003 when Gerard Arpey took the helm there.]

In the final analysis while we would like to get into hubs that offer better premiums, that is just not in the cards at this time. We're going to have to play the hand we have been dealt [in the markets we currently have.]

### QUESTIONS AND ANSWERS

**Q:** Jamie Baker an airline analyst [with JP Morgan Chase] has said that there are too many RJ's in the industry, the pilots must give concessions, that DL should protect Atlanta, how do you respond to this, and is Salt Lake a viable hub for Delta?

**A:** Jamie Baker is one voice among many. RJ's will play a part in the relationship, it's how you use them that we must focus on. Flights over two hours are an abuse of the RJ. Flying from DFW to JFK on an RJ, I just can not do that to my body and I don't expect our customers to. The RJ just does not have the capacity.

Jamie was dead right about the pilot concessions. These costs are in effect liquidating the company.

We have to defend Atlanta but I think we may be too Atlanta-centric.

ATL is an A+ hub, DTW is an A+ hub, ORD is an A+ hub. Salt Lake is uncluttered, true it does not have the population base of a Denver but I prefer the work ethic here to other possibilities. It is hard to retreat from the West, and we need an airline that covers the continent. Salt Lake has a role to play on a continuing basis.

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**Q: What is Song's future, are we going to ever return the 757 back to mainline service, what are the percentage of losses at Song?**

**A: We have seen many times that airlines within airlines do not work. In fact when first asked about it in a Board meeting I said I'd support it if we put the word Swan to the front of the name! Songs costs are only 15% less than Delta. This savings would seem to not tip the needle enough to warrant the cost. That said, I think we need to acknowledge that Song has offered a great learning opportunity, with the shorter turn time initiative for instance. I think the advertising has been poor but some [in the media] have deemed the brand a success. Song has produced better load factors than Jet Blue. In fact Song has made money for January, February, March and April. When we get [Delta mainline] costs down, Song may have something to offer that I have not thought of. Further, Song may enable us to recapture markets we have left and possibly lead the way for Delta mainline to move back in when warranted. I'll continue to monitor Song into June, July and August.**

**Q: If we have to go into chapter 11, what is the timeline and what would the impact be on daily operations?**

**A: Let me preface this by saying that entering into chapter 11 is very very undesirable. A pilot in DFW told me that he would rather see Delta go into bankruptcy before he would visit compensation reductions. I responded by saying you want to think long and hard about what you are saying . Chapter 11 is not about people, pensions and work rules. It is about creditors . I don't know the actual time line, it is contingent on a drop in liquidity. I would not go into bankruptcy unprepared [financially] to come out. I can tell you that we would not look as we did coming out as we did when we came in [to bankruptcy.] As for the impact on daily operations I don't know. There would be fundamental changes.**

**Q: (Unknown Captain) Let us jump ahead to a better day. Boeing is launching a new breed of aircraft with their 7E7 line-up. Down the road can we look at getting the 7E7 in the handy 767, 757 and 737-300 sizes? These aircraft would be of one category [similar cock-pit and training issues cover all sizes of 7E7.] The cost savings of having one category of aircraft would be staggering.**

**A: Models changing the industry are Southwest and Jet Blue [both operate a single category of aircraft.] It is said that Will Rogers never met a man he didn't like and Delta never met a plane they didn't buy! Boeing has not spoken with me yet. We're not able to buy airplanes we currently have on order because we can't afford them right now and we are working with them to delay or defer them. We must standardize our fleet.**

**Q: We work in Bozeman so we don't have ready access to information like the Salt Lake people do. Do we have two sets of books as it has been rumored, where are we with the pilot negotiations, how did the pilots respond today, are we being groomed for a merger, and I get many customer complaints that they can not understand our "agents" in India and neither can I.**

**A: Whew, Let us begin! Hmmm, Sarbanes-Oxley [the Sarbanes-Oxley Act of 2002 resultant from the Enron Scandal strictly scrutinizes corporate accounting practices, and offers some of the clearest definitions of what is and is not legal accounting practice. Violation of it can set one up for draconian punishment.] At 71 years of age am I going to lie?, because even a short prison sentence is a death sentence for me! It isn't possible to have a second set of books. Delta has always been one of the straightest companies I have ever seen with their books.**

**Regarding the pilot negotiations we are quite a distance apart with them. The numbers we set forth are structural not cyclical. We have to get closer and we can't jump across a chasm a little at a time. US Air has done this. We cannot borrow more money. If the pilots gave us every penny we are asking for we**

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would still have a way to go. I BELIEVE IN PROFIT SHARING FOR NOT JUST THE PILOTS BUT FOR EVERYONE. We have opened the books to ALPA.

