

The Directed Account Plan 2007 Year-End Review

January 2007



2007 Plan Expense Overview

The information below is based on un-audited but actual expense numbers in addition to estimates of investment manager fees for 2007. Expenses have decreased slightly from last year. The basis points listed below are not charged directly to you but taken as an adjustment to the daily NAV of each DAP Option.

Total Assets (12/31/07)	\$991,197,304
Total * Operating Expenses (Recordkeeping, Trustee, Administration, Personnel, Communication)	1,855,097
Operating Expenses * as a percent of assets	19
Approximate ** net *** investment manager fees	29
Other Mutual Fund Expenses ****	8
Total DAP Fees and Expenses as a percent of assets -	56 basis points

* net of transfer fees, ** mutual fund investment management fee avg., *** after administrative offsets, **** includes mutual fund transaction fees, 12 b-1 fees, administrative fees, and all other asset-based costs incurred by the funds. Does not include transaction costs of participant activity, which is reflected in each BGI NAV, lowering BGI performance. Basis Point - one basis point is equal to 1/100th of one percent.

DAP Option Expense Ratios

	Option (Basis Points)	Morningstar Average (Basis Points)
Stable Value	28	n/a
Value Stock	94	Large Value 94
		Mid Value 120
Equity Index	17	n/a
Growth Stock	91	Large Growth 107
		Mid Growth 121
International Stock	103	108
Diversified Small Co. Stock	103	110
Conservative Model	39	62*
Moderate Model	61	64*
Aggressive Model	72	93*
		* from Morningstar model portfolios

2007 Mana	ger Changes
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Added	Month	Option
T. Rowe Price Growth	1/07	Growth Stock
Morgan Stanley US Small Cap Value Instl.	3/07	Div. Sm. Co. Stock
Neuberger Berman Partners	4/07	Value Stock
Royce International Value	6/07	International Stock
iShares Morningstar Small Growth Index	12/07	Div. Sm. Co. Stock
Removed	Month	Option
Neuberger Berman Regency	4/07	Value Stock
Century Small Cap Select	12/07	Div. Sm. Co. Stock
First Eagle Overseas	12/07	International Stock

Fund Componer	nt Weighting
These tables represent con	nponent weiahtinas for

individual investment funds as of December 31, 2007.

l l	Neight-	Net Value of
	ings	Funds (\$MM)
Stable Value Fund		\$297.9
Cash/BGI Money Market	15%	0
PRIMCO GIC Wellington Core Bond	45%	0
weinington Core Bond	4070	D — — — —
Value Stock Fund	200	59.9
BGI Value Index Neuberger Berman Partners	20%) '
Morgan Value Strategy	20%	5
Goldman Sachs Mid Can Value Inst	15%	, ,
T. Rowe Price Value	15%	,)
CGM Focus	10%	, D
Fauity Index Fund		21.8
BGI US Equity Index	100%	,
Growth Stock Fund		27.9
BGI Growth Index	2.0%	~ <i>x</i> . <i>x</i>
Wellington Mid Cap Opp.	15%	,)
Turner Mid Cap Growth	15%	, D
Marsico Focus	20%	, D
T. Rowe Price Growth Stock	15%	,)
Primecap Odyssey Growth	15%	0
International Stock Fund		59.3
BGI EAFE Index	22%	0
Am Century International Discovery	10%	0
Am Century International Growth	10%	(o /
Oppenheimer Intl. Sm. Co. A	127	0
Thornburg International Value	12%	0
Marsico International Opportunities	12%	6
Dimensional Emerging Markets Valu	e 8%	0
Royce International Value	4%	6
Diversified Small Co. Stock Fu	nd	
BGI Small Co. Index	20%	36.5
Dimensional US Micro Cap Portfolio	15%	́о
Royce Opportunity	15%	6
Legg Mason Opportunity	10%	0
Third Avenue Small Cap Value	15%	0
Morgan Stanley US Sm. Cap Value II	nstl. 10%	0
isnales worningstar Small Growth Inc	uex 13%	0
Conservative Portfolio		527
Moderate Portfolio		306.6
Agaressive Portfolio		23.3
Fidelity Funds Window		104.3
Total		\$991.2
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More Information and Plan Contacts

To get daily NAVs, account balance information, or to make transfers, you may call the DAP Service Center telephone voice response system, available 24 hours a day. Customer service representatives are available 8:30 am to midnight, Eastern time Monday through Friday. Call 1-877-4TWADAP (1-877-489-2327) or dial the AT&T direct country code and 877-833-9900 (call collect) outside the U.S. Use Social Security number and PIN to access your account.

The intent of this communication is to provide useful information not investment advice. Each participant in The Directed Account Plan is ultimately responsible to make his or her own investment decisions.

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DAP YEAR IN **REVIEW 2007**

The following pages of this issue provide a summary of your DAP investment options. On pages two and three you'll find descriptions of your options along with graphs showing their growth and performance. On the last page there is a summary of your plan expenses, your plan asset balances/investment allocations, a review of the manager changes in 2007 and plan contact information. Please study this annual review of your plan and do not hesitate to call the Plan Office with any questions about your retirement plan. Your Investment Board, that includes your fellow pilots and participants, are working towards some improvements in 2008 which will be talked about in the next Heads Up issue. The latest plan news can always be found at www.4twadap.com under plan news.

