

## — PARTICIPANTS

### Corporate Participants

**Jill Sullivan Greer** – Vice President - Investor Relations, Delta Air Lines, Inc.  
**Edward H. Bastian** – Chief Executive Officer, Delta Air Lines, Inc.  
**Glen W. Hauenstein** – President, Delta Air Lines, Inc.  
**Paul A. Jacobson** – Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.  
**Steve Sear** – EVP-Sales & President-International, Delta Air Lines, Inc.  
**Kevin Shinkle** – Chief Communications Officer & SVP-Communications, Delta Air Lines, Inc.  
**Wayne Gilbert West** – Senior Executive Vice President & Chief Operating Officer, Delta Air Lines, Inc.

### Other Participants

**Hunter K. Keay** – Analyst, Wolfe Research LLC  
**Duane Pfennigwerth** – Analyst, Evercore ISI  
**Michael Linenberg** – Analyst, Deutsche Bank Securities, Inc.  
**J. David Scott Vernon** – Analyst, Sanford C. Bernstein & Co. LLC  
**Jamie N. Baker** – Analyst, JPMorgan Securities LLC  
**Helane Becker** – Analyst, Cowen & Co. LLC  
**Joseph DeNardi** – Analyst, Stifel, Nicolaus & Co., Inc.  
**Julie Yates** – Analyst, Credit Suisse Securities (USA) LLC (Broker)  
**Dan J. McKenzie** – Analyst, The Buckingham Research Group, Inc.  
**Rajeev Lalwani** – Analyst, Morgan Stanley & Co. LLC  
**Savanthi N. Syth** – Analyst, Raymond James & Associates, Inc.  
**Jack Atkins** – Analyst, Stephens, Inc.  
**Darryl Genovesi** – Analyst, UBS Securities LLC  
**Jeffrey Dastin** – Journalist, Thomson Reuters Corp.  
**Doug Cameron** – Deputy Bureau Chief- Chicago, The Wall Street Journal, Inc.  
**Mike Sasso** – Airlines/UPS reporter, Bloomberg News  
**Ted Reed** – Airlines Reporter, TheStreet  
**Edward Russell** – Reporter, Flightglobal

## — MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the Delta Air Lines third quarter financial results conference call. My name is Noah, and I will be your coordinator. At this time, all participants are in a listen-only mode until we conduct a question-and-answer session following the presentation. [Operator Instructions]

And as a reminder, today's call 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, Vice President - Investor Relations

Thanks, Noah. Good morning everyone and thanks for joining us for our September quarter call. Joining us from Atlanta today are our CEO, Ed Bastian; our President, Glen Hauenstein; and our CFO, Paul Jacobson. Our entire leadership team is here in the room for the Q&A session.

Ed will open the call and give an overview of our financial performance, Glen will then address the revenue environment, and Paul will conclude with a review of our 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 will discuss non-GAAP financial measures. All results exclude special items unless otherwise noted. You can find the 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 Ed.

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**Edward H. Bastian, Chief Executive Officer**

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Thanks, Jill. Good morning, everyone. We appreciate you joining us.

This morning Delta reported a \$1.9 billion pre-tax profit for the September quarter and earnings per share of \$1.70 versus consensus of \$1.65. The resiliency of our business and our people stood out this quarter as we generated a solid 19% operating margin, \$1.1 billion of free cash flow despite the weakest revenue environment in recent memory, and the impact of the \$150 million technology outage. We apologize once more to those who were impacted by the outage and have already taken action to make sure an event like this doesn't happen again.

I want to thank the entire Delta team for their great efforts, not only through the disruption, but also as we've worked to restore customers' confidence in Delta's reliability. Even with the impact of the outage, we delivered solid operations with a 99% mainline completion factor and an on-time arrival rate of 84% for the quarter. Importantly, of the 22 system-wide perfect completion factor days we had this quarter, what we call, brand perfect days with both Delta and Delta Connection having perfect completion on all 5,500 daily flights; 21 of them came after the events in August. So the operation is back and running stronger than ever, and our team proved once more why they are the very best.

I'm pleased to say we've added another \$325 million towards next year's profit-sharing for our employees, bringing the total so far this year to \$920 million. While the outage was a one-time event, the bigger challenge we face is from continued unit revenue declines, a trend that has persisted for the last seven quarters. And while our strong cost execution and lower fuel prices allowed us to keep margins consistent with last year in the September quarter, market fuel prices look to be higher in the upcoming quarter for the first time in several years. Therefore, it continues to be a top priority for us to return to positive RASM in order to stabilize our margin performance and demonstrate the durability of the business model we have built.

Capacity is a significant lever we can use to impact that performance, and based on our RASM results earlier this year, we made the decision to lower our capacity growth to below 2% for the September quarter. And while the pace of improvement has been slower than we hoped, our unit revenues have started to move in the right direction with these lower capacity levels to which Glen will provide greater detail.

That said, RASM remains negative and we will stay conservative with our capacity, capping growth at 1% for the fourth quarter, a level of growth that we plan to carryover throughout 2017. With this cautious approach, we can focus on firming the trends that have us on track for positive unit

revenues likely some time early next year. This will go a long way towards demonstrating that Delta can sustain solid profits, margins and cash flows throughout the business cycle and provide further evidence that we have built a durable and sustainable model that warrants an improved valuation.

I want to thank the management and ALPA negotiating teams who've worked tirelessly to get to the agreement in principle that we've reached with our pilots two weeks ago. The potential agreement recognizes the important leadership role our pilots play in Delta's long-term success. It is now going through ALPA's approval and ratification process, and to respect that process, we're not going to comment any further than what I've just said.

Finally, in closing, I want to thank Richard for his leadership, his courage and his friendship to us all at Delta, as he is now fully retired. Richard has been a transformative leader at Delta as well as for the industry. He is a true servant-leader as he served all 80,000 of us from his heart. We are fortunate to have Frank Blake, another outstanding leader, as our new Chairman. We look forward to working closely with Frank as we build an even stronger and more durable franchise for the future.

