



FAQs on the settlement between DP3, Delta and the Creditors Committee

This compilation of questions and answers reflects some of the email exchanges and phone calls between retired pilots, survivors and DP3 Trustees since the settlement with Delta and the Unsecured Creditors Committee was approved by the bankruptcy court on May 31.

I encourage you to read (or re-read) the detailed explanation of the settlement and the Stipulation and Order itself posted on the home page of the www.dp3.org web site. These FAQs will expand on the basic information found in those documents and sent to our members in an email last week. We will update these as needed with new questions and as we obtain new or more detailed information.

We have also posted Delta's letter to retired Delta pilots concerning the stipulation on our web site. It was mailed on June 8.

Please continue to ask your questions and we will continue to answer them as fully as we can.

Jim Gray
Chairman, DP3

Q1. What exactly does this settlement do?

A1. Among other things;

- This agreement between DP3, Delta and the Unsecured Creditors Committee resolves some of the many legal issues DP3 has pursued on behalf of retired pilots since Delta filed for bankruptcy in September.
- It provides a total allowed, (recognized) claim of approximately \$70 million (approximately \$7 million per month for 10 months, minus expenses) to pilots with unpaid non-qualified pension benefits which have accrued from the Chapter 11 filing date through the termination date of the non-qualified pension plans.
- \$9 million of the \$70 million is an Administrative Claim that will be awarded pro rata, according to the amounts lost by individual pilots. The Administrative Claim will be awarded in the next few months and will be

paid in cash when Delta exits bankruptcy. The balance of the entire allowed claim, the Balance Claim, (approximately \$61 million in our example), will also be granted pro rata to covered pilots in the next few months. Each covered pilot will receive a distribution of new Delta securities, also upon exit.

(A “Covered Pilot” is any pilot who retired prior to the termination of the non-qualified plans and has accrued and unpaid benefits arising under the non-qualified plans.)

- Each pilot’s share of the settlement should approximately equal the total lost non-qualified benefits the pilot would have received in the time between the Chapter 11 filing and the date on which the plans terminate.
- It preserves all of our rights to assert and then litigate a post-plan termination claim for future unpaid non-qualified benefits. That unsecured, non-priority claim could potentially be several hundred million dollars in face amount, with a corresponding distribution of a Delta security if allowed.
- It preserves our rights to re-enter the legal process if another 1113 motion dealing with retirement issues should be filed in the future.

Q2. When will the pension plan be terminated?

A2. Gerald Grinstein said on June 2 that formal action to terminate the pilots’ pension plans would occur “fairly soon.” Court approval for the qualified Plan termination could occur before July 1 if the PBGC seeks an involuntary termination. It could be later than July 1 if Delta files for a distress termination since ERISA law requires a 60-day notification and court hearings before the court can rule.

The non-qualified pans will likely terminate immediately after the effective date of the qualified plan termination.

Q3. What about lump sum payments under the qualified plan?

A3. No further lump sum payments will be made under the qualified plan after a notice to terminate the plans is given by either Delta or the PBGC. As we have heard, that notice is expected “fairly soon.”

Q4. I would like to know what the dollar amount is that I will get from this settlement. Is there any way I can figure this myself or will I receive notification that will outline this?

A4. The value of your individual settlement will be based on your total amount of lost non-qualified benefit up to plan termination date, less legal fees.

Q5. You mentioned in your email that I could sell the Balance Claim obligation after it is issued in the next few months. Please explain what this means to me.

A5. If you choose not to wait until Delta emerges from bankruptcy to receive your distribution, you may be able to sell your allowed Balance Claim in a market where claims traders pay cash for such claims. If you decide to sell this claim, the person purchasing the claim will receive the distribution under the plan. The market for such claims has recently been in the range of \$0.25-\$0.27 on the dollar. The market will vary with corporate performance and other influencing factors.

Q6. What about the Administrative Claim, can I sell that as well?

A6. Just as with the Balance Claim, there are similar markets for an Administrative Claim. Since this claim will be paid in cash at exit, the market for this type of obligation has been more typically in the range of \$0.90 on the dollar. The person purchasing an Admin Claim will receive 100 cents on the dollar from Delta when it exits bankruptcy.

Q7. How can I sell my claims? I don't know any Claims Traders.

A7. DP3 will assist any pilot or group of pilots who wish to sell their claim.

Q8. Your email states: "Delta and the [General Unsecured] Committee acknowledge that benefits under the Non-Qualified Plans have been accruing since the Petition Date at a rate of approximately \$7 million per month..." Then you state: "Once the \$9 million Administrative Claim Allowance ..." Does this mean that we, collectively have lost \$7 million per month, but that we will (collectively) get a total of \$9 million (less fees and expenses) for the entire settlement? This would amount to about a one month payment (maybe) correct?

