Where we stand

The Board of Trustees of DP3 remains wholly committed to the words in our mission statement: *"To work to preserve the earned pensions, health insurance and other benefits paid by Delta Air Lines to retired Delta pilots, their dependents and survivors."*

Those are the principles upon which DP3 was founded. Those are the same principles upon which DP3 has acted and those are the same principles upon which DP3 stands today—and tomorrow, and through the difficult years ahead.

Since its nascent beginning in December 2002, DP3 has acted with the welfare of *all* retired pilots and their families preeminent in our minds, regardless of number, origin or circumstance. That has not changed and it will not change.

This letter is longer than our usual messages but we hope you will take the time to read it thoughtfully. We will cover both old and new ground as we address some critically important issues with which nearly all of us are struggling.

First, some history

With your strong financial support and encouragement, the DP3 Board of Trustees has been tireless in its advocacy of retired Delta pilot pension, disability, medical, insurance and family security issues.

- From the very first, each Trustee has been voted into office by his fellow retired pilots in annual, advertised and open elections.
- We actively supported post-9/11 Congressional airline pension relief in 2003 with an email, fax and letter campaign.
- We helped publicize and expose the travesty of management's SERP debacle in 2003.
- DP3 and DALRC co-sponsored numerous large public meetings concerning bankruptcy and pension issues which were open to all Delta employees and retirees.
- DP3 was fully prepared to respond had Delta filed for bankruptcy in 2004.

- DP3, DALRC and a group of retired executives and other retirees prodded Delta to reevaluate and then delay significant adverse changes to some medical benefits and the Prescription Drug Plan which were planned for the 2006 plan year.
- DP3 Trustees supported pension reform legislation through personal lobbying in multiple visits to Washington and in Members' home districts. We also promoted a focused email, fax and letter campaign from our members to their Congressmen and Senators. Individual Trustees and other retirees traveled with Delta representatives and spoke to company road shows and to editorial boards across the country in support of pension reform. (Of course we see how well that turned out for the retired pilots!)
- DP3 and its counsel have been a constant presence in bankruptcy court and in the arbitration hearings whenever retiree or pilot issues were before the bench. Whenever needed, we have responded in defense of retiree interests.
- Just days after the Chapter 11 filing, DP3 filed a Motion to Compel Payment when Delta ceased paying non-qualified monthly pension benefits and stopped making statutory minimum funding payments to the qualified pension plan.
- We appealed Judge Beatty's procedural denial of that motion; the appellate court returned the issue to the bankruptcy court for a decision on its merits—a victory for DP3.
- On Sept. 15, DP3 filed a motion to have the court approve a pilot-only Section 1114 committee, a motion which Delta vigorously (and very expensively) opposed. In February, following DP3's persistence and over Delta's continuing objection, the court appointed a pilot-only 1114 committee. Four DP3 Trustees serve on the nine-member committee. The pilot-only 1114 committee may prove to be one of the most important achievements of DP3 since it will deal uniquely with pilot-related medical, insurance and disability issues.
- In November, DP3, and some individual pilots interceded with Delta on behalf of approximately 300 disabled pilots who lost part of their disability benefit when Delta stopped non-qualified monthly pension payments. As a result, Delta recalculated the disability offset for the affected pilots and began making the required payments provided for in the D&S plan language.
- In May, DP3 agreed to a settlement with Delta and the Unsecured Creditors Committee of all pending DP3 litigation.

That settlement will provide for at least a partial recapture of the non-qualified monthly benefits from the petition date until the non-qualified plans are terminated. Similar Delta claims were recently solicited at $0.42 on the dollar by an outside firm.

- For more than three years we have maintained an informative web site with DP3 letters and reports, articles, court documents, useful links, extensive FAQs and member feedback. The www.dp3.org web site has been a well-used support base for our own constituents as well as the media, the court, interested law firms and others outside the Delta community.
- From our very beginning, DP3 Trustees—on their own time and usually at their own expense—have attended dozens of formal and informal gatherings of retired pilots and spouses to answer questions and to provide current information and background on the issues of the day.
- Perhaps the most demanding of all in terms of time is our direct personal support of retired Delta pilots and survivors with countless phone calls and thousands and thousands of email responses to your individual questions and comments. We do our best to personally answer every single email message and phone call.