With that, I'm happy to turn the call over to Glen.

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**Glen W. Hauenstein, President**

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Well, thanks, Ed, and good morning, everyone. I'd also like to start by thanking the Delta people for their perseverance through a challenging quarter. It is your hard work and dedication that sets Delta apart in our customers' eyes. And that translates into the revenue premium we realize to the industry.

As Ed mentioned, the biggest challenge we face as a company is the persistent decline of unit revenues. This quarter our RASM was down 6.8% including roughly one point of impact from the August outage and an additional point of headwind as we lapped the yen hedge gains from last year. Excluding our outage, our unit revenues were at the bottom end of our initial guidance range and we attribute that shortfall primarily to two factors.

First, the transatlantic proved more challenging than we expected given the supply/demand imbalance in the region caused by multiple terrorist events, low-cost carrier growth, and Brexit which we are primarily seeing in the devaluation of the British pound.

Second, the domestic close-in yield environment was weaker than expected in the first half of the quarter, particularly in early August. Overall, domestic unit revenues declined 7% on 4% capacity growth in the September quarter with nearly two points of the decline attributable to the August outage.

While this result was weaker than we initially anticipated, we did see improvement as we went through the quarter, particularly as we lowered our capacity levels with our first fall schedule in mid-August and adjusted some revenue management strategies. The improvement was most evident in September when domestic unit revenue declines moderated to 2.5% for the month, driven primarily by improving business revenues.

It is these trends that give us cautious optimism that we will have a path to positive RASM in the domestic entity in the December/January timeframe; if not, shortly thereafter. To get there, we will slow our domestic capacity growth further in the fourth quarter to 2.5% year over year, which is less than half the rate we grew during the first three quarters of the year. We believe this lower capacity profile will position us to achieve a better RASM result during the upcoming off-peak season.

As I mentioned, we adjusted our revenue management strategies. As we have rolled out this new approach, we have seen close-in yield strength and we are working to build on this trend going forward. In September, over one-third of our domestic network saw a RASM improvement year over year, up from a low of 15% that occurred during the first quarter. We expect that percentage to exceed 50% over the next 90 days.

There is some calendar noise over the next few months, but, we believe, on a combined basis, domestic RASM for November through January should be flattish as travel patterns shifts between months due to holiday placements. And with domestic the biggest driver of our overall system performance, this will be the major push we need to get our overall unit revenues back into positive territory.

Moving on to Latin, I am pleased to say this is the first region to have turned the corner with a unit revenue improvement of 1.5% this quarter, the first time a Latin entity has achieved positive unit revenue in 2.5 years. After 16 consecutive quarters of negative results, Brazil unit revenues improved 30% year on year, with momentum building through the quarter, as the strengthening Real drove more Brazil point-of-sale demand. We are seeing this positive trend continue as we head into the peak demand season.

Mexico business markets have also been a key driver on LatAm's path to positive RASM, achieving the third consecutive quarter of positive unit revenues. U.S. and Mexico Open Skies were ratified and took effect late August, and we expect the U.S. DOT will grant antitrust immunity by year end, paving the way for the implementation of our joint venture with Aeromexico. Delta's U.S. – Mexico scale will triple as a result of the partnership, and it will allow us to build on the strong momentum we already have in the largest revenue market for U.S. travel to Latin America.

Regarding our 4Q 2016 outlook, capacity in Latin America will remain flat as we continue to look to improve our RASM performance before growing further in the region.

Turning to the Pacific, in the September quarter the region saw a positive RASM ex-hedge for the first time since 2013. Japan was a notable bright spot, with RASM ex-hedge up 4% year over year, supported by a stronger yen. On the other hand, China continues to be challenged as industry capacity growth outpaced increases in demand.

Looking ahead, the industry supply/demand imbalance in the Pacific will become more acute in the winter off-peak season, with industry capacity up 11% in the fourth quarter, while demand is only up mid to high single digits. We will also continue to face the headwinds as we lap last year's hedge gains. For the fourth quarter, it is a \$30 million impact or about 0.5 point on system PRASM, which translates to nearly a five-point drag on Pacific unit revenues.

While we were able to secure two daylight frequencies with the limited opening of Haneda, it's forcing us to split our Tokyo operations between two airports, Haneda and Narita. As a result, we announced in August that we will be further restructuring the Narita hub with a winter schedule. The network changes will result in a 30% capacity reduction to and from Japan this winter and allow us to retire two additional 747s by the end of the year. With the Pacific broadly, we will reduce our winter capacity by 9% to 10%, as we continue to restructure our network for long-term profitability and sustainability in the region.

And finally, we get to the transatlantic. September quarter unit revenues were down 9.7%, driven by overcapacity, particularly from LCCs and Middle East carriers, while terrorism concerns, sluggish economies, and Brexit all weighed on the demand set. While the revenue environment was probably the most challenging, we also had a solidly profitable summer because of lower fuel.

That said, as we go into the seasonally weaker period, we will reduce our capacity offering by three to four points starting in November to address the unit revenue challenges we are facing. While we

are expecting it to take a bit longer to get to unit revenue growth in the transatlantic, we do expect that the pace of declines will moderate going forward. As we look out further, the transatlantic has some of the most unique competitive dynamics, and we need to adopt our model to continue to leverage our existing joint ventures and seek new partners as we have done recently with Jet Airways, in addition to carefully managing our capacity in the region.

Now let me address our fourth quarter outlook. We expect system unit revenues to be down in the 3% to 5% range on a 1% capacity increase.

In closing, we continue to be cautiously optimistic about the unit revenue trends we are starting to see in significant portions of our network. And we expect that with a lot of hard work, we can continue to drive improvement and get to positive unit revenues by early next year. But as we have commented before, if we do not see the performance we expect as we move through the quarter, we will move quickly to make the changes we need to get the right outcome.

