

stable. One of the strengths of the Northwest network is that the airline has the least exposure of any major carrier to low-cost carriers in the industry. This is primarily due to the fact that Southwest Airlines does not serve 2 of the 3 Northwest hubs—Memphis (Pinnacle's largest market) and Minneapolis. Southwest has a small operation in Detroit with only 2 gates. The IF Report states that Eclat expects that low-cost carriers will expand and gain share in the future but feels that Northwest is in the best shape of any network carrier to compete.

#### The Eclat Report and the January 15, 2003 Valuation

Fiduciary Counselors and Eclat represent that Eclat was originally retained by PBGC to value Pinnacle and to evaluate the financial viability of Northwest. Eclat is an aviation-consulting firm that specializes in detailed analysis of the economic and financial issues that surround the industry. The IF Report states that Eclat's clients come from almost every sector of the aviation industry—airports, airlines, labor organizations and aerospace/aeronautics corporations. With PBGC's consent, Eclat was subsequently retained by the Independent Fiduciary to value the Pinnacle Common Stock.

Eclat states in the January 15, 2003 Valuation that the valuation includes competitive, operational and financial elements essential to validating Pinnacle's current market viability as a Northwest regional partner and as a stand-alone airline and that the valuation describes the state of the regional airline industry, delves into some of the more important issues surrounding Pinnacle specifically, provides a brief financial review of the carrier, explains the valuation methodology, compares Pinnacle to Continental Express, and comments on the stability of Northwest. Appendices were attached that illustrate the valuation model used and highlight some of the additional information used to conduct the analysis.

The IF Report summarizes that, in order to determine the value of Pinnacle, Eclat created a model based on the Three-Stage Free Cash Flow to Equity valuation technique. This model is designed to value firms, like Pinnacle, that are expected to go through three phases of growth—an initial phase of high growth, a transitional period where the growth rate declines, and a steady-state period where growth is stable. Once these growth assumptions are made, the present value of expected free cash flow is calculated.

The IF Report notes that in the Eclat Report, Eclat's valuation of the Pinnacle Common Stock was considerably lower than the value it ultimately determined for the Independent Fiduciary in the January 15, 2003 Valuation. Eclat's original valuation for PBGC was based on publicly available information, primarily a draft S-1 Registration Statement which contained financial information only for the first nine months of 2002. As a result of its engagement by the Independent Fiduciary, Eclat was given access to non-public information including the ASA, Pinnacle's full 2002 revenue figures and information concerning the delivery schedule for delivery of regional jets to Pinnacle. The IF Report represents that, in the January 15, 2003 Valuation, Eclat determined that the net equity value (before discounts) of Pinnacle was \$412,923,928.00. Based on input from AIC, Eclat then applied a 15 percent liquidity discount and a 5 percent minority discount. AIC valued the Put Option at \$20,680,684 using a Black-Scholes American option-pricing model. The value of the transaction was also adjusted for the period between the exercise of the put and the Plan's receipt of the funds. This period could range between 30 and 180 days depending on Northwest's liquidity position. The result was a net value of \$339,178,820.00 for the purposes of determining the value of the stock contributed on January 15, 2003.

#### Negotiation of the Term Sheet and Omnibus Agreement

The Independent Fiduciary recognizes that all aspects of its engagement involved fiduciary actions, and, for that reason, representatives of the Independent Fiduciary and its financial and legal advisors actively participated in the negotiations relating to the Omnibus Agreement and in the evaluation of the decision of whether to accept the Contribution. From a fiduciary standpoint, Independent Fiduciary was required to determine whether the terms it negotiated in the Omnibus Agreement and its decision whether to accept the Contribution were prudent, for the benefit of, and in the interest of, Plan participants and their beneficiaries. In this regard, the Independent Fiduciary represented that it negotiated terms that it determined were no less favorable to the Plans than terms negotiated at arm's length with an unrelated third party under similar circumstances.

The terms of the transaction negotiated between the Independent Fiduciary and Northwest were embodied in a Term Sheet, which was

provided to the Department on January 10, 2003. The Term Sheet formed the basis for the Omnibus Agreement, which was executed on January 15, 2003, after the Independent Fiduciary received confirmation from the Department that the Proposed Exemption had been issued.

Fiduciary Counselors states that the Omnibus Agreement provides:

- For purposes of the funding standard account of each Plan, the value of the shares of Pinnacle Stock contributed to each Plan will be determined by the Independent Fiduciary. In addition to determining the value of Pinnacle Stock at the time of a proposed contribution, the Independent Fiduciary will provide an annual written valuation of the per share value of all Pinnacle Stock held by the Plans as of each December 31 and at any time the Independent Fiduciary exercises the Put Option described below.

- Subject to the further conditions and restrictions set forth in the Omnibus Agreement, the Plans may transfer the Pinnacle Stock prior to July 1, 2006, (1) only in the event of an IPO or sale to a third party initiated by Northwest, (2) by exercise of the Put Option (as described below), or (3) because of an Early Termination Event (including a breach of the Omnibus Agreement by Northwest or Pinnacle which is not cured timely or Northwest's failure to honor the Put Option).

- The Plans will be granted a Put Option with respect to each share of Pinnacle Stock contributed to the Plans, which may be exercised by the Independent Fiduciary at any time. To exercise the Put Option, the Independent Fiduciary must provide written notice to Northwest of its election to put to Northwest any or all of the shares of Pinnacle Stock then held by the Plans. The closing date of the purchase and sale of shares with respect to which the Put Option has been exercised will be the 30th calendar day after such notice is given. However, if Pinnacle has not yet consummated the IPO by the date that would otherwise be the closing date, Northwest will have the right to defer such closing date for up to 150 days, depending on Northwest's liquidity. The closing date may be further deferred and deferred payments may be made by Northwest as agreed to by the Independent Fiduciary if Northwest posts collateral in an amount and on terms satisfactory to the Independent Fiduciary. Alternatively, Northwest may arrange for the stock to be purchased by a third party.

- If the Pinnacle Stock is not publicly traded, the Plans will receive the