Has anything changed?

Has all of that effort, that steadfast, demonstrated commitment to retiree welfare suddenly turned itself inside out? Has DP3 suddenly assumed an alien role so unlike what has gone before?

No.

The question stems from Delta's motion to terminate our qualified and non-qualified pension plans Sept. 2 and what can—or should—we or anybody else do about it?

A brief review

A common question asks, "Why is our plan different from the non-pilot retirement plan and how did it become so deeply insolvent?" The salient difference between the plans is the available 50% lump sum option in the pilot plan.

The retirement of 2,000 pilots with $2.5 billion in lump sum payouts over the last few years may have been the tipping point for plan solvency, but there were several other factors that led to that unprecedented exodus and help push the plan over the edge.

Here are a few: Delta made only the legal minimum contributions to a plan that was quickly becoming insolvent; this came at a time when investment returns in general dropped steeply with the sharp market decline post 9/11. Higher pilot pay rates and record low interest rates generated very high lump sum payouts for retiring pilots.

Management's actions worsened an already unpleasant work environment when the SERPs were revealed, and then defended. Relations between management and ALPA took on an increasingly acrimonious tone. The persistent threat of bankruptcy, the resultant uncertainty about Delta's future and the future availability of lump sums, caused approximately 2,000 pilots to vote with their feet and retire early.

An entirely rational decision by those pilots and one, combined with other circumstances, that now leaves the qualified plan funded at approximately 39% of its ability to pay known obligations.

Objection to LOA 51

DP3 agreed to a Stipulation and Order in May settling all of our pending our litigation and included withdrawal of our objection to LOA 51. This agreement was reached with the understanding that the qualified plan would come out of liquidity shortfall on July 1 (which it did).

If the pension plan could not be terminated by July 1, ERISA regulations would have required the resumption of lump sum payments to more than 1,900 pilots eligible for lump sums should they elect to take either a normal or early retirement.

Delta said that 857 pilots were entitled to lump sum payments of between $500 thousand and $1 million. Sixty pilots could have received lump sums over $1 million, while 712 pilots were entitled to lump sums of $250-$500 thousand.

Delta estimated that 800-1000 pilots would jump on the retirement merry go round for a one-time chance to grab the lump sum brass ring. Delta argued—and the judge quickly agreed—that that would create an unsurvivable "financial and operational catastrophe."

Three crucial things happened on May 31: The active pilots ratified LOA 51; the court denied the PBGC's objection to LOA 51; the court approved LOA 51. There was no remaining obstacle to plan termination. The lump sum window was formally closed and the plan's fate was likely sealed when Delta filed a Notice of Intent to Terminate on June 19.

How would this affect retired pilots?

If the plan were not be terminated as a way to prevent lump sums, and if 800-1000 pilots did as Delta predicted—retired and took lump sums, then $580-$680 million would have been immediately drained out of the qualified plan, never to be replaced.

If the plan were then subsequently terminated, which it most assuredly would be, that loss would have caused a direct reduction in future benefits to current beneficiaries of $200-$250 million, or 14-18%, per month for life.

That amounts to $420 to $540 per month for a retiree drawing $3,000 per month from the qualified plan. You can plug in your own personal numbers and use whatever assumption you might prefer as to how many pilots might actually retire, but the result is real and forever.

In short, if the plan is terminated, hundreds of millions of dollars more will be in the plan and available to beneficiaries than if the plan is not terminated.

Faced with those facts and given the choice, "Why would any retiree want the plan to continue in force?"

The obvious answer? Of course we all want the plans to continue unchanged! We want to be paid 100% of what we are now getting, plus the full restoration and future payment of all of our non-qualified benefits.

We want our pensions to be paid as if bankruptcy never happened!

Unfortunately, that "in a perfect world" option was not (and is not) on the table.

The subsequent question for DP3 was this: "We know we will lose some unknown amount of our qualified annuity when the plan goes to the PBGC; do we want to take that loss *plus another 14-18% after a run on the lump sum bank?*

Our answer was in complete consonance with our Mission Statement: *"To work to preserve the earned pensions…paid by Delta Air Lines to retired Delta pilots, their dependents and survivors."*

First, do no harm and take no action that would further jeopardize the future income and security of retired pilots and their families.

