

## — PARTICIPANTS

### Corporate Participants

**Jill Sullivan Greer** – Managing Director - Investor Relations, Delta Air Lines, Inc.  
**Richard H. Anderson** – Chief Executive Officer & Director, Delta Air Lines, Inc.  
**Edward H. Bastian** – President & Director, Delta Air Lines, Inc.  
**Paul A. Jacobson** – Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.  
**Glen W. Hauenstein** – Executive Vice President and Chief Revenue Officer, Delta Air Lines, Inc.  
**Kevin Shinkle** – Senior Vice President and Chief Communications Officer, Delta Air Lines, Inc.  
**Peter W. Carter** – Chief Legal Officer & Executive Vice President, Delta Air Lines, Inc.

### Other Participants

**Andrew G. Didora** – Analyst, Bank of America Merrill Lynch  
**Darryl Genovesi** – Analyst, UBS Securities LLC  
**Jamie N. Baker** – Analyst, JPMorgan Securities LLC  
**Julie A. Yates-Stewart** – Analyst, Credit Suisse Securities (USA) LLC (Broker)  
**Helane Becker** – Analyst, Cowen & Co. LLC  
**Mike J. Linenberg** – Analyst, Deutsche Bank Securities, Inc.  
**Dave E. Fintzen** – Analyst, Barclays Capital, Inc.  
**Rajeev Lalwani** – Analyst, Morgan Stanley & Co. LLC  
**Duane Pfennigwerth** – Analyst, Evercore Group LLC  
**Savanthi N. Syth** – Analyst, Raymond James & Associates, Inc.  
**Michael Sasso** – Reporter, Bloomberg, Inc.  
**Edward Russell** – Reporter, Flightglobal  
**David Koenig** – Business Writer, The Associated Press, Inc.  
**Sheryl Jean** – Business Reporter, The Dallas Morning News

## — MANAGEMENT DISCUSSION SECTION

Operator: Good morning ladies and gentlemen and welcome to the Delta Air Lines September Quarter Financial Results Conference Call. My name is Meloney and I will be your coordinator. At this time, all participants are in a listen-only mode. A question-and-answer session will follow today's presentation. [Operator Instructions]

As a reminder, today's conference is being recorded. I would now like to turn the call over to Ms. Jill Sullivan Greer, Vice President of Investor Relations.

### Jill Sullivan Greer, Managing Director – Investor Relations, Delta Air Lines, Inc.

Good morning, everyone, and thanks for joining us for our September quarter call. Speaking on the call from Atlanta today are Delta's CEO, Richard Anderson; our President Ed Bastian; and our CFO, Paul Jacobson. We have the entire leadership team here with us for the Q&A.

Richard will open the call, Ed will then address our financial and revenue performance, and Paul will conclude with a review of cost performance and cash flow. To get in as many questions as possible during the Q&A, please limit yourself to one question and a brief follow-up.

Today's discussion contains forward-looking statements that represent our beliefs or expectations about future events. All forward-looking statements involve risks and uncertainties that could cause

the actual results to differ materially from the forward-looking statements. Some of the factors that may cause such differences are described in Delta's SEC filings. We'll also discuss non-GAAP financial measures. All results exclude special items unless otherwise noted. You can find a reconciliation of our non-GAAP measures on the investor relations page at [ir.delta.com](http://ir.delta.com).

And with that, I'll turn the call over to our Chief Executive Officer, Richard Anderson.

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**Richard H. Anderson, Chief Executive Officer & Director**

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Thanks, Jill. This morning Delta reported a \$2.2 billion pre-tax profit for the September quarter, a 33% improvement year-on-year as our business continues to perform exceptionally well. We delivered earnings per share of \$1.74 versus consensus estimates of \$1.71. As demand is good, we essentially held revenues flat against a steep decline in fuel, which allowed Delta to bring about two-thirds of our fuel savings to the bottom line for our owners.

Therefore, despite economic uncertainty in some international markets such as Brazil and Japan and the impact of the strong dollar, we were able to expand operating margins by 5 points to 21%, and improve earnings per share by 45%. We generated \$2.4 billion in operating cash flow and \$1.4 billion in free cash flow in the quarter. And we have delivered a return on invested capital of 26.3% for the last 12 months.

We reduced our net debt by \$1 billion year-on-year, held our non-fuel CASM growth to 0.9% in the quarter and we have returned over \$2 billion of cash to our owners' year-to-date. These types of results investors expect from a high-quality industrial company like Delta; our metrics rank among the top 10% of S&P Industrials. Our free cash flow performance puts Delta in the company of companies like 3M and Lockheed Martin.

Our work over the past decade has produced a strong and durable foundation. We have consistently hit our EPS and cash flow commitments over the years. We will leverage that foundation in order to consistently produce strong and dependable earnings and cash flows throughout the business cycle.

At the base of that foundation are the people of Delta and our unique employee culture. Our outstanding results this quarter were made possible by the dedication of our employees who work hard every day to provide the best operation and service in the industry.

Last month, we took steps to improve wages for our employees and announced a 14.5% base pay raise for our ground and flight attendant groups that will take effect at December 1. This will be accompanied by a change to our profit-sharing program starting in 2016 in response to feedback from our employees who want more certainty in their base pay while maintaining a variable component of compensation that is tied to the company's profitability and aligns all of our incentives across the enterprise.

We continue to run by far the industry's best operation. In September quarter we delivered a record 99.9 completion factor including 40 days with zero cancellation and our on-time rate improved to a point to 86.1. In the month of September alone, we cancelled only 13 flights out of more than 83,000 flight; performance our competitors will not match. And I actually have to repeat that. In September alone, we cancelled only 13 flights out of more than 83,000 flights and our competitors can't match it.

This type of performance and the investments we have made in our network and product are driving the best revenue generation in the industry as our domestic premium stands at 14%. We continue to benefit from the decline of fuel prices which provided more than \$1 billion of benefit this quarter and at current prices will drive a \$750 million benefit in 4Q.

As a result, we are uniquely positioned among global industrial peers to drive record earnings in the face of the strong dollar and economic uncertainty in some international markets. The level of cash we expect to generate from these earnings will put us in the top 10% of the S&P 500.