**Merge or Survive?** Delta has a lot of residual value. My wish/expectation is that Delta should be a survivor and ultimately an acquirer.

Regarding outsourcing, computers are a static piece of equipment [Delta is much more complex.] I understand that a representative in a call center may be able to help someone with a computer problem but we need to look at what we are outsourcing when it comes to our customers. I understand that the RJ is a problem in some markets, we probably shouldn't have pulled the 737 out of many of the markets.

**Q:** What happened to our fuel hedging program? **Comment:** We want our leaders to lead by example.

**A:** Hedging, as our credit rating diminished, it became harder to pre-pay for fuel. For now it is out of the question. [Regarding the comment] I absolutely agree that we should lead by example. I look for five attributes when I select leaders. I look for:

- Compassion
- Integrity
- Intelligence
- Good judgment
- And leadership [command presence] Will people follow them?

Some of these skills can be learned, some are innate.

**Q:** Our local newspapers say SkyWest is booming and we are losing money in Salt Lake. There is something wrong with the contract. Also in light of the economy perhaps paying full benefits with our part timers was a mistake. Why do we still offer benefits to part timers?

**A:** RJ's at least for now give a return on the investment, that's why it's so easy to finance them. Unfortunately we do not currently enjoy this same return on mainline equipment. RJ's hold their value because they are in demand. Our 767's, 757's 777's etc. currently are not holding their value [due to the market being flooded with returned aircraft for various reasons.]

I did not negotiate the [SkyWest] contract and at the moment economics are on their side. If it wasn't SkyWest it would be somebody else. Comair and ASA are profitable.

Regarding the benefits for part time agents, I don't know but it seems if you want to attract the kind of people you want to attract, you are probably going to have to offer benefits to part timers.

**Q:** Is National ALPA running the show in the negotiations?

**A:** I don't think so. The local negotiators for Delta ALPA are handling the negotiations. I think that National ALPA too wants what's best for its Delta members .

**Q:** I know we are getting ready to re-furbish our aircraft interiors which need it badly. What are we going to do to support our best asset which is our front-line people?

**A:** Our most important asset IS OUR People! It is a function of attitude and ability. Our success relies on our people. I feel our people have to be paid as best as possible. We must listen to our people. You can't know how to run this company from an office in Atlanta. No favors, no waivers told our people in effect that we didn't trust them and we didn't value our customers. We have to

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trust our people in order for them to make good decisions in what is many times an environment without immediate supervision .

**Q: I'll keep this to one question this time <as Jerry looks up at the ceiling with a hint of dread!> We have gone through four contractors in Bozeman who de-ice our airplanes when it is 20 below and work just as hard as we once did on the ramp and yet they have no benefits. Would it be so hard to offer a benefit such as limited passes for our business partners?**

**A: Outsourcing is not always bad as long as your core responsibilities are well defined and adhered to. For instance, to outsource Reservations would be a violation of this! I'll look into it.**

**Q: When the pilot contract is settled, how much give-back are you going to ask from us in [Airport Customer Service] ACS?**

**A: I believe you have already given. All of our people are paid at the market rate except for the pilots. I do not anticipate asking for more.**

**Q: Comment - I am known by my Chinese name "Low Tech." It is difficult to get through to Reservations even for us here at work. Also I think the [delta.com] website is difficult to navigate.**

**A: I'm your cousin "No Tech!" I didn't know that, I'll look into it.**

**Q: I support cross utilization but I don't think it is being used as effectively as it could be. I know at times they are asking for overtime in Reservations and due to technical limitations (to track hours worked in a different department) we as agents over at the airport can't be considered to pick up some of the work load there. It seems that we have many ACS agents that work two jobs to stay afloat. Why can't we pick up hours over in Reservations if we want to help out? I think this would be a better use of cross utilization for Delta.**

**A: I'll find out.**

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### CLOSING THOUGHT

**This is do-able but it is going to take some BIG changes. At the end we've got to all come together again.**