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Dated: January 9, 2003.

Carl J. Poleskey,

Chief, Branch of Construction Wage Determinations.

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DEPARTMENT OF LABOR

Pension and Welfare Benefits Administration

[Application Numbers D-11137, 11138, and 11139]

Notice of Proposed Individual Exemption Involving the Northwest Airlines Pension Plan for Salaried Employees, the Northwest Airlines Pension Plan for Pilot Employees, and the Northwest Airlines Pension Plan for Contract Employees (Collectively, the Plans) Located in Eagan, MN

AGENCY: Pension and Welfare Benefits Administration, Department of Labor.

ACTION: Notice of proposed individual exemption.

SUMMARY: This document contains a notice of pendency before the Department of Labor (the Department) of a proposed exemption from certain prohibited transaction restrictions of the Employee Retirement Income Security Act of 1974 (ERISA or the Act) and from certain taxes imposed by the Internal Revenue Code of 1986 (the Code). If granted, the proposed exemption would permit: (1) The in-kind contribution(s) of the common stock of either Pinnacle

Airlines, Inc. or Pinnacle Airlines Corp. (Pinnacle Stock) to the Plans by Northwest Airlines, Inc. (Northwest), a party in interest with respect to such Plans; (2) the holding of the Pinnacle Stock by the Plans; (3) the sale of the Pinnacle Stock by the Plans to Northwest; and (4) the acquisition, holding, and exercise by the Plans of a put option (the Put Option) granted to the Plans by Northwest (the Exemption Transactions). If granted, the proposed exemption would affect participants and beneficiaries of, and fiduciaries with respect to, the Plans.

DATES: Written comments and requests for a public hearing should be received by the Department on or before March 3, 2003.

EFFECTIVE DATE: This exemption, if granted, will be effective as of January 15, 2003.

ADDRESSES: All written comments and requests for a public hearing (preferably, three copies) should be sent to the Office of Exemption Determinations, Pension and Welfare Benefits Administration, Room N-5649, U.S. Department of Labor, 200 Constitution Avenue, NW., Washington, DC 20210, (Attention: Exemption Application Numbers D-11137-39).

Interested persons are also invited to submit comments and/or hearing request to the Department by the end of the scheduled comment period either by facsimile to (202) 219-0204 or by electronic mail to moffittb@pwba.dol.gov. The application pertaining to the proposed exemption and the comments received will be available for public inspection in the Public Disclosure Room of the Pension and Welfare Benefits Administration, U.S. Department of Labor, Room N-1513, 200 Constitution Avenue, NW., Washington, DC 20210.

SUPPLEMENTARY INFORMATION: This document contains a notice of pendency before the Department of a proposed individual exemption from the restrictions of sections 406(a), 406(b)(1) and (b)(2), and 407(a) of the Act and from the sanctions resulting from the application of section 4975(a) and (b) of the Code, by reason of section 4975(c)(1)(A) through (E) of the Code.

FOR FURTHER INFORMATION CONTACT: Wendy M. McColough or Christopher Motta, Office of Exemption Determinations, Pension and Welfare Benefits Administration, U.S. Department of Labor, telephone (202) 693-8540. (This is not a toll-free number.)

Summary of Facts and Representations

1. Northwest. Northwest (hereinafter, Northwest or the Applicant) is a Minnesota corporation with its principal headquarters in Eagan, Minnesota. Northwest is the principal operating company of the Northwest Airlines Corporation's controlled group and is the fourth largest airline in the world. Northwest Airlines Corporation (NWAC), the ultimate parent corporation, which indirectly owns 100 percent (100%) of the stock of Northwest, is publicly traded (NASDAQ symbol NWAC) and is a Delaware corporation. Northwest represents that all significant members of NWAC's controlled group are airline-related. The airline began service on October 1, 1926. Known primarily as an international airline prior to the era of deregulation, Northwest strengthened its domestic presence when the industry was deregulated. To achieve this, Northwest acquired Republic Airlines in 1986. Today, the Applicant states that Northwest has a 10 percent (10%) domestic market share. In 1989, Northwest created the first international airline alliance with KLM Royal Dutch Airlines (KLM), giving Northwest an international presence between the U.S. and Europe and points beyond. Northwest expanded its alliance strategy again in 1998 with Continental Airlines (Continental) by creating the first domestic, major airline alliance. This alliance was solidified with a new 25-year alliance agreement in 2001. In August 2002, Northwest and Continental announced that a ten-year cooperative marketing agreement had been reached with Delta Air Lines. This agreement is subject to U.S. government review and approval. NWAC was taken private in 1989. In March 1994, NWAC completed an initial public offering and again became a public company.