While industrial revenue is currently weaker because of the strong dollar and the runoff of fuel surcharges, we still have strong margins overall because of lower fuel, and we see good opportunity over the long-term internationally. To this end, two of our major initiatives over the past several years have been investing in our Latin network and restructuring our Pacific franchise.

During the quarter, we increased our stake in GOL Airways down in Brazil, the largest Brazilian domestic carrier to just under 10%, and also entered into a long-term exclusive partnership with China Eastern to build a hub in Shanghai, which includes our taking a 3.5% ownership position in China Eastern.

Ultimately, JVs will give us the foundation to build the leading U.S. gateways to China and Brazil, including hubs in Shanghai and Sao Paulo with our great partners China Eastern, China Southern and GOL. Our partnerships with these carriers along with Virgin and Aeroméxico will further our efforts in these regions and in Western Europe and Mexico and provide significant long-term upside for Delta.

Delta is quite unique in these investment strategies as we are the only U.S. carrier with equity investments coupled with long-term JVs and commercial cooperation with airlines in Asia, the United Kingdom and Latin America.

We've proven with Air France-KLM and Virgin Atlantic that we have a unique model that creates huge value for our owners. The cash we are generating allows us to fortify our balance sheet. We've reduced our net debt by more than \$10 billion over the last several years and we're on track to reach \$4 billion in net debt by 2017. This progress has been recognized by the rating agencies and today we are just one notch away from investment grade as we run this company on investment grade metrics.

At the same time, we accelerate capital returns to our owners. We've repurchased 8% of our equity since buying our first share just 26 months ago. We expect to return \$2.5 billion of cash to our owners this year and we will continue returning more than 50% of free cash flow to our owners going forward. We have a significant opportunity ahead as fuel prices remain low and we continue to push forward to achieve positive RASM.

RASM growth remains a key component of how we drive margin improvement over time and we remain committed to improving our unit revenue trajectory. Our plan is to manage the business tightly and preserve the fuel savings to drive margin expansion.

In May, we outlined the key metrics and specific long-term targets for our business to attain. These include delivering annual EPS growth of greater than 15%, achieving returns on capital of 20% to 25%, and generating operating and free cash flow in the range of \$7 billion to \$8 billion and \$4 billion to \$5 billion respectively. We have consistently achieved our long-term goals and we'll continue to do so regardless of the direction of fuel prices.

For the fourth quarter, our system capacity will be flat year-on-year with fuel down about 40% year-on-year. We expect another record quarter with operating margins in 4Q of 16% to 18%. In addition, strong cost discipline is imperative. Since 2008, we have kept our non-fuel cost growth below a 2% compounded annual growth rate. We are using the current environment to evaluate and prune cost across all parts of the business, including our overhead functions, making sure that we're investing in the right parts of the business and at levels we can sustain over time regardless of fuel prices and the economic cycle.

As we lay out the framework for 2016, we are not recasting our business below fuel prices. Instead, we budget fuel prices significantly higher than the forward curve. Because fuel remains volatile, we will be prudent in how we manage our expense, capital, and our capacity.

Our initial plan is for 2016 capacity to be in the range of flat to up 2%. We believe that this is an appropriate level of growth to balance capital investments, supply and demand, and ensure the momentum in our business continues.

By prudently managing all aspects of our business, we can make strong progress against our financial targets and continue to work toward earning the premium valuation of other high-quality industrials, who produce similar results to Delta's, the results we announced today. But with that said, Delta today trades at a 40% discount to our S&P peer group.

So before I turn the call over to Ed and Paul to go through the details of the quarter, I want to congratulate Jill Greer on her promotion to Vice President. Very well deserved and thank you for all your contributions to Delta. With that, Ed?

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**Edward H. Bastian, President & Director**

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Thanks, Richard. Good morning, everyone. Thanks for joining us. We delivered the best quarter ever posted in the industry in the September quarter with pre-tax income increasing 33% to \$2.2 billion. Thanks to the Delta employees for their contributions to an outstanding quarter; a performance that drove our profit sharing accrual of more than \$560 million. This brings our profit sharing total to \$1.1 billion year-to-date. We have already surpassed the total profit sharing paid last year, so the upcoming Valentine's Day will be especially sweet for Delta team.

We expanded our operating margin more than five points to 21%, which is at the high end of our initial guidance range. Our revenues were roughly flat despite facing a \$235 million headwind from foreign exchange.

Our commercial initiatives are producing great revenue momentum. Corporate demand remains solid with volume growth of 5%. In the domestic entity, corporate growth was notably strong in the transcons and West Coast markets as we successfully leveraged our investments in New York, L.A. and Seattle. We saw meaningful improvements in our healthcare, financial services, and media sectors offsetting declines in energy and manufacturing.

We've rolled out Branded Fares in 462 markets and the initiative continues to go well delivering an additional \$75 million in high margin revenue for the quarter. We are especially pleased with sales in Comfort+, which increased 42%; and First Class Upsell, where we increased our paid first class load factor to 56%, up 8 points year-over-year on a base of 5% more first class seats.

Our agreement with American Express produced over \$100 million in incremental value this quarter. As you may recall, we renewed our contract with American Express at the end of last year. We have a great partner in American Express and continue to expect that revenue benefits will double over the next few years as we work together to enhance our leading co-brand offering for customers.

Our cargo business is facing a similar dynamic to our passenger business, with domestic performing well, while the international business is facing significant currency and related demand headwinds. For the September quarter, passenger unit revenues declined 4.9%, which was in the upper half of our initial guidance range of down 4.5% to down 6.5%. Domestic unit revenues declined 3% as yield pressures continue in a fashion similar to previous quarters.

Despite the yield decline, we are quite pleased with the profitability of the domestic business. We've been able to expand our domestic revenue premium, while growing our topline cost effectively through higher gauge and strategically expanding service in our hubs in New York, Seattle and Los Angeles.

Our Seattle domestic RASM was on par with the entity average despite a 24% increase in capacity. Our significant investment in the city has grown regional connectivity, and local traffic and yield strength is outpacing capacity growth. The RASM performance in New York and Los Angeles were both above system average as the benefits of our investments continue to mature. JFK-LAX saw RASM improvement and load factors up 3 points.

