



Internal Memorandum

Date: August 4, 2004

To: Flight Operations Leadership
From: Joe Kolshak, senior vice president and chief of operations
Subject: MALONE LETTER

Today, John Malone issued a letter to the pilots in response to the Company's proposal seeking \$1 billion in annual savings, in combination with reductions from other stakeholders, needed to regain long-term viability.

Appreciating the role you play in communicating with our pilots, and the questions this type of letter will generate, I wanted you to be aware of the facts and provide you with guidance on how best to respond. I've spoken directly about these issues with Scott Kruse, the Company's chief negotiator, so you may have confidence that you are getting direct and accurate information.

- **This is not a “take-it-or-leave-it” process.** There were no “demands” made, other than achieving the minimum \$1 billion in annual savings – which has been set by the marketplace. This is a negotiation as to how best to achieve the needed savings for viability, not a “take it or leave it” process, and to suggest otherwise is disingenuous. Jerry stated clearly in his letter to pilots last week that how we achieve the necessary savings would be done collaboratively with ALPA. The company's negotiating team is operating on this collaborative principle.
- **There was and is no intent to be punitive or to affix blame.** Without going into too many specifics and getting ahead of the process, several examples illustrate this:
 - Jump seats: For heightened security reasons post 9/11, federal law has been changed and supercedes our contractual language. Though the negotiating team inserted language to reflect current law (limiting access to active employees), no change to the current jump seat policy has been recommended. The Company also stated its desire to discuss these issues based on ALPA's request for jumpseat enhancements while mindful of the new security environment.
 - Disciplinary protection: because the very rare bad actors adversely affect other pilots and ALPA as well as the company, we thought it was in our mutual best interest to revert to the prior contract's language on the lookback period [3-5 years] for discipline. However, we are open to discussion on this subject, like others.
 - Changes that add costs or restrict the company's ability to generate revenue: Limitations on profit sharing with foreign carriers and code-sharing with other carriers, regional jet employment, and anything else that limits our ability to become viable must be on the table for consideration. Again, it's not intended to be punitive; it's simply reflective of the marketplace and the financial situation we're in.
 - The Company's proposal for a flexible cap to 85 hours is to enable pilots to *make up* some of the pay loss from the pay rate reduction, and likewise other changes would allow reserves to fly beyond the 65-hour guarantee.
 - The Company's proposed changes to post-retirement medical benefits are not a “B-scale.” They simply conform to benefit plans that non-pilot employees have.

- **There is a real commitment to provide an upside.** Jerry gave his personal assurance in writing to pilots that the Company “is committed to the principle that the people of Delta must have an opportunity to share in any success their sacrifice helps makes possible. As he communicated, “we are already working on a combination of equity, profit sharing and some type of incentive tied to productivity.” The Company gave ALPA a profit sharing proposal in January, and last Friday told ALPA it was developing a new profit sharing plan and an equity plan and would have the new profit sharing plan to them shortly. The Company reiterated to ALPA its commitment to both. Because of the comprehensiveness of the plans being considered, some components of the equity plan cannot be finalized without Board and shareholder approval. This has been communicated to ALPA.
- **We agree the pilot group alone cannot save Delta.** Again, as Jerry assured in his letter: “Other stakeholders will be a part of the solution.” We are working hard to restructure debt, renegotiate aircraft leases, and reconstruct our relationships with vendors and suppliers. Disclosing particulars at this sensitive stage could have real and profound negative repercussions – it simply would not be prudent to do it.
- **We share common ground.** We respect our pilots. We both share the goal of preserving the pilot profession and the careers of Delta pilots – and all of our employees. And we will continue to conduct our discussions with ALPA in a businesslike manner.

As Jerry stated, “as we tackle together painful and difficult issues, there are few good options and no easy choices.” This isn’t going to be easy, and it must be kept in perspective. Management’s motivation has always been and remains to avoid bankruptcy and rebuild a viable airline. We are working hard for an out-of-court solution. Smart planning, good faith negotiations, and responsible leadership are required. So, too, are cool heads and cooler rhetoric. I know I can count on you to conduct yourselves accordingly.