

Northwest stated “[i]n the absence of an exemption, Northwest would have to consider the contribution of NWA Corp. stock or an IRS waiver. Alternatively, Northwest could consider filing for bankruptcy, which would suspend most pension contributions, and could result in termination of some or all of the Plans.”

The goal of the Pinnacle Stock contribution is to (1) provide the Plans with a valuable security, (2) meet near term pension funding obligations, and (3) allow Northwest to preserve cash to withstand the current economic

environment. Northwest believes this is the best outcome for all Plan participants and beneficiaries.

#### *Eclat May 16, 2003 Response*

On May 16, 2003, Mr. William S. Swelbar, Managing Director of Eclat, responded to the Department concerning questions on the two valuations of Pinnacle. Eclat provided additional information in support of its view that the discount rates, and other factors used in determining the fair market value of the Pinnacle Stock were reasonable and theoretically sound.

#### *Northwest May 20 and June 10, 2003 Comment Letters*

On May 20 and June 10, 2003, Northwest responded to certain issues raised during the Hearing that were not responded to in the April 26 Comment.

1. During the Hearing, the Department asked Northwest to provide information concerning the funded status of the Pilot Plan, Contract Plan and Salaried Plan at the end of 2002. Northwest provided the funded status of each Plan as of 1/1/03 as shown in the following table.

#### NORTHWEST AIRLINES, INC.—CURRENT LIABILITY FUNDED STATUS AT JANUARY 1, 2003

	Pilots plan	Contract plan	Salaried plan
Current Liability using 6.65% interest rate (IRC § 412(l)) .....	\$3,665,896,686	\$2,673,540,738	\$425,037,585
Market Value of Assets (with PY02 accrued contributions) .....	2,253,513,119	<sup>2</sup> 1,385,832,156	<sup>3</sup> 254,670,253
Actuarial Value of Assets (with PY02 accrued contributions) <sup>1</sup> .....	2,704,215,743	<sup>2</sup> 1,662,998,587	<sup>3</sup> 305,604,304

<sup>1</sup> Actuarial value of assets smoothes investment gains and losses over a five-year period.

<sup>2</sup> Accrued contribution of \$202,626,983 for PY02.

<sup>3</sup> Accrued contribution of \$20,083,879 for PY02.

2. During the Hearing, employees of Northwest referenced an employee stock program that was established by the company in 1993. Northwest explained that, as part of labor agreements reached in 1993, Northwest's parent company, NWA Corp., issued to trusts for the benefit of participating employees 9.1 million shares of a new class of Series C cumulative, voting, convertible, redeemable preferred stock, par value of \$.01 per share (the Series C Preferred Stock), and 17.5 million shares of Common Stock and provided the union groups with three positions on the Board of Directors. The Series C Preferred Stock ranks senior to Common Stock with respect to liquidation and certain dividend rights. As long as the Common Stock is publicly traded, no dividends accrue on the Series C Preferred Stock.

The Northwest Airlines Corporation Employee Stock Plan (Employee Stock Plan) was established in 1993. The Employee Stock Plan is a profit sharing plan that is tax qualified under section 401(a) of the Code and subject to ERISA.<sup>8</sup> The Employee Stock Plan was

established through labor negotiations between Northwest and its unions in 1993 to hold contributions of Northwest Airlines Corporation Series C Preferred Stock. These negotiations resulted in agreements (Agreements) between Northwest and each of its unions under which Northwest would contribute to the Employee Stock Plan a newly created, special class of stock (the Series C Preferred Stock) in an amount that would equal the monetary value of certain wage and other concessions agreed to by the unions. Each of Northwest's three main unions at the time of the Agreements also was granted the right to appoint one director to the Northwest board of directors.

The Employee Stock Plan covers in general terms Northwest's employees employed from August 1, 1993 through 1996, including employees represented by Air Line Pilots Association (ALPA), International Association of Machinists and Aerospace Workers (IAM), International Brotherhood of Teamsters (IBT), Airline Technical Support Association (ATSA), Northwest Airlines Meteorologists Association (NAMA), Transport Workers Union of America (TWUA) and management employees. In 1994 through 1997, Northwest made annual contributions of Series C Preferred Stock to the Employee Stock Plan for the benefit of employees represented by the IAM and IBT (the other labor groups had converted their right to receive Series C Preferred Stock into Common Stock under the Special

Conversion Option described below). The shares were then allocated to individual accounts established on behalf of each eligible employee. A total of 9.1 million shares of Series C Preferred Stock were contributed to the Employee Stock Plan.

Each share of the Series C Preferred Stock is convertible at any time into 1.364 shares of NWA Corp. Common Stock (Common Stock). At the time a participant exercises conversion rights, the Series C Preferred Stock is converted to Common Stock, the Common Stock is sold and cash is allocated to participant accounts. In addition, under the Agreements, the trustee of each plan was given a one time Special Conversion Option that, if elected, resulted in the relevant trusts receiving Common Stock at the rate of 1.9096 shares of Common Stock for each share of the Series C Preferred Stock that they would have otherwise received. The Special Conversion Option expired on February 9, 1994. On that day, ALPA, TWUA, NAMA, ATSA and the Company on behalf of its management and non-contract employees exercised the Special Conversion Option, with the IAM and IBT electing not to exercise the Special Conversion Option (63 shares are still owned by the ALPA trust). Thus, almost all of the Series C Preferred Stock that remains in the Employee Stock Plan is allocated to the accounts of employees represented by the IAM and IBT. As of December 31, 2002, 4.3 million shares of Series C Preferred Stock have been converted into Common Stock and the remaining

<sup>8</sup> The original Employee Stock Plan was established in 1993. On December 2, 2002, the Employee Stock Plan was divided into three components, which were then merged into the existing Northwest Airlines Retirement Savings Plan for Pilot Employees, Northwest Airlines Retirement Savings Plan for Contract Employees and Northwest Airlines Retirement Savings Plan for Salaried Employees. Each of these plans is a Code section 401(k) plan that is tax qualified under section 401(a) of the Code and subject to ERISA. For ease of reference, Northwest refers to the Employee Stock Plan, but the factual discussion of the Series

C Preferred Stock remains accurate after the merger with the Northwest 401(k) plans.