Our international business continues to face headwinds from foreign exchange and lower fuel surcharges. We are actively addressing these areas of weakness by making sizable capacity reductions in the winter schedule. The trans-Atlantic entity was challenged by currency pressure and industry capacity growth outpacing passenger demand. Currency pressures in the quarter were partially offset by improved U.S. dollar point-of-sale.

As a result, unit revenues in the trans-Atlantic declined 9.5% with 6.5 points of that income impact coming from FX, which represented \$120 million in that entity alone. Core European market demand remained strong though, while we are addressing the headwinds in Africa, Middle East and Russia.

Our trans-Atlantic JVs with Air France-KLM and Virgin Atlantic saw our margins expand once again despite these continued currency pressures. We are using the success of these joint ventures as the model as we deepen our partnerships with carriers in other parts of the world. We also acquired six additional pairs of slots at London Heathrow which will further strengthen our position in the most important business market in Europe.

In Latin America, our unit revenues were down 5% driven entirely by currency, primarily in Brazil. Our capacity growth in the region slowed to 2% this quarter after eight consecutive quarters of growth that was materially above the system average. Mexico and the Caribbean are mostly U.S. dollar point-of-sale and as a result continue to do well.

During the quarter, we increased our ownership stake in GOL to just under 10% and we continue to work closely with them to address the economic uncertainties in Brazil. We expect open skies with Brazil in the next year and intend to file for antitrust immunity shortly thereafter. We also expect to receive antitrust immunity and establish a joint venture with Aeroméxico in the coming months. Ultimately, we expect to have immunized profit sharing joint ventures with the leading carriers in the two largest markets in Latin America.

In the Pacific, the revenue environment remains challenging with unit revenues down 9% during the peak resort market season on 4 points of lower capacity. Currency and fuel surcharges were a 14 point drag on unit revenue in the quarter. Specifically, the yen revenue headwind was \$55 million net of hedges. As we've outlined previously, restructuring our Pacific network is one of our biggest opportunities for margin improvement going forward. We are pleased with the initial results we are achieving.

Our Narita hub margins expanded by 7 points excluding hedges over the last 12 months and we have restored the hub to profitability. There's certainly more work to get to our targeted return levels, but this is an important milestone for the entity. And we've taken the next step forward by making a \$450 million investment in China Eastern and establishing a long-term commercial partnership. China Eastern is one of the largest Chinese airlines and the home carrier in Shanghai, the commercial capital of China. And this relationship will allow Delta to broaden its reach in Asia.

Now, looking ahead to the December quarter, we'll continue to leverage opportunities in our network while reducing capacity in areas most affected by currency, macro and geopolitical uncertainties. Our domestic pre-tax margins improved 8 points ex-hedges to 22% in the September quarter with our largest hubs delivering margins well above this level. As a result of the continued strong performance in the domestic market, we are planning for 3% growth in this region for the fourth quarter, in line with how we see demands and economic growth in the U.S.

Our domestic growth is focused on areas where past investments now allow us to offer a superior network, product and service, which is enhancing profitability in returns and driving the expansion in our domestic unit revenue premium to the industry. We will reduce international capacity by 4.5% this quarter with cuts of 20% or more in places like Japan, Brazil, Russia and the Middle East, while we continue to invest in certain parts of our international network like Mexico and China.

The combination of domestic growth and international reductions will result in our capacity being flat at the system level for the fourth quarter. And we expect these actions to help drive improvement in our unit revenue performance, which we forecast will decline 2.5% to 4.5% for the December quarter. This forecast includes a 2-point headwind from currency. The quarter will be a bit choppy; November is expected to post the best monthly result and December the weakest, due to the Thanksgiving holiday shift, with October somewhere in between.

This conservative growth profile is an environment where we expect – in an environment where we expect fuel prices will be down by almost half demonstrates our commitment to getting RASM on a positive trajectory. While we set as a goal early this year to get RASM flat to positive by year end, the continued low fuel price environment and steeper FX headwinds have made achievement of our goal more challenging. In fact, fuel prices have declined 25% further from when we initially set this goal in early June; but it's still an important goal for our commercial team even if it happens on a slightly longer timeline. While we may see pressure on RASM for longer, we're getting significantly larger cost savings from fuel and therefore margin and cash flow benefits. So as a result, we expect a record fourth quarter with an operating margin of 16% to 18% up 4.5 points on a year-over-year basis.

Now, I'll turn the call over to Paul to go through details on cost and cash flow.

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**Paul A. Jacobson, Chief Financial Officer & Executive Vice President**

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Thanks, Ed. Good morning, everyone. Thank you for joining us. I'll start by highlighting another strong cost performance of Delta this quarter. Lower fuel prices and strong cost controls contributed to a roughly \$650 million decline in total operating expenses despite 3% higher capacity. Non-fuel CASM increased by 1% as we continue to benefit from our re-fleeting and cost reduction initiatives. A benefit accrual related to the recently announced pay increases for Delta employees created about a point of pressure that was not included in our initial outlook, but our performance remained consistent with our stated goals.

We have built a good foundation for cost productivity and our upgauging initiatives are creating operating leverage that will benefit us for years to come. In fact, since 2008, our domestic gauge has increased from about 104 seats to 118 seats, and we expect it will increase further over the next several years. FX also benefited non-fuel CASM by a little more than a point during the quarter.

Looking ahead to the December quarter, we expect non-fuel CASM to be up about 2%. Expenses related to the pay increases that go into effect on December 1 are creating about a point of pressure, while international capacity reductions are also creating a temporary headwind for CASM, as the cost takeout associated with these changes comes at a lag.

Turning to fuel, our total fuel expense declined by over \$1 billion in the quarter as lower market fuel prices more than offset higher consumption. Our all-in fuel price was \$1.80 per gallon, down from \$2.90 in the same period last year. We expect this will be below the industry average price for the quarter.

The refinery made a record \$106 million profit this quarter, up from \$19 million in the same period last year. Lower crude costs, a favorable crack spread environment, and increased throughput drove the refinery's profit. Our average throughput at the refinery for the quarter was 200,000 barrels per day and we produced over 40,000 barrels per day of jet fuel at the plant. For fourth quarter, we are projecting a profit of approximately \$30 million for the refinery, which would bring the full-year contribution to \$320 million.

