



## Internal Memorandum

**Date:** July 1, 2004  
**To:** All Delta Employees  
**From:** Jerry Grinstein, Chief Executive Officer  
**Subject:** Forging Ahead

Delta's senior management team met again this week for a comprehensive update on the strategic review started earlier this year. A great deal of progress has been made, but we still have much work to do. We're leaving no stone unturned, and I want to assure you that a business strategy is being developed that does not rely solely on labor cost-cutting measures, but also includes the operational restructuring and innovation we'll need to survive and compete. Today, let me share some information about where we are in the strategic process, what you can expect, and why our restructuring efforts are so urgent.

We plan to present the restructuring plan to the Board in late August and, if approved, we'll promptly begin to announce and roll out its initiatives. As you've heard before, they won't be communicated at one time in great detail. This is for obvious competitive reasons, but also because a valid strategic plan is by definition not rigid; it has to remain flexible in order to respond quickly to the market. The plan will, however, provide you with a clear, solid strategic framework of how our company will restructure and reinvent itself, and the role you can play.

That being said, competitive cost reductions must remain an essential component of our restructuring. Planning teams are working around the clock because it is no secret that financial pressure on Delta grows more urgent with each passing day. As I have said in my meetings with you around the system, it is painfully clear that last year's determination of the level of savings we would need for long-term viability is no longer valid. There are a number of converging factors contributing to the need for additional savings, including:

- Greatly increased fuel costs (a whopping \$680 million increase in 2004 as compared to 2003);
- The continued deterioration of yield as fast-growing low-cost carriers enter more markets (we go head-to-head with them in competition for over 70% of our domestic revenues);
- Additional credit rating downgrades, making it more difficult and prohibitively expensive to access the capital markets (collectively, six downgrades since May 2003); and
- The experiences we've seen at other legacy carriers after they discovered belatedly that their actions were not sufficient.

Thanks to the considerable sacrifices and contributions of Delta's non-contract employees, plus significant efficiencies from our operations through the Profit Improvement Initiatives, we've saved almost \$1.8 billion. But costs continue to outpace revenues, with no improvement in sight. It's obvious we need to do more and we need to do it quickly.

Against the backdrop of our rapidly deteriorating financial condition, we have some positive developments and momentum to report. Not surprisingly, they are the result of the hard work and dedication of Delta people who are expressing – in words and actions – a willingness to do what's necessary to save this company.

First, as mentioned, our planning teams have stepped up their efforts and are working fast and furious to roll out before the end of summer some of the restructuring initiatives the Board has already reviewed. They will focus on streamlining our operations and simplifying the way we do business. Details will be made available to you as we get closer to launch. Through these and other initiatives – such as working with our vendors and suppliers – Delta's restructuring momentum, first set in motion by the Profit Improvement Initiatives, continues to grow, and we're working double-time to see that it does.

On a separate, but equally important front, I greatly appreciate the recent communications from the Delta Master Executive Council of ALPA expressing their desire to resume discussions and consider how to make the necessary contribution to Delta's restructuring efforts. Their positive and constructive initiative indicates a shared commitment to do what is necessary to achieve long-term viability, which is the only way to provide our pilots, and other employees, with a road to career security. While unquestionably painful and difficult, these common goals provide a solid foundation on which to move forward together to do what's necessary.

So, despite the challenges all around us, the great work, determination and spirit of the Delta family continues to remind me of what

is unique about this company, and why I am proud to be here. Instead of becoming paralyzed by outside circumstances, the response of Delta people is to spring into action with renewed determination and see this airline through whatever rough weather we encounter. And to never, never lose sight of the importance of taking care of the customer by providing safe, efficient, friendly service. That's why I am confident that at the end of the day, we'll get through this together and chart our own destiny.

Thank you for your continued participation and commitment. We'll keep you informed throughout the coming weeks and months as we work together to ensure Delta's place in the future. But for now, even in the face of some recent setbacks, we're forging ahead with some positive momentum. In the meantime, keep yourselves and the operation safe throughout the Fourth of July holidays.

Jerry Grinstein

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