We reached an agreement that we believed would preserve the highest possible level of pension funding for every retiree.

Yes, we could have raised the flag of principle, maintained our objection to LOA 51 and declined a multi-million dollar settlement for pilots who lost their non-qualified benefits. If so, we would have suffered the same inevitable and decisive judicial smackdown as did the PBGC, and we would have walked away both defeated and empty handed. We did not think that course was in the best interests of retired pilots and their families.

It should be clear, therefore, that implicit in our agreement to withdraw our objection to LOA 51 was the common sense understanding that we would not immediately turn around and then object to plan termination. It would make no sense since the facts and the circumstances that led to the agreement were still true and the financially adverse effect for our pilots was still there.

Has anything changed since May?

Well, emotions are certainly running a little higher as September approaches. That, and the pension bill passed (but remains unsigned by the President), and Delta has started to improve its financials during the summer season.

In early 2005 Delta told us, and we believed that the pension reform bill would help ensure the survival of the pilot and non-pilot pension plans. However, since fuel spiked last summer and Delta chose a court-supervised restructuring, Delta changed its tune.

Delta has now said for months that the bill would not help save the pilot plan but might help the non-pilots keep their plan.

This bill was hastily cobbled together during the last week of the summer session and is not the same conference report that was being negotiated between the House and Senate.

At least two obvious issues in the bill call for further analysis: the potential effect on our plan of the 17-year amortization should it survive, and a "lawyerly" reference to restricting lump sum payments that seems to begin in 2010.

DP3 will therefore seek a delay in the pension plan termination scheduled for Sept. 2 along with the hearing on the matter now set for Sept. 1. There is further uncertainty about Congress's intended meaning in other parts of the bill, and the intent of the lump sum provision needs immediate clarity.

We will ask for enough time to ensure that any provisions of the bill that would help retired Delta pilots preserve our defined benefit qualified pension plan are fully understood and included in any future court proceeding concerning termination of the plan.

You may wonder why seeking a delay is not headline material and is included in the body of this letter. Simply, there are competing financial and parochial interests that raise major obstacles to preserving the pension plan. We believe strongly that it would be disingenuous of DP3 to raise false hopes and beat the drums for an outcome that may be only the longest of the very longest shots.

What would it take to save the qualified plan?

(Many have asked if it would be possible to simply negotiate away the lump sum option and thereby end the problem. Current ERISA law specifically prohibits parties from negotiating away an accrued benefit, including the form of the benefit, which in this case is the 50% lump sum option.)

In our view, the threshold issue that still needs to be resolved is the ability to permanently stop lump sums while still maintaining the pension plan. If that is not possible, then there does not seem to be another combination of events in the real world that would preserve the plan. Even if language in the ERISA statutes or in the pension bill language could provide a heretofore unknown useful legal wedge, there are other, even more difficult obstacles.

In the very first instance, Delta would have to want to continue the plan. It does not.

To this point and in great detail they have filed a Motion to Terminate the Pilot Plan supported by four declarations from Ed Bastian, Timothy Coleman, Margaret McDaniel and David Watson.

If you have not yet read these documents we urge you do so, or to re-read them. They are all found on the home page of the www.dp3.org web site and will give you a full picture of Delta's view of the future of the pilot pension plan.

Know your enemy: these documents should be Must Reading in the days ahead.

Speed bumps along the way

Here are some of the difficulties to be faced in order to save the pension plan. Remember, pension plan funding is not a part of Delta's present or future business plan, in or out of bankruptcy.

Any money we want Delta to spend on pensions either has to be borrowed or come out of someone else's pocket, like the Unsecured Creditors and exit financing lenders, for example. All the parties are fighting over the same finite pot of money.