The moderation from 3Q profit levels is driven by typical seasonality and crack spreads. We currently expect our December quarter fuel expense will be \$750 million lower year-over-year. Our December 2015 results are net of roughly \$250 million in hedge losses. At a \$1.75 to \$1.80 per gallon, our fourth quarter fuel price will be \$0.85 per gallon below last year's all-in fuel price, and we expect again to be below the industry average. For the fourth quarter, we are approximately 40% hedged against an increase in prices with approximately 70% downside participation to Brent prices of \$40 a barrel.

Moving on to cash flow. We are using our strong cash generation in a balanced, deliberate and sustainable manner to reinvest in the business for long-term, further strengthen the balance sheet, and return increasing levels of cash to shareholders. This quarter we generated \$2.4 billion of operating cash flow, which provided us with an ability to fund a strategic investment in China Eastern, a partnership that will drive significant value over time.

Capital spending for the third quarter was just over \$1 billion, including China Eastern and GOL, strategic investments made during the quarter. For the December quarter, we're projecting roughly \$1 billion in CapEx also, which consist of aircraft acquisitions, fleet modifications and includes the purchase of the six pairs of slots at Heathrow that Ed mentioned earlier.

Free cash flow during the third quarter was \$1.4 billion of which 40% was returned to shareholders, including \$107 million of dividends and \$425 million of buybacks. We expect to return roughly \$500 million to shareholders, again in the fourth quarter. That will bring us to roughly \$2.5 billion in returns this year, which equates to 7% of our current market cap, and approximately 60% of our free cash flow. We continue to expect to return more than \$6 billion through 2017, while also reducing debt to \$4 billion, while we continue to proactively fund our pension plan.

Adjusted net debt at the end of September was \$6.4 billion, and our debt reduction lowered interest expense by \$33 million in the quarter relative to last year. We expect our debt to trend slightly higher in Q4 due to seasonality in cash, but we'll end the year below \$7 billion as we remain on track to hit our goals. The improvements in our balance sheet were recognized this quarter with upgrades from S&P and Fitch, which both, now have Delta just one notch away from investment grade.

That momentum allowed us in August to refinance our senior secured credit facility ahead of its scheduled maturity. The new borrowings include a \$1.5 billion undrawn revolver, a \$500 million term loan, and a \$500 million EETC with a blended rate of 3.8%. Because of the improved strength of our balance sheet, we were able to lower the overall rate we are paying on this debt, increase our revolver capacity by \$275 million, and lowering the outstanding principal by \$320 million as we continue to work towards our goals.

In closing, I'd like to thank the entire Delta family for another very strong quarter. This was achieved as a result of your contributions. Jill?

**Jill Sullivan Greer, Managing Director – Investor Relations, Delta Air Lines, Inc.**

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Thanks, Richard, Ed and Paul. And with that, Meloney, we are ready for Q&A with the analysts. If you could give them instructions on how to get into the queue.



## QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] We'll go to Andrew Didora with Bank of America.

**<Q – Andrew Didora – Bank of America Merrill Lynch>**: Hi. Good morning, everyone. I guess my first question, Ed can you maybe provide what your flat to up 2% capacity looks like next year broken out on a domestic and international basis? And then just from a domestic perspective are there any specific markets where this growth will be concentrated or any specific market or markets you plan to build out a larger presence in, like you've done in Seattle this year?

**<A – Ed Bastian – Delta Air Lines, Inc.>**: Andrew, we will provide more detail at our Investor Day in December on the 2016 plans. Obviously, the shape of 2016 is following, what you're seeing in the fourth quarter with domestic up, in line with general economic growth in the U.S. and international down in the areas with the greatest FX and demand weakness.

**<Q – Andrew Didora – Bank of America Merrill Lynch>**: Got it. And then just a follow-up for Paul. I guess at this level of flat to up 2% capacity, do you still feel like you can keep unit cost growth at or below 2% next year outside of any new pilots agreement?

**<A – Paul Jacobson – Delta Air Lines, Inc.>**: Yeah, we do Andrew. I think the capacity is going to put a little bit of pressure on unit costs, but given the productivity goals that we have and the continued benefits of the leverage that we're driving in the operation, we feel good about our ability to hit that goal for the year.

**<Q – Andrew Didora – Bank of America Merrill Lynch>**: Okay, great. Thank you.

Operator: We'll go next to Darryl Genovesi with UBS.

**<Q – Darryl Genovesi – UBS Securities LLC>**: Hi, guys. Thanks for taking the time. So maybe first on the 2016 capacity guide, if I look at your first quarter published flight schedules, it looks like you've scheduled kind of 4% capacity growth or so. Would you expect a downward revision there or are you essentially just implying a very front-end loaded year?

**<A – Ed Bastian – Delta Air Lines, Inc.>**: That's very preliminary Darryl. Yes, we really haven't gotten it and made the final revisions to Q1, or for that matter any part of 2016. And..

**<Q – Darryl Genovesi – UBS Securities LLC>**: Okay. Thanks. And...

**<A – Ed Bastian – Delta Air Lines, Inc.>**: Traditionally, we've reduced the schedule as we get closer in.

**<Q – Darryl Genovesi – UBS Securities LLC>**: Okay. And then on the – if I just look at the domestic unit revenue performance in the quarter, the down 3% number that you reported, if I were to just look at entirely domestic itineraries, would that number reflect a smaller decline because of the – and then is there an impact from essentially the accounting allocation of domestic connections on international itineraries that are weighing down the domestic number as reported?

**<A – Glen Hauenstein – Delta Air Lines, Inc.>**: There is a little bit less than one point of domestic itineraries that are related to the international O&D.

**<Q – Darryl Genovesi – UBS Securities LLC>**: Okay. So you're saying 1% of RASM headwind or 1% is kind of the mix?

**<A – Glen Hauenstein – Delta Air Lines, Inc.>**: Of the three points a little less than one point is the international proration itinerary that's related to the FX change.