A8. Delta agreed as a matter of governing bankruptcy law that this entire claim is a pre-petition unsecured claim. We succeeded in having \$9 million of it elevated to administrative status.

Q9. Will the Administrative or Balance Claim qualify for an IRA rollover?

A9. No.

Q10. What about the large FICA and Medicare withholding from our final pay checks based on our future non-qualified pension earnings that we will apparently not receive? Will we get a refund since Delta will no longer make the non-qualified pension payments?

A10. In LOA 51, Delta has agreed to pursue a refund of any excess withholding when a final resolution of claims against the non-qualified pension plans is complete. It is also in Delta's interests to do so since they had to match the withholding at the time and therefore Delta is also due a refund.

Q11. What about my future non-qualified pension payments, the so-called post-termination claim?

A11. Our legal and professional team has already begun the research and preparation to assert a claim for lost future non-qualified pension plan benefits. The amount of this unsecured, non-priority claim will be a very large number which we will press with great vigor.

Q12. Does this settlement have any effect on our medical, insurance or disability coverage?

A12. No. Any changes to those benefits will be negotiated by the Pilot Section 1114 Committee. Delta has not yet made its proposal to the 1114 Committee.

Q13. Will I miss any monthly checks after the plan is terminated and taken over by the PBGC?

A13. Based on experience at other airlines, there should be no interruption in monthly checks when the PBGC takes over the pension plan. The amount of the checks may and probably will change, however, as the PBGC calculates each pilot's individual benefit.

Q14. Why will our qualified and non-qualified pension plans be terminated, now or ever?

A14. The short answer is debt. When Delta decided it would file bankruptcy last summer, termination of the pilots defined benefit plan became a matter of when, not if.

And it was no secret. At the 1113 trial last year, ALPA, in public testimony, called the pilot defined benefit plans "doomed" and "dead as a doornail." Delta managers likewise testified that there was no money in Delta's business plan for future DB plan funding of any kind and that the demise of the pilots' retirement plans was "virtually certain".

The same testimony was repeated by Delta and ALPA during the contract arbitration hearings in March. Even Mr. Grinstein, speaking to the Delta Golden Wings in December, made it crystal clear that there was no hope of saving the pilots' retirement plans, none.

Simply, companies file bankruptcy to shed major debt. Delta owes several billion dollars in required make-up and future pension plan funding. Delta's past and

future pension debt is one of its largest unmet obligations. After Sept. 14 the future of the pilot pension plans was no longer in doubt—they would be terminated; the only remaining questions are when and by whom, Delta or the PBGC.

And so, the DB and NQ plans were expected to terminate variously by Dec. 31, 2005, April 1, 2006, Oct. 1 2006, and now probably sooner. Sadly, the wheel of fortune has been cruelly fickle for pilots who retired after Sept. 1 and were denied their lump sums and also for those who have been retired less than three years and anxiously watch the calendar since they may be adversely affected by the PBGC's three-year look back policies.

Q15. Why is this happening now?

A15. It was recently—and unexpectedly—learned that the ERISA-defined liquidity shortfall in the pilot qualified pension plan may end July 1, three months earlier than previously announced. With the end of the liquidity shortfall, ERISA statutes will allow the resumption of lump sum payments to pilots retiring on July 1 and later.

This new information led to an intense period of negotiation between Delta, and the Unsecured Creditors Committee, DP3, the PBGC and others, to resolve all formal objections to letter LOA 51 that could delay its approval by the court. Delta said any such delay could prevent a timely motion to terminate the pension plans, a delay that Delta said would threaten its survival.

Delta testified in court on May 31 that the most immediate and dangerous threat to Delta's survival was the resumption of lump sum payments from the pilots' pension plan and the subsequent expected mass retirement of 800-1,000 pilots on July 1 when the plan may come out of liquidity shortfall.

Delta said that the loss of that many pilots at once would, to use Judge Hardin's words, "create an operational catastrophe" from which Delta said it could not recover.

Delta testified that there are more than 900 pilots eligible to retire with individual lump sums over \$500,000, including nearly 100 with a lump sum of more than \$1 million.

The lump sum payouts are also a major problem for the PBGC. If several hundred pilots retire July 1 with a one-day \$500 million run on the bank, this will severely impact the PBGC balance sheet, already deeply in the red. It can be assumed that the PBGC would act to prevent such a huge hit on the plan by initiating an involuntary termination.

As for retired pilots, future lump sum payouts would also substantially reduce the benefits payable to current retirees if the plan were subsequently terminated, probably on the order of \$200 million in "real dollars."

Whether from Delta or the PBGC, expect to learn more "fairly soon."