2. Northwest is the sponsor of the Northwest Airlines Pension Plan for Salaried Employees (Salaried Plan), the Northwest Airlines Pension Plan for Pilot Employees (Pilots Plan), and the Northwest Airlines Pension Plan for Contract Employees (Contract Plan) with the authority, directly or through a committee of officers designated by it (The Northwest Airlines Pension Investment Committee), to appoint and remove trustees and investment managers. Northwest also retains the authority, subject to collective bargaining limitations, to amend and terminate the Plans and to transfer assets and liabilities to and from the Plans. Northwest is the plan administrator under the Plans and a

named fiduciary for purposes of section 402(a) of ERISA for the Plans.

In addition to Northwest, other fiduciaries include State Street Global Advisors, The Northwest Airlines Pension Investment Committee, investment managers hired by the Pension Investment Committee, Aon Fiduciary Counselors, Inc. as it relates to the transactions described in this proposal, certain employees of the Plan Sponsor, and the Retirement Board as it relates to the Pilots Plan. Northwest, as sponsor of the Plans, by and through the Pension Investment Committee appointed by it as named fiduciary, generally has discretion with respect to the investment of the Plans' assets. However, the discretion to value, acquire, hold and dispose of the Pinnacle Stock as described below, will be exercised by an independent fiduciary.

3. The Plans. The Applicant provides the following description of the Plans:

Contract Plan. The plan year for the Contract Plan is the calendar year. The Contract Plan was established effective January 1, 1970, pursuant to a series of collective bargaining agreements with several unions at various times during 1970. Nearly all the participants in this Plan are employees represented for collective bargaining purposes by several Northwest unions that have negotiated for participation in the Contract Plan. At this time, these unions include the Aircraft Technical Support Association (ATSA), Aircraft Mechanics Fraternal Association (AMFA), the International Association of Machinists and Aerospace Workers (IAM), International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America, Airline Division (IBT), Northwest Airlines Meteorologists Association (NAMA), and Transport Workers Union of America (TWUA). The number of employees participating in the Contract Plan as of January 1, 2002, was 53,911. The Applicant states that as of January 1, 2002, the Contract Plan had assets with a fair market value of \$1.279 billion, and was underfunded by \$741 million.

Salaried Plan. The plan year for the Salaried Plan is the calendar year. The Salaried Plan was established in October 1946. All participants in this Plan currently accruing benefits are "salaried" or "management" employees. None of the employee participants in this Plan who are currently accruing benefits are represented for collective bargaining purposes by any union. The Salaried Plan is a cash balance plan. The number of employees participating in the Salaried Plan as of January 1, 2002, was 10,517. The Applicant states

that as of January 1, 2002, the Salaried Plan had assets with a fair market value of \$349 million, and was underfunded by \$67 million.