**<Q – Darryl Genovesi – UBS Securities LLC>**: Great. Thank you. And then if I can just squeeze one last one in for Paul. Paul, the comment that you made a few minutes ago about still seeing unit cost growth trending below 2% next year, I assume that would be inclusive of profit sharing. Is that correct?

**<A – Paul Jacobson – Delta Air Lines, Inc.>**: Yeah, that's how we look at it. We'll have some geography changes in 2016. We'll highlight all that at Investor Day.

**<Q – Darryl Genovesi – UBS Securities LLC>**: Okay, great. Thanks very much guys.

Operator: Our next question comes from Jamie Baker with JPMorgan.

**<Q – Jamie Baker – JPMorgan Securities LLC>**: Hey. Good morning, everybody. And Richard, you beat me to it. I thought I caught a new title for Jill in the opening remarks, so my congratulations there as well. A question for Glen. I do understand – I think we all understand the issues that are impacting international RASM. What I'm really having difficulty with is reconciling the domestic weakness. I mean, if you or I had been in a coma for five years, somebody just handed us the A4A revenue report or even your Q3 domestic RASM print, my first guess would be, crap, we're in a recession again, okay? But the fact is we aren't and other consumer sectors don't suggest this level of demand weakness.

So what sort of explanation and you highlighted DPIJ in Darryl's question, but what further explanation can you provide as to why domestic RASM, quite frankly, stinks; and more importantly, what you think has to happen either at Delta or the industry level to improve upon it?

**<A – Glen Hauenstein – Delta Air Lines, Inc.>**: Yeah. Jamie, as a rule, we don't talk about the industry, we talk about Delta. So I'll...

**<Q – Jamie Baker – JPMorgan Securities LLC>**: Sure. Fair enough

**<A – Glen Hauenstein – Delta Air Lines, Inc.>**: I think Ed highlighted in his comments that we see demand as strong and we see even business itinerary demand as strong. So closed end short stay travel and corporate contracted travel are all at record levels, but we are not obtaining the yields that we had in the past, and I'll just leave it at that.

**<Q – Jamie Baker – JPMorgan Securities LLC>**: Okay. Second, not sure if this is for Ed or for Richard, but – and I know you don't tend to comment publicly on pilot negotiations. But when we think about profit-sharing going forward, what's management's tolerance for operating two succinct profit-sharing schemes, one being more generous than the other?

And also, and I suppose I should know this, but are the Air Canada E-190s still up for grabs? The one that initially had been part of the fleet plan assuming a ratified TA?

**<A – Richard Anderson – Delta Air Lines, Inc.>**: You asked and answered the first question, which is we don't generally comment on the status of pilot negotiations. We respect the process and we respect the relationship. We are perfectly fine to run two profit sharing programs. Our rank-and-file employees were very pleased with 14.5% raise, and I think we'll still have – they'll still have one of the most, if not – they'll still have the most lucrative profit sharing program in the industry. And – so that's on the profit sharing. And what was your second question?

**<Q – Jamie Baker – JPMorgan Securities LLC>**: Just whether the E-190s, the Boeing/Air Canada E-190s are still up for grab. I think they were – I think Boeing had made that part of your initial aircraft agreement.

<A – Richard Anderson – Delta Air Lines, Inc.>: I don't know whether they are or not.

<Q – Jamie Baker – JPMorgan Securities LLC>: Okay.

<A – Richard Anderson – Delta Air Lines, Inc.>: We haven't signed agreement with Boeing. And when the TA was rejected, we had the right to terminate it. And we terminated it and all the deposits were returned to Delta. And so you'd have to ask Boeing about what the status of those airplanes are.

<Q – Jamie Baker – JPMorgan Securities LLC>: Okay. Fair enough. I appreciate it. Thank you.

Operator: We'll go next to Julie Yates with Credit Suisse.

<Q – Julie Yates – Credit Suisse Securities (USA) LLC (Broker)>: Good morning. Thanks for taking my question. Last quarter, I believe you guys called out three specific cities that were driving the bulk of the weakness in the domestic market. Is that yield weakness in Q3 still limited to a small number of markets or has it spread to be more broad-based?

<A – Ed Bastian – Delta Air Lines, Inc.>: Hi, Julie. It's Ed. Yes, it's still relatively restricted. I would – the commentary from the second quarter is consistent with the third quarter, but it's still largely restricted, yes.

<Q – Julie Yates – Credit Suisse Securities (USA) LLC (Broker)>: Okay. And then on the capacity, you're pulling down internationally. Are those planes being retired or reallocated or is this a reduction primarily through utilization?

<A – Richard Anderson – Delta Air Lines, Inc.>: Combination of all of those. Some are being retired, some are getting lower utilization and some are moving into the domestic marketplace. For example, as United exits the JFK, L.A. and JFK San Francisco market, we are moving a couple of our wide bodies into fill out patterns in those key markets that are the largest markets of the United States.

<A – Richard Anderson – Delta Air Lines, Inc.>: But then on top of that, Julie, we have Boeing 757s retiring. So we have a significant number of Boeing 757-200s that are leaving the fleet.

<Q – Julie Yates – Credit Suisse Securities (USA) LLC (Broker)>: Okay, great. And then lastly any update on open skies with Brazil and Mexico and timing there? I think Brazil was supposed to happen some time in October?

<A – Ed Bastian – Delta Air Lines, Inc.>: There's no update. We expect some time in 2016 to get those ratified.

<Q – Julie Yates – Credit Suisse Securities (USA) LLC (Broker)>: Okay, great. Thanks so much.

Operator: Helane Becker with Cowen & Co. has our next question.

<Q – Helane Becker – Cowen & Co. LLC>: Thanks very much, operator. Hi, guys. Thank you very much for the time. Just two questions. One is can you comment at all on the type of competition you're seeing in some of your biggest cities like Atlanta and perhaps in L.A. specifically from low fare airlines?

<A – Richard Anderson – Delta Air Lines, Inc.>: Helane, let me go at it from a macro perspective, which is we have record margins in all of our hubs in the U.S. And virtually every part of the domestic business is performing at near record levels or at – above record levels. And that

includes Seattle and L.A. and New York and Minneapolis and Detroit and Cincinnati and Salt Lake and Atlanta. And on top of that, the focus city flying we do in places like Raleigh, Durham and Indianapolis is performing extraordinarily well.