With that, I'll turn it over to Paul.

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

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Thank you, Glen, and good morning, everyone. Thank you for joining us this morning.

Once again this quarter, the Delta team was able to show with our continued discipline on costs and focus on free cash flow that we've built a solid foundation that has put us in a good position to weather the inevitable challenges we face in this business to deliver sustainable results.

Lower fuel prices drove a roughly \$300 million decline in total operating expenses on a 1.5% increase in capacity. Non-fuel CASM was essentially flat, including the 0.5-point impact of the outage. This result is consistent with our initial guidance as we continue to leverage the solid cost foundation we have built and deliver strong productivity savings, while we also continue to benefit from our up-gauging initiatives.

We expect our non-fuel unit costs to increase 1% to 2% in the December quarter, which doesn't include any impact for a potential pilot agreement. This is slightly higher than our run rate from the past couple of quarters but still comfortably below our 2% annual target, as we're seeing some pressure from our lower capacity levels and timing of maintenance spend.

Turning to fuel, our total fuel expense declined by \$350 million or 18% year over year. We had no hedge impacts during the current period, given our decision to early settle our remaining 2016 positions during the June quarter.

The refinery lost \$45 million for the quarter, consistent with expectations, driven by lower crack spreads. The hard work of our fuel team coupled with the expertise we have with the refinery has allowed us to harvest about a \$0.03 per gallon unhedged fuel cost advantage over our competitors, and we are focused on widening that lead.

This advantage will become even more important as we look ahead to the fourth quarter and beyond, with market fuel prices already higher year over year for the first time in over two years. We expect an all-in December quarter fuel price of \$1.60 to \$1.65 per gallon, which is down for us year over year as we paid above-market rates during the same period in 2015, but higher on a market basis.

Now let me address our margin outlook. While we expect another quarter of solid cost performance, given a waning fuel tailwind and continued RASM headwinds, we are forecasting a December quarter operating margin in the 14% to 16% range, which is down roughly two points

year over year. As Ed and Glen both mentioned, we are cautiously optimistic about the revenue environment and combined with our conservative capacity plans, reinforces our focus on maintaining our margin performance.

Moving to cash flow, we generated \$1.8 billion of operating cash flow in the quarter. We continued our balanced approach of deploying that cash with more than \$650 million going back into the business as we took delivery of 11 mainline aircraft and our fleet modification projects continue.

We expect core capital spending will be roughly \$700 million in the fourth quarter, and we expect to spend an additional \$520 million on the Aeromexico tender offer. We ended the September quarter with net debt of \$6.4 billion, down roughly \$400 million sequentially from June. We generated \$1.1 billion of free cash flow, and returned \$650 million to our shareholders during the quarter. That brings the total amount of cash we have returned to our owners year-to-date to \$2.7 billion, which already exceeds the level returned during all of 2015. We remain on track to meet our goal of returning at least 70% of our free cash flow this year to our owners.

In closing, I also want to express my gratitude to the Delta family for all of your hard work and perseverance during the quarter that allowed us to deliver cost performance that was consistent with our initial outlook, despite the headwinds we experienced. I am confident that our efforts will allow us to continue to deliver sustainable results regardless of the challenges we face.

Jill?

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**Jill Sullivan Greer, Vice President - Investor Relations**

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Thanks, Ed, Glen, and Paul. Before we turn to the analyst Q&A, I'd like to remind everybody to mark your calendars for Delta's annual Investor Day, which this year will be held on December 15.

So with that, Noah, if you could give everybody instructions for the Q&A session.

**QUESTION AND ANSWER SECTION**

Operator: [Operator Instructions] And we'll take our first question from Hunter Keay with Wolfe Research.

**<Q – Hunter Keay – Wolfe Research LLC>**: Thank you, good morning.

**<A – Ed Bastian – Delta Air Lines, Inc.>**: Good morning, Hunter.

**<Q – Hunter Keay – Wolfe Research LLC>**: Hey. Can you guys talk about, you mentioned LCCs in Transatlantic and you talked about leveraging the JVs and exploring new partnerships. It sounds like you guys are starting to take a creative approach a little bit, or least considering a new approach to how to deal with that because obviously, there's a short-term issue of oversupply, but there's a long-term issue of the competitive dynamic changing a little bit. So is there a scenario where you guys consider maybe doing something a little more dramatic, like an airline within an airline strategy or something like that? Or is the plan to sort of compete by using basic economy and segmenting your own cabin and maybe something a little more tactical?

**<A – Ed Bastian – Delta Air Lines, Inc.>**: Hunter, no, we have no intent to create an airline within an airline.

**<Q – Hunter Keay – Wolfe Research LLC>**: Okay. Thanks, Ed. And then can you maybe give us some color on how you guys use your route profitability reports and maybe how it's evolved in the last couple years? Can you just – I think a lot of people are curious to know how airlines and how Delta specifically plans for capacity. Is it a daily basis? Is it a weekly thing? Is there ever an element of sort of strategic soft factors that are considered? Or is it simply, you get the route profitability reports, you see which routes are now losing money that used to make money and you trim back on those? I think maybe, Glen, you want to talk about this. Just at a high level, can you let us in how you plan in a changing demand environment? Thanks a lot.

**<A – Glen Hauenstein – Delta Air Lines, Inc.>**: Hunter, that's a great question and of course, there are a lot of elements that go into those decisions, including the market sizes, the relevant positions of the carrier, the long-term sustainability and profitability potential of the market. But we adjust on a monthly basis, as you know. And at about three months to four months out, the less we touch the schedule, the better it is for our customers because customers, once they buy a ticket want you to fulfill that commitment of supplying what they've purchased from you. So that's why it does take us a few months to ratchet up or ratchet down capacity in advance once we see the trends developing.

**<Q – Hunter Keay – Wolfe Research LLC>**: Thank you.

Operator: We'll take our next question from Duane Pfennigwerth with Evercore ISI.