HOW STABLE VALUE WORKS Because the fixed income asset class has been in the news recently and participants have expressed the need to better understand our Stable Value Option, we have included an overview of this option. Stable value portfolios consist of GICs and high-quality bonds combined with wrapper agreements designed to maintain a stable net asset value.



HOW WRAPPER AGREEMENTS WORK

Graph One (bottom-right) helps to explain how the wrapper agreement component of the Stable Value Option works. Wrapper agreements are designed to help preserve principal and provide a stable crediting rate as identified by the solid, bold line. The wrap agreement's crediting rate formula is designed to provide a stable return during rising or falling interest rates. The agreements smooth the impact of fluctuating interest rates and bond prices by amortizing the gains or losses over the duration of the portfolio. The smoothing function allows the stable value portfolio yield to track the general direction of interest rate **Graph One: How Wrapper Agreements Work** changes without the day-to-day price volatility of traditional bond portfolios. The result is displayed on Graph Two (below).



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PORTFOLIO CONSTRUCTION Book Value Wrapper Stable Value Portfolio Agreements Contracts with high quality banks and insurance companies Smoothes price fluctuations in bond portfolio Payment obligations of issuer help maintain a stable NAV High Quality /rappers

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Reviewing The DAP Investment Options

THE MODEL PORTFOLIOS - The model portfolios have been created for the participant who does not want to determine his or her own account asset allocation. The DAP Board of Directors has provided an appropriate asset allocation of the DAP investment options based on varying degrees of risk. Rebalancings occur periodically to maintain the target allocations for the options and models.

The Conservative Model

Investment Objective

This model is designed for the retiree or participant who desires to limit volatility and risk of principal. The objective of this portfolio is income and capital preservation. 60 percent of the portfolio is invested in the Stable Value Fund. As an inflation hedge, 40 percent of the portfolio is split between the Value Stock and Equity Index Funds.



The Moderate Model Investment Objective

This model is designed to provide a balanced long-term asset allocation suitable for a majority of participants. The objective of this portfolio is capital growth and income. 35 percent of the assets is invested in the Stable Value Fund. 65 percent of this portfolio is diversified among the various equity funds.



The Aggressive Model

Investment Objective

This model is suitable for younger articipants and those who are willing to accept more risk and higher volatility in their investments. The objective of this portfolio is capital accumulation. 80 percent of its assets is allocated to equities. The Aggressive Model takes above-average risk in an attempt to achieve its goal of above-average returns.



Aggressive Model

Aggressive Composite Index

THE INVESTMENT OPTIONS - The DAP Board of Directors applies their investment expertise and careful analysis to select a diversified group of managers that fit the objective for each of the following investment options.

Stable Value Fund

Investment Objective

This option is designed to provide investors with a return comparable to that of high quality bonds with less volatility. It invests in a combination of traditional investment contracts, security-backed investment contracts, actively managed bonds, CDs and cash. The benchmark is the Lehman Brothers 1-3 Year Govt./Treasury Index.



Value Stock Fund

Investment Objective

This option may include a range of value investment managers. These value managers look for large or mid-cap stocks that are undervalued in the marketplace in relation to factors such as the company's assets, sales, earnings, book value, growth potential, cash flow, or in relation to securities of other companies in the same industry. The benchmark is the Russell 1000 Value Index.

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Equity Index Fund

Investment Objective

This option is invested in a portfolio of equity securities. The investment objective is to closely approximate the capitalization weighted total rate of return of publicly traded securities represented by the 3000 largest companies. The benchmark for this option is the Russell 3000 Index.

55000 50000 45000 40000 35000 30000 25000 20000 15000 10000

Growth Stock Fund

Investment Objective

This option contains funds whose managers invest in stocks from companies with higher historical or expected growth rates in sales or earnings. The primary objective is capital appreciation. The benchmark for this option is the Russell 1000 Growth Index.



International Stock Fund

Investment Objective

This option contains funds whose managers invest in securities across world markets. The primary objective is long-term growth of capital through a diversified portfolio of world market securities. Investment is in common stocks of foreign and some US companies. The benchmark for this option is the MSCI EAFE Net Dividend Index.



Diversified Small Co. Stock Fund

Investment Objective

This option contains portfolios that typically include growth and value stocks of small to medium companies. The primary objective is capital appreciation through investment in equity securities that have significantly better-than-average prospects for appreciation. Funds in this category tend to be more volatile than other equity investments. The benchmark for this option is the Russell 2000 Total Index.

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Growth of \$10,000



\$35,575

as of 12/31/0









Performance **n** 60000 55000 24.6 \$47,747 22.20 50000 as of 12/31/07 20.44 45000 20 40000 35000 30000 25000 20000 15000 10000 -0.98-2.25 5000 month 1 year 3 year 5 year 10 year International Stock MSCI EAFE Net Dividend



Performance \$44,872 55000 as of 12/31 50000 45000 10000 35000 30000 25000 20000 15000 -0.24-0.06 -1.09-1.57 10000 5000 nonth 1 year 5 year 3 year Div Sm Co Stock Russell 2000 Total