I think what the marketplace misses is that we're able to keep – if you just look at the revenue picture at Delta, our revenue is relatively flat year-to-year, and we're putting about two-thirds of fuel savings on the bottom line for the owners. And our focus is to manage the business for margin and cash flow. And we have a lot of levers to do that, a fantastic product that no one in the industry can match, happy employees that are working very hard to be the best in the industry, a smart revenue management team, a very smart network planning team, the lowest capital cost in the industry on the fleet and the maximum flexibility to manage our capacity to move back to positive RASM.

**<Q – Helane Becker – Cowen & Co. LLC>:** So – Richard, thank you for that. I really appreciate your answer. And I kind of wonder at the fact that the market seems to continually miss, the fact that you are delivering the best product in the industry and continues to ask, what do you do for an encore; you continue to deliver and yet your stock price doesn't reflect it.

**<A – Richard Anderson – Delta Air Lines, Inc.>:** Well, actually our market cap does reflect it and our stock price does reflect it against the industry. I think our next closest domestic peer has a market cap that's \$10 billion lower. And when you look at where the P/E, the forward P/E is, where our opportunity is, is to continue to de-risk the balance sheet, de-risk our business model, have the best employee relations in the industry, investment grade balance sheet, and continue to move our P/E up to match our performance versus the S&P Industrials; and we're going to quietly continue to do that.

**<Q – Helane Becker – Cowen & Co. LLC>:** That's great. Thank you. Thanks very much for your help.

Operator: We'll go next to Mike Linenberg with Deutsche Bank.

**<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>:** Yeah. Hey. Good morning, everybody. Hey, I just – I want to go back to in the non-op area, some of your investments. I believe you account for Virgin Atlantic under the equity method. Can you just maybe give us a feel for how much better that's running this year versus last year? And then just with the changes in your investments in some of these other carriers are they still accounted for as investments or say, like a goal, are you going to run that through – under the equity method given your board seat and your increased ownership stake?

**<A – Ed Bastian – Delta Air Lines, Inc.>:** Hi, Mike. It's Ed.

**<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>:** Hey, Ed.

**<A – Ed Bastian – Delta Air Lines, Inc.>:** On Virgin, the Q3 results they had were fairly comparable to what they had a year ago, a little bit better. They had some fairly large fuel hedging losses, so they haven't gotten as much of a pass through on the lower fuel savings, but we expect that's going to get increasingly better next year. And the answer to your second question is, no, we treat the China Eastern and GOL and Aeroméxico investments still at the – on the cost method, so we don't take the share of profit or loss in the quarter.

**<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>:** Good. And then just one other one. And this is either for Ed or Paul. Your earnings progression has been fantastic on one hand. On the other hand, it does get you closer to the point where you will start paying cash taxes. When I look at sort of where the numbers are in our forecast for next year, it seems like sometime next year, you may be a cash taxpayer, maybe in the latter part of the year. Is that right? Or is this – do we still have enough NOLs that maybe we get into 2017? What's your thoughts on that?

<A – Paul Jacobson – Delta Air Lines, Inc.>: Hey. Good morning, Mike. It's Paul.

<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>: Hey, Paul.

<A – Paul Jacobson – Delta Air Lines, Inc.>: Go back to what we talked about in May when we laid out our long-term plan, we anticipate that we will have some cash taxes in 2017 at our current trajectory, but wouldn't become a full payer until 2018. That's consistent. And you've got to be careful with the differences between GAAP and tax accounting for big areas like depreciation on fleet, et cetera.

<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>: Great.

<A – Richard Anderson – Delta Air Lines, Inc.>: Let me – we're going to update at Investor Day on our tax rate going forward in 2016. And this is another differentiator for Delta that goes back to our international focus, and our minority investments, equity investments around the world, and our joint venture strategies. We can have an advantaged tax position versus our domestic competitors and we're going to update that at our Investor Day, in December.

<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>: Great. Looking forward to it. Thank you.

Operator: Our next question comes from Dave Fintzen of Barclays Capital.

<Q – Dave Fintzen – Barclays Capital, Inc.>: Hey. Good morning, everyone. A question for Glen. I mean, on the international side, particularly Pacific, obviously, there's currency; there's demand, as you highlighted; there's also surcharges that in some cases had to come out really quick. As you start to overlap that and you get into 2016, do some of that surcharge revenue, can you kind of take that back into base pricing as you go along? Or is that something we should just think is sort of gone until oil comes back?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: Well, we have the currency headwinds which would at forward curves go from about \$700 million this year to about \$150 million next year. And then, as fuel stabilizes, we will, of course, attempt to raise fares as we always do. But that will depend on what the market is and that's based on individual market performance. So we see strong demand. We see strong demand through the winter and into the spring already. And our load factors are running ahead in every entity including domestic throughout the rest of the year. So hopefully – who knows what's going to happen in the future, but it looks like it's shaping up to be a pretty good year in 2016.

<Q – Dave Fintzen – Barclays Capital, Inc.>: Okay, great. That's helpful. And then just in terms of the 4Q RASM guidance, would you be willing to split that kind of domestic/international, or at least kind of speak to – does the decline moderate kind of reasonably evenly across different segments or entities? Or is there something that really stands out particularly, does domestic inflect as much?

<A – Richard Anderson – Delta Air Lines, Inc.>: We're not going to break that out, David. We never do. But you see that the trends that we've seen this year and you probably can draw your own conclusions.

<Q – Dave Fintzen – Barclays Capital, Inc.>: Okay. All right. Appreciate that. Thanks for the color.

Operator: We'll go next to Rajeev Lalwani with Morgan Stanley.

**<Q – Rajeev Lalwani – Morgan Stanley & Co. LLC>:** Hi. Thanks for the time. I just wanted to come back to your capacity guide and maybe just better understand what factors we should look at to get you to maybe a higher end or the lower end of that [indiscernible] (42:39) and whether it's PRASM or margin in the economy. Just some color there would be great.