**<Q – Duane Pfennigwerth – Evercore ISI>**: Hey, thanks for the time. I wonder. From a high level, could you talk about your fleet assumptions underlying the 1% growth rate in 2017? Any incremental deferrals or retirements underpinning that plan?

**<A – Ed Bastian – Delta Air Lines, Inc.>**: Duane, we're not going to get specific on 2017 at all. We will get specific at the December 15 event that Jill mentioned. But right now, we're still in the planning stages for 2017. So it'd be premature and speculative.

**<Q – Duane Pfennigwerth – Evercore ISI>**: Okay. How about some of the recent press reports about incremental regional aircraft orders? Are those replacement in nature, or are you getting additional scope relief in this agreement in principle?

**<A – Ed Bastian – Delta Air Lines, Inc.>**: We have not made any incremental purchases of regional jet aircraft. There was, certainly during the discussion with the pilots whether we wanted to or not, but we are not planning on increasing our regional jet scope at this point.

**<Q – Duane Pfennigwerth – Evercore ISI>**: Thank you very much.

Operator: And we'll take our next question from Mike Linenberg with Deutsche Bank.

**<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>**: Yeah, hey. Two questions here. Glen, you called out I think Brexit as an issue. What did you see with your position at Virgin Atlantic? And what was the I guess benefit from Virgin Atlantic in the numbers this quarter? It looked like it may have run through the miscellaneous line. Can you highlight that?

**<A – Glen Hauenstein – Delta Air Lines, Inc.>**: I'll let Paul highlight the numbers. But clearly the hit to revenue was primarily based and almost solely based on the depreciation of the currency. And so that's a pretty dramatic – more than 50% of the revenues in the joint venture we have with Virgin come as point of origin UK and are denominated in pounds. So when you have big currency moves like that, there's a dramatic change in the revenue profile. Interestingly enough, we have not seen a lot of demand destruction.

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

**<A – Glen Hauenstein – Delta Air Lines, Inc.>**: So that's the positive part. And we'll see how the winter – we're taking a very cautious approach with capacity into the UK, targeting it down in the mid-single-digits. Hopefully, that will mitigate some of the drag we have from the currency.

**<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>**: Okay. Great. And then just, I guess, Paul, sort of the P&L impact, what it was this year versus the year ago in the miscellaneous line?

**<A – Ed Bastian – Delta Air Lines, Inc.>**: Hey, Mike. This is Ed. Virgin is a private company, so we're not going to give you the specific results of Virgin, but what I can tell you is it's, it's largely consistent with what we had last third quarter.

**<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>**: Okay, great. And then just a quick one on the refinery. I think, Paul, you indicated that it did lose \$45 million for the quarter. And I think, publicly, you've said that the estimate for the year was around \$100 million. Is that still right? I mean, we've had some movement in fuel of late. So is that still a good number to use?

**<A – Paul Jacobson – Delta Air Lines, Inc.>**: Yeah, Mike, it is. We've said on previous calls that we expect the full year refinery loss to be about \$100 million. We're still in that range, even with the movement in prices. Cracks have remained relatively consistent through this move up in crude.

**<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>**: Okay, great. Thank you.

Operator: We'll take our next question from David Vernon with Bernstein.

**<Q – David Vernon – Sanford C. Bernstein & Co. LLC>**: Hey. Good morning. Thanks for taking the question. Glen, you had mentioned that you guys had changed or tweaked your revenue management practices which helped support the domestic RASM. Could you help us understand maybe what approach you took and how the market reacted to any of the changes you might've made externally to how you're managing that yield in domestic?

**<A – Glen Hauenstein – Delta Air Lines, Inc.>**: We had gotten some very complicated pricing strategies in place that were becoming very difficult for us to manage in a simplified fare environment, and so we went to a much more, a much higher reliance on revenue management,



and a little bit less reliance on the pricing structure in trying to achieve pricing structure advantages. But that was all an internal – I couldn't tell you how our competitors reacted to that. I don't even know if they've seen it. I mean, it wouldn't...

**<Q – David Vernon – Sanford C. Bernstein & Co. LLC>**: So it was more of an internal – it was more of an internal action that just resulted in a better outcome?

**<A – Glen Hauenstein – Delta Air Lines, Inc.>**: Correct.

**<Q – David Vernon – Sanford C. Bernstein & Co. LLC>**: And then maybe, Paul, just as you think about longer-term, and I appreciate that you guys want to respect the negotiating process and not talk about the pilot contract. But as you think about the long-term rate of CASM ex-fuel and including profit sharing, directionally, what sort of numbers should we think about that number being in the three to five-year timeframe?

**<A – Paul Jacobson – Delta Air Lines, Inc.>**: David, good morning. First of all, welcome to the sector.

**<Q – David Vernon – Sanford C. Bernstein & Co. LLC>**: Thank you.

**<A – Paul Jacobson – Delta Air Lines, Inc.>**: As Ed mentioned, we'll have more detail on 2017. But as we've talked about in our long-term plans that we typically update in the May timeframe, long term we're still committed to the 2% non-fuel CASM growth for the future.

**<A – Ed Bastian – Delta Air Lines, Inc.>**: Or lower.

**<A – Paul Jacobson – Delta Air Lines, Inc.>**: Or lower.

**<Q – David Vernon – Sanford C. Bernstein & Co. LLC>**: Okay. So then as you think about that playing into next year and obviously seeing maybe a little bit above that on the pilot contract, that actually puts a little bit more short-term pressure on the need to get the RASM up, right? Am I thinking about that correctly?

**<A – Paul Jacobson – Delta Air Lines, Inc.>**: It certainly is as what we articulated in our comments before the Q&A. The operating margin pressure that we see from fuel, from cost, et cetera, is driving the continued urgency and challenges to get RASM higher. That's a prime focus irrespective of what we do in the cost structure overall. But we'll get into 2017 and longer term as we talk about it at Investor Day in December.