Here are a few considerations to ponder as we consider the possibility of preserving the pilot qualified pension plan:

1. The DIP lenders would need to approve.
2. The Unsecured Creditors Committee would need to approve.

3. Exit financing lenders would need to approve.
4. The bankruptcy court would need to approve and overrule Delta's arguments. The court ruled in Delta's favor on almost exactly the same questions May 31.
5. If the lump sums cannot be stopped, the PBGC would certainly not object to a distress termination since it would inherit a further stricken plan if lump sums were permitted to resume even for one month.
6. More likely still, if the PBGC thought the plan might not be granted a distress termination for some reason (however unlikely), they would probably move quickly for an involuntary termination as a defensive step to preserve the remaining assets in advance of a probable lump sum run on the bank.
7. ALPA concurs with the termination of the plan and gets a $650 million bonus for active pilots for selling the retirees down the river.
8. ALPA and Delta would have to negotiate a significant restructuring of the provisions in the court-approved LOA 51—now the Pilot Working Agreement—since plan termination and the concessions were intimately intertwined.
9. There is a provision in LOA 51 that says that the Non-Qualified plans cannot be terminated until and unless the Qualified plans are terminated.
10. Delta has ceased all meaningful contributions to the qualified plan and has testified that they have no intention to resume either funding the qualified plan or Non-Qualified pension payments during or upon exit from bankruptcy.

Other than all of that, it should be easy.

What's next

Some may argue that the world has changed, what with the pension reform legislation, stronger quarterly results, speculation on how many pilots might actually retire and enthusiastic readings of one statute or another.

Maybe it has; but in our view, none of that has changed the basic fact that if the qualified plan is not terminated—based on what we know today—every single retired pilot will suffer an additional loss to his or her monthly income. It was true in May and it is true now.

Should the most beautiful of miracles happen and the lump sum issue is resolved to permanently prohibit their payment, then we can all start with #1 or any other number on the list above and work our way through to see where it comes out.

What DP3 will do is to ensure that we have left no productive stone unturned to find a way to protect and preserve the highest level of benefits for all retired pilots. Are we looking? Yes. Have we found anything new? Not yet. If we find it we will act.

What DP3 won't do is to raise false hopes or paint a rosier picture of reality than what we know to be true: that is in no one's best interest. You may have heard the old saying, "You can't hit if you don't shoot." To us, that philosophy sounds a lot more like, "Ready, Fire, Aim." That has never been DP3's way of doing business and we won't start now.

DP3 will continue to act with careful thought, preparation, patience integrity, deliberation, vision and commitment—just like we have always done. We have important issues ahead, including protecting the $1billion-plus post-termination Non-Qualified claim and the sure-to-be protracted and frustrating contest with the PBGC over our future benefits.

Who we are

Finally, we would like to reintroduce ourselves since we have two new Trustees this year, John Mills and Roger Ross.

The ages and background of the Trustees vary widely. Don Mairose is our oldest at 71 (with Reuben Black close behind). Roger is the youngest at 57. Ron Stowe retired in 1997 under the Special Early Retirement program and was a life-long line pilot. Jim Haigh is retired on Long Term Disability.

Bill Wirth, Roger and John all retired early and fall inside the 3-year lookback, as did others of us when all of this started. Roger, at 57, will feel a particularly severe impact from the PBGC rules because of his age and early retirement.

Reuben Black was an Atlanta LEC Chairman and Richard Colby was an Atlanta First Officer representative; both also served in Delta management. John worked off and on in Flight Operations management for many years and was the Program Manager on the A-310 and Chief Line Check Pilot on the B-777. Don was a Lead Check Pilot on the L-1011 and was an instructor or check airman on every airplane he flew. The majority of us were also Line Check Pilots, Flight Instructors or both.

Don, Roger, Jim Haigh, Jim Gray and Bill Wirth held a variety of ALPA jobs. Don was both an LEC and MEC Grievance Chairman and worked in Safety; Roger was an MEC scheduling sub-committee negotiator, a member of the PBS development team and worked in the Family Awareness program.

Jim Haigh and Bill both also worked in ALPA Contract Administration and were pilot members of the System Board of Adjustment. Jim Gray did work in communications and was the Council 44 LEC Chairman for two terms.

So, where do we stand?

We remain standing where we have from the very beginning, right beside retired pilots and their families, helping, listening, protecting, preserving. We were there for you when this started and you can count on us until all of this is over, and one day it will be.

All of us are deeply grateful for your steadfast support and encouragement. Above all else, we value and honor your trust. Your messages and calls of appreciation help enormously in these busy and trying times.

Thank you from the DP3 Board of Trustees.

Jim Gray, Chairman

Bill, Reuben, Don, Jim Haigh, John, Roger, Ron and Richard.