**<A – Richard Anderson – Delta Air Lines, Inc.>:** All of the above.

**<Q – Rajeev Lalwani – Morgan Stanley & Co. LLC>:** Okay. Easy enough. And then just I guess a related question to that, to the extent – as we look into next year demand starts to really weaken, etcetera, be it the economy or otherwise. How aggressive do you think you could be with pulling down capacity just to keep supply demand balanced?

**<A – Richard Anderson – Delta Air Lines, Inc.>:** Look, I mean, we stay focused on margin and margin expansion and free cash flow. We have many levers to drive those factors in – or those outcomes in our business. One of the things that we're fortunate at Delta, in addition to having the most reliable fleet – I mean, when you only cancel 18 flights in the month of September, tells you a lot about the fleet that we operate.

At the same time, we have a lot of paid-for airplanes. And the lever that we have in the business is the paid-for airplane if you decide to put a Boeing 757 down it also becomes a parts depot for the rest of the fleet. So you not only have a good lever from the standpoint of managing capacity, it's also a non-fuel CASM play.

**<Q – Rajeev Lalwani – Morgan Stanley & Co. LLC>:** Great. Very helpful

**<A – Richard Anderson – Delta Air Lines, Inc.>:** We have plenty of those. We have optionality. We like optionality across our business. And so we view our fleet the same way. Many of those assets are optional assets.

**<Q – Rajeev Lalwani – Morgan Stanley & Co. LLC>:** Understood. Thank you, sir.

Operator: We'll go next to Duane Pfennigwerth with Evercore ISI.

**<Q – Duane Pfennigwerth – Evercore Group LLC>:** Thanks. Good morning. Paul, I wanted to ask you about hedging. Have you started adding positions into 2016? And can you tell us what the hedge loss you're baking in for the fourth quarter fuel guide and what the magnitude of the losses is – are – sorry, at this point into 2016?

**<A – Paul Jacobson – Delta Air Lines, Inc.>:** Hey. Good morning, Duane. Thanks for the question. As we've talked about we're only about 5% hedged for 2016. We obviously have taken this environment and have been very cautious and slow about it as we look into the year.

We've said in our prepared remarks that we've got about \$250 million of losses in the fourth quarter, but about 70% to 80% downside participation all the way down to \$40 a barrel in Brent. So as we go into 2016, obviously, we have a tailwind behind us on fuel price because of the hedge losses in the first half of this year. But we're pretty cautious on where we go given the forward curve and the option premiums that you have to spend to put hedges on right now.

**<Q – Duane Pfennigwerth – Evercore Group LLC>:** Okay. And then maybe just a different tack on the same question regarding your desire to control input costs. Have you evaluated expanding your presence in the energy industry beyond just owning a refinery? Have you looked at any potential domestic production assets?

**<A – Richard Anderson – Delta Air Lines, Inc.>:** No, we haven't.

<Q – Duane Pfennigwerth – Evercore Group LLC>: Okay. Thank you.

Operator: Our next question comes from Savi Syth with Raymond James.

<Q – Savi Syth – Raymond James & Associates, Inc.>: Hey, good morning. Just a quick follow-up on some of the 2016 capacity questions. Is it fair to assume just given the current environment, that domestic capacity growth would be similar to 2015 and 2016?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: I think it's early to comment on the intricacies of what 2016 pans out to be. And I think what Richard pointed to earlier is the flexibility that this company has to respond to market demands as they evolve. And so I think we will give more color as what we think in December as we get to our Investor Day conference. But we are always moving airplanes around or grounding them or whatever it takes to achieve our margin expansion that we need to.

And while we like to say we have a full vision as to what next year's economy is going to be, we don't. And so what we can say is, we think it's [ph] 0 to 2 (47:04) for next year, as we sit down today. And we will make those adjustments as we get closer into it to capitalize on where we see opportunities.

<A – Richard Anderson – Delta Air Lines, Inc.>: I think the thing that people don't have a full appreciation for is how rapidly we adjust to markets. And if you even just think about 2015 and what we said we were going to do in December of 2014 in fourth quarter of 2015 situations change, currencies got weak in Brazil, currency got weak in Japan, fuel surcharges ran off, sanctions in Russia and we responded very quickly. And that's the wonderful thing about what these assets are.

If you own a hotel in Manhattan and something doesn't go well in Manhattan, you can't move the hotel, right? But we can take our frequencies in Venezuela down to one a week and we can take Russia down to one a week. And you don't see all those moves but the reason why we have ever-expanding margins is at some point the Street just needs to understand that we're going to continue to manage the business to drive margin and free cash flow. And we have a lot of levers to do that.

<Q – Savi Syth – Raymond James & Associates, Inc.>: Good plan. Just specifically on the fuel side, I know you mentioned that two-thirds of kind of the fuel declines have been captured to the bottom line. I wonder if that's despite your kind of fuel hedge drag and is it your contention that maybe if you didn't have the fuel hedge drag you'd still be able to have a similar capture and so maybe the fare environment is maybe stronger than that two-thirds would imply?

<A – Ed Bastian – Delta Air Lines, Inc.>: Savi, it's Ed. I wouldn't try to draw any correlations to the fuel hedge. The two-thirds we're looking at was really the current quarter, the September quarter. We had modest hedge losses. It wasn't material compared to the first two quarters anyway.

<Q – Savi Syth – Raymond James & Associates, Inc.>: Okay.

<A – Ed Bastian – Delta Air Lines, Inc.>: And you also have to take into account that two-thirds is a bit of a macro estimate. It's much higher on the domestic. I think domestically we're probably capturing 80% to 90% of the fuel savings. But internationally because of the currency weakness as well as demand weakness that's limiting our ability to capture as much as the fuel. So in total, it's about two-thirds but very high domestically which is where we're growing and its weaker internationally which is where we're shrinking.

<Q – Savi Syth – Raymond James & Associates, Inc.>: Okay. That's very helpful. And if I could just ask one last one, on the regional fleet, I know we saw the complaint filed again Republic.

Should we be concerned with the impact of securing regional fleet on kind of capacity plans or costs?

**<A – Richard Anderson – Delta Air Lines, Inc.>**: No. You shouldn't be – we're not going to comment specifically on the litigation but you shouldn't be concerned about that. We just like our partners to keep their deals.