**<Q – David Vernon – Sanford C. Bernstein & Co. LLC>**: Great, thanks very much for the time.

Operator: We'll take our next question from Jamie Baker with JPMorgan.

**<Q – Jamie Baker – JPMorgan Securities LLC>**: Hey. Good morning, everybody.

**<A – Ed Bastian – Delta Air Lines, Inc.>**: Good morning, Jamie.

**<Q – Jamie Baker – JPMorgan Securities LLC>**: A question for Glen. So JPMorgan won't permit me to buy basic economy. It's a product that's not well suited for business travel. So whether I try to book it myself or through my agency, basic economy is walled off. Can't see it, can't buy it, fine with me, probably fine with you. I prefer to be kept in the upgrade lottery and have some flexibility on the day of departure. So my question is whether my employer here is the norm or the exception? If you were to look at your top 50 corporate accounts, is it common for most of them to have walled off this product for employees, or do you not even have the ability to tell?

**<A – Glen Hauenstein – Delta Air Lines, Inc.>**: It's not uncommon for employers to wall that fare product off.

**<Q – Jamie Baker – JPMorgan Securities LLC>**: And would you say the overwhelming majority do, the slight majority, any color?

**<A – Glen Hauenstein – Delta Air Lines, Inc.>**: A significant number of major corporations in the United States. How's that?

**<Q – Jamie Baker – JPMorgan Securities LLC>**: Perfect, more than I'm used to getting. A question for Paul.

**<A – Glen Hauenstein – Delta Air Lines, Inc.>**: I'm getting some counsel here watching the political debate go on, what to say and what not to say.

**<Q – Jamie Baker – JPMorgan Securities LLC>**: Very important lesson, though hopefully none of us need quite that level of schooling at this point. You've targeted, so second question for Paul, you've targeted I guess what, 17% to 19% margins over the 2016 to 2018 timeframe. It looks like expectations for next year are actually below that, so the market doesn't exhibit a lot of confidence in this target. Fuel is heading higher, pilot costs heading higher. Arithmetically, it looks like you have to have at least 3% RASM just to hit the low end of the margin range for next year. Do you still have confidence that these targets are achievable? Or put differently, is it inevitable at Investor Day you have to revise them?

**<A – Paul Jacobson – Delta Air Lines, Inc.>**: Good morning, Jamie. I will agree with you that the market has not expressed confidence in a lot of things that we're doing in the short term. We remain confident in our targets and our long-term goals of what we're trying to achieve. We are talking about margin sustainability. We're talking about taking those steps to get there. We've known for a while now that fuel prices were trending higher. And as we've talked about for multiple quarters, we're here. And that is fully expected, and we believe the steps that we're taking are the necessary ones to preserve the foundation that we've created.

**<A – Ed Bastian – Delta Air Lines, Inc.>**: Hey, Jamie. This is Ed.

**<Q – Jamie Baker – JPMorgan Securities LLC>**: Hi, Ed.

**<A – Ed Bastian – Delta Air Lines, Inc.>**: The targets we put out there were just a few months ago, so there was nothing in what we put out that's changed. We expected to have a pilot deal. We expected fuel prices to start to pick up. We expected to have RASM softness throughout this year. And you're right, the challenge is to get RASM back positive, and we're optimistic that's exactly what we'll be doing.

**<Q – Jamie Baker – JPMorgan Securities LLC>**: I appreciate the color. Thanks gentlemen.

**<A – Glen Hauenstein – Delta Air Lines, Inc.>**: Could I add one thing is that – I think the one thing that would give us a lot of confidence, we do see a lot of green shoots like we saw in LatAm and the domestic arena. Really if you look back at history, significantly lower fuel ultimately translates into lower fares. That's a very high correlation over a long period of time. Higher fuel turns into higher fares. The exact lag could vary, but it's usually in the three to five-month category. And as Paul said we are facing higher fuel and so we would expect given what we're seeing in the advances and we know based on history of how long it takes for that to work its way back into the pricing structure that it is right around the corner, we feel.

**<Q – Jamie Baker – JPMorgan Securities LLC>**: Okay, I hope so. Thanks, Glen.

Operator: We'll take our next question from Helane Becker with Cowen & Company.

**<Q – Helane Becker – Cowen & Co. LLC>**: Hi, guys. Thanks very much for the time. So on the unit revenue guidance for the fourth quarter, is there any way you can break down the percent related to FX and the percent related to calendar shift?

**<A – Ed Bastian – Delta Air Lines, Inc.>**: Helane, this is Ed. The FX is not a big number. It's less than one point of negative impact. We don't have the calendar shift data, because it's really – there's a lot of movement, that's why we tried to give a 90-day forward November-through-January view of what we see going on domestically.

**<Q – Helane Becker – Cowen & Co. LLC>**: Okay, great. And then my other question, just as you think about the New York area and the construction that's going on at LaGuardia and everything that's occurring, are you finding that your customers are shifting from LaGuardia to JFK? Or are there issues related to that that are going to hold you back from being able to continue to expand the operation there?

**<A – Ed Bastian – Delta Air Lines, Inc.>**: No, we're not. We're certainly well aware of some of the roadway challenges as the Central Terminal Building construction started a couple months ago. But we are working with the port, we're working with the governor's office to come up with better traffic patterns; and, no, we don't see any significant shift of markets.

**<Q – Helane Becker – Cowen & Co. LLC>**: Okay. Well, thanks for the help.

Operator: We'll take our next question from Joseph DeNardi with Stifel.

**<Q – Joe DeNardi – Stifel, Nicolaus & Co., Inc.>**: Thanks very much. Glen, just a question on the Aeromexico relationship and the accounting around that, can you just talk about it? Does that become a benefit from a PRASM standpoint as some of the revenue flows through but the ASMs don't? If you could just walk us through how you plan to account for that once it closes?