Pilots Plan. The plan year for the Pilots Plan is the calendar year. The Pilots Plan was established effective October 29, 1956. All participants in the Pilots Plan are employees represented for collective bargaining purposes by the Airline Pilots Association (ALPA). The number of employees participating in the Pilots Plan as of January 1, 2002, was 8,326. The Applicant states that as of January 1, 2002, the Pilots Plan had assets with a fair market value of \$2.753 billion, and was underfunded by \$248 million. Pursuant to collective bargaining agreements negotiated between the Pilot's union and Northwest, the Pilots Plan is currently prohibited from investing in employer stock; however, the Applicant anticipates that an agreement with ALPA will be reached to permit the contributions. Northwest represents that no contributions to the Pilots Plan will be made unless such an agreement is reached. The Applicant proposes that in the event that no agreement is reached to permit contributions of Pinnacle Stock to the Pilots Plan, the Master Trust will be modified to permit the holding of Pinnacle Stock for the benefit of the Contract Plan and Salaried Plan

4. Contributions. The Applicant represents that Northwest has remitted the full amount of all quarterly contributions when due, including the full amount of quarterly contributions due to the Contract Plan on April 15, July 15 and October 15, 2002. The last quarterly contribution to the Contract Plan for the 2002 plan year is due January 15, 2003.¹ The "catch-up" contribution due in September 2003 relates to the 2002 plan years of the Contract Plan and the Salaried Plan. The Applicant represents that the minimum funding rules require (and permit) such a make-up contribution when the quarterly contributions for a plan year as determined under Code section 412(m), if any, total less than the full minimum funding amount determined to be owed with respect to the plan year.²

The Applicant represents that the contributions required to satisfy the Contract Plan's funding requirements for the 2002 plan year total approximately \$314 million, of which

¹ According to the Applicant, under Code section 412(m)(4), Northwest owed no quarterly contributions during calendar year 2002 to the Pilots Plan or Salaried Plan for the 2002 plan year. However, see below concerning a September 2003 "catch-up" contribution due to the Salaried Plan.

² See Code subsections 412(a) and (c)(10).

\$111 million already has been paid in three required quarterly contributions. For plan year 2002, an additional quarterly contribution of \$41 million is due January 15, 2003 and a final contribution of \$162 million is due in September 2003. Additionally, a plan year 2002 contribution of \$20 million is due to the Salaried Plan in September 2003 (the "catch-up" contributions). There are no 2002 plan year contributions due to the Pilots Plan. The Applicant states that contribution requirements for plan years 2003 and 2004 cannot be forecast with certainty because Northwest does not yet have final numbers regarding its funding requirements for those plan years. Northwest's minimum funding obligations for plan year 2003 will not be finally determined until its actuary completes its actuarial valuation as of January 1, 2003, which will be completed in April or May of 2003. In addition, all of the asset returns for the Plans are not yet known. Northwest will provide the plan year 2003 information when they are finalized and publicly available. The Applicant represents, however, it is likely that all Plans will require contributions for the 2003 and 2004 plan years.

5. The Master Trust. Contributions required to fund the Contract Plan, the Salaried Plan, and the Pilots Plan are made to and held under a single master trust, the Northwest Airlines, Inc. Master Trust for Defined Benefit Plans (the Master Trust). The Master Trust is structured so that each Plan has an undivided commingled interest in all of the trust fund assets. The Trustee of the Master Trust is State Street Bank and Trust Company. In addition to the Northwest Contract Plan, Pilots Plan and Salaried Plan, the Master Trust holds assets attributable to the Northwest Pension Plan for German Employees that currently has assets of approximately \$300,000.00. No assets are held on behalf of any other plans in the Master Trust.

6. Pinnacle Airlines, Inc. Pinnacle Airlines, Inc. (Pinnacle Airlines) is an indirect, wholly owned subsidiary of NWAC, and is a sister corporation of Northwest. Pinnacle Airlines recently changed its name from Express Airlines I, Inc., which was incorporated in 1985 in Georgia. It is a regional airline with principal hubs in Detroit, Michigan; Minneapolis, Minnesota; and Memphis, Tennessee. Pinnacle Airlines Corporation was incorporated in Delaware on January 10, 2002, to become a holding company of Pinnacle Airlines.

Northwest requests exemptive relief for the in-kind contribution of Pinnacle

Stock. Shares of Pinnacle Stock are not registered or publicly traded as of the time of filing of this Application.