**<Q – Savi Syth – Raymond James & Associates, Inc.>**: All right. Well, thank you very much.

**<A – Jill Greer – Delta Air Lines, Inc.>**: Meloney, we're going to have time for one more question from the analysts.

Operator: Thank you. That will be from Joseph DeNardi with Stifel.

**<Q>**: Hi, it's [ph] Sam McKelvey (50:17) on for Joe DeNardi. What sort of pressure is the Gulf carrier issue having on your relationship with Air France-KLM? Are they wanting to add more capacity onto the Atlantic than you view is necessary to offset some of the share they are losing in other markets?

**<A – Richard Anderson – Delta Air Lines, Inc.>**: Well, first our relationship with Air France-KLM couldn't be better. Our combined margins in the trans-Atlantic couldn't be better in terms of – we're setting all-time contribution margins in that joint venture. And it's by far the model of joint ventures in the world. As Glen said earlier, we're not commenting yet other than 0 to 2 on our network, and we're still building our business plan. We will give more color about what our forward capacity is but in terms of our relationship with Air France-KLM, I mean we are tightly synched in our operations, capacity, planning and distribution.

**<Q>**: Okay. Thank you.

**<A – Jill Greer – Delta Air Lines, Inc.>**: That's going to conclude the analyst portion of the phone call. Before I turn it over to Kevin and the Corp Comm team, just to have everybody save the date for December 17 for annual Investor Day. And with that, I will turn it over for the media Q&A.

**<A – Kevin Shinkle – Delta Air Lines, Inc.>**: Good morning. I'm Kevin Shinkle, our Senior Vice President and Chief Communications Officer. Welcome to the media portion of our call. We'll have about 10 minutes to ask questions, so please limit yourself to one question and one brief follow-up. Meloney, could you please provide again the instructions on how to register to ask a question.

Operator: Certainly. [Operator Instructions] We'll go to Michael Sasso with Bloomberg News.

**<Q – Michael Sasso – Bloomberg, Inc.>**: Good morning. Yeah, there's kind of the rumor mill has been hot lately about Delta looking at some 777s coming out of Singapore. Can you just talk about that and is there any truth to that?

**<A – Richard Anderson – Delta Air Lines, Inc.>**: Yeah, I'd be glad to. We're seeing a huge bubble in excess wide-body airplanes around the world and we've been approached by more than one party. I mean the market appears to be that for 777-200s about 9 years to 10 years old, the price is about \$10 million. And on A330-200, the lease rate is about a fifth of what it would be new. So we do think that the aircraft market is going to be ripe for Delta over the course of the next 12 months to 36 months and we think that that weakness and that aircraft bubble in wide bodies is going to spread to narrow bodies, and that there will be some huge buying opportunities, because low interest rates really have created a huge wide-body bubble in the world. Singapore Airlines, I think, has 70 of these airplanes that are coming off lease or being retired that are 8 years to 10 years old.



**<Q – Michael Sasso – Bloomberg, Inc.>**: So just to follow up. So is there a deal with actually in the works or recently completed for?

**<A – Richard Anderson – Delta Air Lines, Inc.>**: No. There's no deal in the works. It's a relatively small market in the world, right. There's not many people in the world that can take a dozen 777s, right? There's a handful of customers. It's a very small market. It's a very transparent market and we get calls all the time. But there's no deal. Prices are going to get lower. You wouldn't strike a deal now.

Operator: We'll go next to Edward Russell with Flightglobal.

**<Q – Edward Russell – Flightglobal>**: Hi, yes. You mentioned the acquisition of six slot pairs at London Heathrow. I'm looking at your schedules in 2016. I see you're adding Salt Lake City. Could you give some insight on to how else you plan to use those new slot pairs?

**<A – Richard Anderson – Delta Air Lines, Inc.>**: We already operate those slot pairs.

**<Q – Edward Russell – Flightglobal>**: A follow-up then. So are those replacing slots that you have lease agreements coming up on or...?

**<A – Richard Anderson – Delta Air Lines, Inc.>**: They're slots that we have leased previously for a number of years from Air France-KLM, which is turning that we're purchasing instead of leasing. We will have more flexibility – we'll have more flexibility to swap them around with our partners at Virgin Atlantic.

**<Q – Edward Russell – Flightglobal>**: Thank you.

Operator: David Koenig with The Associated Press has our next question.

**<Q – David Koenig – The Associated Press, Inc.>**: Hi, thanks. I have a parochial question this time. We're waiting for a ruling in the Dallas Love Field litigation and I wondered whether you think if there's an adverse ruling or whatever the ruling winds up being, would it have any precedent-setting effect at other gate or slot restrained airports or are the terms and situations so unique in Dallas that it would not?

**<A – Richard Anderson – Delta Air Lines, Inc.>**: No. Love Field is such an anomaly. If you just step back and think about it, the City of Dallas is, it would be the first time in modern aviation that an airport in interstate commerce where the operator is trying to evict an interstate commerce operator. I think it's actually the opposite and it won't have any effect.

**<Q – David Koenig – The Associated Press, Inc.>**: Okay. All right. Thanks.

Operator: We'll go next to Sheryl Jean with Dallas Morning News.

**<Q – Sheryl Jean – The Dallas Morning News>**: Hi. I have a similar question along those lines at Dallas Love Field. Can you give any insight into whether you're planning to appeal if the judge in that case does make an adverse ruling for Delta?

**<A – Peter Carter – Delta Air Lines, Inc.>**: This is Peter Carter. We would intend to appeal any adverse ruling.

**<A – Richard Anderson – Delta Air Lines, Inc.>**: And we still have administrative actions in front of the Federal Aviation Administration to revoke AIP grants and the PFCs they collect.

**<Q – Sheryl Jean – The Dallas Morning News>**: Thank you.

<A – Richard Anderson – Delta Air Lines, Inc.>: You're welcome.

**Kevin Shinkle, Senior Vice President and Chief Communications Officer**

Well, thank you. With that, I think that was the last question. With that, we'll include our third quarter earnings conference call. Thanks to everyone for listening.

Operator: Ladies and gentlemen, again, that does conclude today's conference. Thank you for your participation.

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