**<A – Paul Jacobson – Delta Air Lines, Inc.>**: Hey, Joe. It's Paul. So the Aeromexico, once that deal closes, assuming we get all the regulatory approvals and move forward, which we expect will look a lot like the Virgin Atlantic accounting. So we'll have a piece of the joint venture that will flow through revenues and then we'll have a share of income, which will flow through non-op.

**<Q – Joe DeNardi – Stifel, Nicolaus & Co., Inc.>**: Okay, so the part that flows through revenue, will that become a tailwind for PRASM since there won't be any corresponding ASMs for that?

**<A – Glen Hauenstein – Delta Air Lines, Inc.>**: No, no, that's not the way it works. It's our reported unit revenues. And then it goes into a different line item that's not in the reported unit revenues, any benefits.

**<Q – Joe DeNardi – Stifel, Nicolaus & Co., Inc.>**: Okay. And then, Paul, just a question on cash flows for this year. I mean, I know you guys don't guide on a full-year basis, but are you still on track for kind of the \$8 billion to \$9 billion target that you've given?

**<A – Paul Jacobson – Delta Air Lines, Inc.>**: Yeah. We're still largely on track. As Ed talked about, we gave those numbers and figures back in May, just a few months ago. We always project for higher fuel prices and we still feel good about our cash flow performance.

**<Q – Joe DeNardi – Stifel, Nicolaus & Co., Inc.>**: Great, thank you.

Operator: We'll take our next question from Julie Yates with Credit Suisse.

**<Q – Julie Yates – Credit Suisse Securities (USA) LLC (Broker)>**: Good morning. Thanks for taking my question. Glen, can you help frame the expectations on the monthly PRASM cadence just given all the calendar headwinds and noise that will cease particularly in October?

**<A – Glen Hauenstein – Delta Air Lines, Inc.>**: Yes. Particularly October will be at the low end of the spectrum, actually below the quarterly guidance. November will be significantly above. And then December and January together – December will be significantly worse and January will be significantly better as a lot of the holiday returns shift from – into the first couple weeks of January.

**<Q – Julie Yates – Credit Suisse Securities (USA) LLC (Broker)>**: Okay, very helpful. Any updated thoughts on moving away from the monthlies, given all the noise that's been creating for the stock?

**<A – Ed Bastian – Delta Air Lines, Inc.>**: We have no plans at this time, Julie.

**<Q – Julie Yates – Credit Suisse Securities (USA) LLC (Broker)>**: Okay, and then one for Paul. Paul, more specifically on 2017, in terms of the levers that you have to offset labor inflation and the headwinds from slower unit growth, can you just remind us of some of the initiatives, particularly on the maintenance side, and other opportunities that you have?

**<A – Paul Jacobson – Delta Air Lines, Inc.>**: Sure, Julie. We can go into more detail at Investor Day, but as a reminder, we're still in the middle innings of our up-gauging strategy and we expect to continue to get those benefits in 2017 and beyond. That serves as the foundation. But we can get more specific on productivity initiatives and how we achieve those results tactically as we go through Investor Day in December.

**<Q – Julie Yates – Credit Suisse Securities (USA) LLC (Broker)>**: Okay, great. Look forward to it. Thanks again.

Operator: We'll take our next question from Dan McKenzie with Buckingham Research.

**<Q – Dan McKenzie – The Buckingham Research Group, Inc.>**: Hi, good morning. Thanks guys. Just a couple questions here. Glen, 1% growth in 2017; I'm wondering if you can share what the original plan was. Is that something that's less than what you had previously thought?

**<A – Glen Hauenstein – Delta Air Lines, Inc.>**: This was the original plan for 2017. The planning season, we're just coming to the end of budget season or the beginning of budget season here, and that's the template that we put out to the operating group.

**<Q – Dan McKenzie – The Buckingham Research Group, Inc.>**: Understood. Okay. And then, Paul, given the 1% growth, I am wondering if you can perhaps provide some more specificity on how we should think about aircraft and non-aircraft CapEx next year. I know you've put out a range before, but does the slower growth perhaps affect the CapEx?

**<A – Paul Jacobson – Delta Air Lines, Inc.>**: Hey, Dan. Good morning. Well, as Ed mentioned, we'll provide more details on 2017 at Investor Day, but we're still consistent with what we shared a few months ago.

**<Q – Dan McKenzie – The Buckingham Research Group, Inc.>**: Thanks so much.

Operator: We'll take our next question from Rajeev Lalwani with Morgan Stanley.

**<Q – Rajeev Lalwani – Morgan Stanley & Co. LLC>**: Hi. Thanks for the time. First question, just on the positive RASM comment for early next year. How do you get comfortable with getting there

just given the fact that we've sort of been here before and had to push it out a couple of times, or said another way, what's different this time?

**<A – Glen Hauenstein – Delta Air Lines, Inc.>**: Well, the difference is the yields on close-in bookings. Yields on close-in booking volumes have significantly improved from where they were just six or eight weeks ago. So as we went through the month, inside the month we were losing three points to four points of unit revenues. When we hit a month, say, even, we would close the month with minus three to four points domestically.

That number has significantly reduced. Now it's flat to minus one point inside the month. And so you see those trends sequentially and derivatively being improved week over week and month over month. So if those trends continue to develop the way they have been, you would see that that close inside the month would shift into positive territory in the next few weeks and months here.

**<A – Ed Bastian – Delta Air Lines, Inc.>**: I think the other thing to note is that capacity levels are lower than they've been all year long and will stay there until we get to the unit revenues we need. And fuel prices have also firmed up, which is providing a pricing floor. So I think we've got a lot of change we see happening in our specific circumstances.

**<Q – Rajeev Lalwani – Morgan Stanley & Co. LLC>**: Okay, thanks, and then a quick follow-up. As it relates to the midpoint of your guidance, does that reflect close-in continuing to improve or that strength remaining as you look through the quarter?