Q16. Can the termination be delayed somehow? Why did you withdraw your objection and surrender?

A16. The PBGC was the lone remaining objector to LOA 51 at the hearing last week. It was VERY clear that Judge Hardin would not uphold any objection that could result in the possible demise of Delta Air Lines. This was clear in the first minute of colloquy as the PBGC stood to present its case.

DP3 could likewise have declined to reach a settlement with Delta and demanded a hearing on our objection. The near-certain result would have been a quick rejection by the court and the lost opportunity to obtain a \$70 million claim for retired pilots, \$9 million of which is a cash administrative claim. We believe we made the right choice.

Q17. Won't the pension reform legislation in Congress help save our pension plans? I wrote my Senators and Representatives like you asked—why not wait?

A17. Delta has repeatedly said that it cannot afford to continue funding the pilots qualified pension plan, and has in fact ceased doing so. Delta owes billions to the plan, and with an impending lump sum and early retirement crisis, the qualified plan cannot survive. Legislation will not change that.

Any compromise pension reform legislation is weeks, at best, from signature by the President. Even if there were provisions in the final bill to prevent lump sums—which almost no one thinks there will be—it would not change the outcome for the pilots' plan at Delta.

When the move for pension reform cranked up at the beginning of 2005, fuel was at \$43 per barrel and the crack spread was around \$5. It looked then like pension reform could help us all by making the continued funding of our plans manageable and affordable. A signed bill was expected by June 2005 and DP3 enthusiastically supported the lobbying effort through many trips to Washington, D.C. and by participating in employee meetings and newspaper editorial around the country.

Later in the year when fuel hit \$65 per barrel and the crack spread topped \$40, any money that could have been used to fund the pensions went instead to put fuel in the jets. Bankruptcy followed shortly, and along with it, the assured end of our defined benefit pension plan.

If Congress was to be the white horse upon which our pension hopes rode, that horse is still a very great distance away, obscured in dust, losing strength by the day and uncertain of its destination.

Q18. This settlement seems to primarily affect just those pilots who lost their non-qualified benefits. I thought you said you represented all retired pilots. Why should a pilot who only has qualified benefits continue to support DP3?

A18. It may be helpful here to review the sections in our email and on the web site from last week called “A refresher on how we got here—,” and, “And what lies ahead—”.

Remember, it was Delta, in its First Day Motions on Sept 14 that chose to stop payment of monthly non-qualified pension benefits and to cease funding the DB pension plan. DP3 responded as we should have, quickly filing a motion seeking to compel Delta to resume payment of the lost benefits.

When our Motion to Compel was denied by Judge Beatty on procedural grounds, DP3 appealed and won. The motion went back to the bankruptcy court to be decided on its merits. That motion, along with a parallel class action lawsuit on the same issues and our objection to LOA 51, were part of what was resolved on May 31.

Should DP3 have maintained its objection to LOA 51? Here are some of the factors we considered: Should DP3, (1), possibly cause a possible delay in the termination of the pension plan which would be fatal to Delta? Should DP3, (2), reject a settlement which puts cash and future equity back into the pockets of retired pilots who lost it? Should DP3, (3), possibly help facilitate a \$500 million run on the pension bank which would negatively affect every retired pilot for the rest of their lives? Would DP3 (4), have prevailed?

The Stipulation and Order is the best answer we could find to these and other questions.

Are the benefits uneven? Obviously so, but that is the result of the decisions Delta made regarding retirees, not DP3. Another set of circumstances or different tactics by Delta might have resulted in quite a different playing field and a different outcome. We will never know.

DP3 is aggressively pursuing a settlement over the lost post-termination non-qualified income stream; DP3 will be the retired pilots defender and intercessor if we have the expected challenging encounters with the PBGC in the coming years; DP3 is prepared at any time to reenter any 1113 process affecting retired pilots that might occur in the future; DP3 will help with any claims submissions that individual retirees or survivors might need.

It is difficult for all of us to accept the fact that our pension plans have been terminal for nearly a year, a sort of financial dead man walking. Perhaps even harder to accept is that there is no good argument or legal maneuver that could persuade a bankruptcy court to permit anything that would delay the imminent termination our pension plans when faced with the dire and irreversible alternatives.

People join organizations like DP3 to share in the support for whatever the best outcomes are for the group as a whole. We all know that in life the rain does not fall evenly and this bankruptcy is no exception. Many retirees have been devastated; many others have seen little change and may still see little change. The fact is that for an all-volunteer effort like DP3 to be successful at all, we each

put aside our individual worries and self-interests to unite in a group effort to resist the worst that might befall us.

Now that we have had some success, it is time to look forward to what more we can do in the future, not sit in the dark with our calculators, lamenting what has been lost and the possible advantage others might have achieved that we did not.