**<A – Glen Hauenstein – Delta Air Lines, Inc.>**: It assumes what we see today. It does not assume a further deterioration or improvement.

**<Q – Rajeev Lalwani – Morgan Stanley & Co. LLC>**: Okay, great. Thank you so much.

Operator: We'll take our next question from Savi Syth with Raymond James.

**<Q – Savi Syth – Raymond James & Associates, Inc.>**: Hey, good morning. I have a follow-up question on the pilot cost side of things. I know you don't want to talk about the contract or anything, but if it does pass within the 4Q, is the accounting for that going to be reflected in the fourth quarter EPS? Or I was just kind of curious how the retroactive pay will be treated if the contract is ratified.

**<A – Ed Bastian – Delta Air Lines, Inc.>**: If the contract is ratified, Savi, and if there is a retro component to it, yes, in the fourth quarter there would be an accounting. But right now we're not making any assumptions or making any comment on it.

**<Q – Savi Syth – Raymond James & Associates, Inc.>**: Right, right. And then, just if I may ask, I know that you probably won't comment on kind of the news out there about interest in Avianca, but just wondering if you could provide a little bit of insight into what you would gain from a close relationship with Avianca or just what you might be missing in that part of the region and what you could do to address that?

**<A – Ed Bastian – Delta Air Lines, Inc.>**: Your earlier premise is correct; we're not going to speculate on Avianca.

**<Q – Savi Syth – Raymond James & Associates, Inc.>**: Or maybe if you can provide a little bit more color on maybe what you're missing? And I'm guessing – because you do – you seem to have a good relationship with GOL and have access to Brazil. So is it more – what's missing in Latin America from Delta's network?

**<A – Ed Bastian – Delta Air Lines, Inc.>**: Well, we've got a great partner in Mexico, we've got a great partner in Brazil, we've got a great partner in Argentina. We don't have a partner relationship in Central America.

**<Q – Savi Syth – Raymond James & Associates, Inc.>**: Got it. All right, thank you.

Operator: And we'll take our next question from Jack Atkins with Stephens.

**<Q – Jack Atkins – Stephens, Inc.>**: Great, thanks for the time this morning. Just to follow up on an earlier question. First here, if you could, help me reconcile your comments around close-in yields improving over the last six weeks to eight weeks. But I think the September domestic RASM was down 2.5%, I believe you said earlier; the original expectation I think on the last call was for flattish. So if you could help me reconcile positive close-in commentary relative to underperformance in September.

**<A – Glen Hauenstein – Delta Air Lines, Inc.>**: Minus 2.5% was significantly better than we had been doing, and our expectations were that it would be slightly better than that, but it did – in our – miss flattish by one point or two points. It's very difficult to call an industry where 40% of your revenues come inside of 30 days. And so that's one of the reasons I think that there is a lot of speculation of can we get it done. And I think all we can tell you is the trends that we see and the trends that we see continue to improve. And with those improving trends, you would expect us to be – and the macro backdrop of higher fuel, as Ed points out, there seems to be everything lining up here for us to move beyond the minus 2.5% to a more flattish and then into positive territory as we close the year out.

**<Q – Jack Atkins – Stephens, Inc.>**: Okay, great. And then just to follow up on that, could you speak to what you're seeing in terms of your business travel demand and yields there? Have you seen any sort of lingering effects at all from the IT issues in August? Thank you.

**<A – Steve Sear – Delta Air Lines, Inc.>**: Good morning. This is Steve. To your question, we still see the steady volumes, which is encouraging, and some of the ongoing yield pressure, and we're continuing to grow share through the period.

Operator: And we'll take...

**<A – Jill Greer – Delta Air Lines, Inc.>**: We've got time for one more question from the analysts.

Operator: We'll take our next question from Darryl Genovesi with UBS.

**<Q – Darryl Genovesi – UBS Securities LLC>**: Hi, guys. Thanks for the time. Hey, Glen, just wondering, you commented that the close-in stuff was looking a little bit better. What do you think is driving that? Is it an improvement in corporate demand, or is it moves that the industry has made to try to limit dilution by holding less inventory towards the end of the booking curve, or can you not tell?

**<A – Glen Hauenstein – Delta Air Lines, Inc.>**: I think that the fares that we're realizing inside of 21 days are improving generally. And the question is, are they improving at different rates, corporate managed versus unmanaged? And I think they are at slightly different rates, with managed being slightly below unmanaged. But the general trends are that inside the month now we are seeing a more robust fare.

**<Q – Darryl Genovesi – UBS Securities LLC>**: Okay, all right. Thank you.

**<A – Jill Greer – Delta Air Lines, Inc.>**: That's going to wrap up the analyst portion of the call, and I will now turn it over to Kevin Shinkle, our Chief Communications Officer, for the media portion.

**<A – Kevin Shinkle – Delta Air Lines, Inc.>**: Thanks, Jill. Welcome to the media portion of our call. We'll have about 10 minutes for questions. So please limit yourself to one question and one follow-up. Noah, can you please provide the instructions again on how to register to ask a question?

Operator: [Operator Instructions] And we'll take our first question today from Jeffrey Dastin with Reuters.

**<Q – Jeffrey Dastin – Thomson Reuters Corp.>**: Thank you for taking the question. How does Delta expect the U.S. market to change once other legacy airlines implement their version of Basic Economy, and how would that impact Delta, if at all?

**<A – Ed Bastian – Delta Air Lines, Inc.>**: Jeffrey, we're not going to speculate on future pricing trends. Right now we feel we've got a good product in the market, and we'll see what happens.

**<Q – Jeffrey Dastin – Thomson Reuters Corp.>**: Great, thank you. And similar to Hunter's question, what is your long-term strategy for fending off low-cost long-haul carriers from Europe?

**<A – Glen Hauenstein – Delta Air Lines, Inc.>**: I think we have to look at our entire service offering and ensure that we are supplying what the market wants to buy. I think what we know is that Delta has a very, very strong brand, and much stronger than some of the ULCCs, and that people would prefer to fly with us than they would on some of the unknown non-brand names. But in many cases, we don't have similar configuration mixes, product offerings. And I think that's where we're going to be looking. You don't need to create an airline within an airline, you just need to adjust to what people want to buy in the marketplace. And the closer we can get to what our customers want to buy in every sector, the more successful we're going to be, and transatlantic is no exception to that rule.

**<Q – Jeffrey Dastin – Thomson Reuters Corp.>**: Ed, sorry just to clarify. Would this include Basic Economy for international?

**<A – Glen Hauenstein – Delta Air Lines, Inc.>**: It includes all kinds of fare products. It includes cabins we don't have today. And I think that's the exercise we're going through is to see what do people really want to buy and what are they paying for it, and how do we capitalize on moving – not providing something that Delta wants to provide but providing something customers want to buy.

**<Q – Jeffrey Dastin – Thomson Reuters Corp.>**: Thank you.

Operator: We'll take our next question from Doug Cameron with The Wall Street Journal.

**<Q – Doug Cameron – The Wall Street Journal, Inc.>**: Hey. Good morning, everyone. I'll stick with the passenger experience too, since I think we've flogged PRASM to death earlier. Incidents involving both passenger and crew electronic devices on flights have been on the rise, quite aside from what happened with Samsung. At the same time, the regulations for both transport tackling incidents, the guidance remains unchanged. If you look at what airlines are doing, in some ways they're exacerbating the problem, more lie-flat seats which can crush phones, which you don't liked to be crushed, more power ports, which keeps all those battery chargers charged up. So, Ed, I'd like to ask you. How much of a challenge is this for the industry right now? And what is Delta specifically doing to either keep ahead or to mitigate the problems that are basically increasing?

**<A – Ed Bastian – Delta Air Lines, Inc.>**: Doug, it is a challenge, but I don't want it to be blown out of proportion, either. We've had a very few single-digit number of incidents occur. We're certainly reminding our passengers of the requirements. We're educating our crews. We're putting some additional safety elements onboard the cabin to help mitigate a smoke situation. But it's not

fundamentally different than challenges that we've had for some time. We're aware of the concerns around lithium batteries, and we're very mindful that safety is always our most important concern.

**<Q – Doug Cameron – The Wall Street Journal, Inc.>**: What are the additional safety measures you've taken on board?

**<A – Ed Bastian – Delta Air Lines, Inc.>**: The additional safety, Gil is here.

**<Q – Doug Cameron – The Wall Street Journal, Inc.>**: The elements. Sorry, you said elements. What does that mean?

**<A – Gil West – Delta Air Lines, Inc.>**: So what we've done is of course really the target training with our flight crews along with equipment. There are some other modifications that we're adding with – the containment bags is an example that – with any device that did experience a lithium battery fire, you can put it in a containment bag that would certainly contain any possible scenario. But there's already equipment on-board and has been that is capable of dealing with any of these situations.

**<Q – Doug Cameron – The Wall Street Journal, Inc.>**: Okay. I'll follow up offline more on this, but thanks, guys.

Operator: We'll take our next question from Michael Sasso with Bloomberg News.

**<Q – Mike Sasso – Bloomberg News>**: Hey. Good morning. The announcement the other day about Richard retiring completely from the company, I think, caught a number of people off guard, and there wasn't much in the release about why. Can you speak to anything about the motivation of why he stepped off so quickly? Certainly, there's a lot of speculation about it.

**<A – Ed Bastian – Delta Air Lines, Inc.>**: Michael, I'm not going to speculate for Richard other than to say this was all consistent with the plan that we have talked to. I had mentioned earlier today that he's given myself as the new CEO and Frank Blake as the new lead Director about six months of transition to make certain everything on the succession was going well. We do think everything is going well and he concluded it was his time to retire. So this was fully anticipated.

Operator: And we'll take our next question from Ted Reid with TheStreet.

**<Q – Ted Reed – TheStreet>**: Thank you. Two quick things. Ed, you said in the opening that this is the weakest revenue environment in recent memory. Were you just referring to RASM trends or to something else?

**<A – Ed Bastian – Delta Air Lines, Inc.>**: I was talking to pricing trends that we've seen this year.

**<Q – Ted Reed – TheStreet>**: Just pricing is really weak because of...

**<A – Ed Bastian – Delta Air Lines, Inc.>**: Demand has been strong, but it's related to weak pricing.

**<Q – Ted Reed – TheStreet>**: Okay. And secondly, recently Doug Parker said that the only goal that remains in talks regarding the Mideast three carriers is to eliminate Fifth Freedom flights like the Milan flight. Is that your feeling? And what type of progress do you think the State Department is making?

**<A – Ed Bastian – Delta Air Lines, Inc.>**: We have reason to believe that State Department is making progress. We are not going to get in front of the State Department by telling them what they need to do specifically, but freezing and/or eliminating Fiftths would be a great start.



<Q – Ted Reed – TheStreet>: Just a start? Or is that, with that...

<A – Ed Bastian – Delta Air Lines, Inc.>: I'm not going any further than that.

<Q – Ted Reed – TheStreet>: Okay, all right. Thank you.

Operator: We'll take our next question from Edward Russell with Flightglobal.

<Q – Edward Russell – Flightglobal>: Thank you for taking my question. With the further 747 reductions, could you confirm how many 747s Delta will have at the end of this year?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: Five flying.

<Q – Edward Russell – Flightglobal>: Sorry, five?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: Five flying.

<Q – Edward Russell – Flightglobal>: Five flying. Great, thank you very much.

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#### Kevin Shinkle, Chief Communications Officer & SVP-Communications

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Okay. With that, I think we've gone through everybody. Thank you. And we will conclude our third quarter earnings call. Thanks again.

Operator: And that does conclude today's conference. Thank you for your participation and you may now disconnect.

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