Northwest currently anticipates that an initial public offering (IPO) of Pinnacle Airlines would occur sometime in 2003 or 2004. According to the Applicant, the IPO is expected to generate a premium price for shareholders as a result of efforts currently taking place under the joint direction and control of Northwest and Pinnacle Airlines' management to position Pinnacle Airlines as a premier regional air carrier in the United States.

The Pinnacle Stock held by the Plans would be subject to registration rights under shareholder agreements or such other contracts as necessary to permit the Plans to participate in any future IPO of the Pinnacle Stock. It is expected that there will be certain restrictions on the Pinnacle Stock contributed to the Plans, including voting restrictions and limits on the ability of the Plans to dispose of the Pinnacle Stock, except pursuant to an IPO initiated by Northwest or by exercise of the Put Option. Any such restrictions will be negotiated with the Independent Fiduciary. At the time of an IPO, the Plans will participate pro rata on the same basis with other holders of Pinnacle Stock.

Subject to negotiation of final terms with the Independent Fiduciary, Northwest proposes that the Plans be granted a Put Option with respect to the Pinnacle Stock, on the following terms:

- The Put Option, with respect to each share of Pinnacle Stock, shall be exercisable at any time until the date after an IPO during which such share of Pinnacle Stock can be sold during any 90-day period under SEC Rule 144.³

- Northwest will provide quarterly notice to the Independent Fiduciary of its liquidity so that the Independent Fiduciary can take Northwest's liquidity into account in deciding whether to exercise the put.

- In the event the Put Option is exercised, the price paid by Northwest (or its affiliate) to the Plans shall be determined as follows:

- (i) If the Put Option is exercised prior to the IPO date, the greater of the value of the stock at the time of the contribution or the fair market value determined by the Independent Fiduciary as of the exercise date, consistent with a valuation report prepared by a qualified independent appraiser;

- (ii) If the Put Option is exercised on the IPO date, the greater of the value of

the stock at the time of contribution or the IPO price per share of Pinnacle Stock; or

- (iii) If the Put Option is exercised after the IPO date, the greater of the value of the stock at the time of the contribution or the average of the closing price for the Pinnacle Stock on the public market for the 10 trading days (or such other number if fewer than 10) preceding the exercise date.

- The price of the Pinnacle Stock shall be determined as of the exercise date and shall be paid by Northwest (or its affiliate) to the Plans in full in cash on such terms and conditions as shall be negotiated with the Independent Fiduciary.

7. Pinnacle Airlines Analysis. As a result of Northwest's request to contribute Pinnacle Stock to the Plans in lieu of cash, the Pension Benefit Guaranty Corporation (PBGC) recently contracted with Eclat Consulting, an independent firm with experience in the airline industry (Eclat), for an analysis of Pinnacle Airlines. The November 27, 2002 Eclat analysis (Eclat Report) includes competitive, operational and financial elements essential to validating Pinnacle Airlines' current market viability as a Northwest regional partner and as a stand-alone airline as well as current U.S. market conditions relative to the marketability of a successful Pinnacle Airlines IPO. The Department has summarized the Eclat Report below. The Eclat Report is presented in sections that examine the regional airline industry, Pinnacle Airlines, and a brief financial review of Pinnacle Airlines and the stability of Northwest.

Eclat Report Industry Analysis—According to the report, as of September 2002, the "Big 6" U.S. majors (the Majors) have lost over \$7 billion and now face the year's weakest quarter. They are facing dramatic increases in low-fare competition, overcapacity and a weakening business travel market. In contrast, the regional airline industry is flourishing as a result of being in "the right place at the right time" as the Majors are turning to their regional airline partners to operate regional jets to bring high yield passengers from small communities to their network systems. During the first eight months of 2002 the regional industry has grown only 3 percent (3%) in passenger enplanements, however, the group's Revenue Passenger Miles (RPM)(production) has realized growth of nearly 25 percent (25%), the Available Seat Miles (ASM)(output) growth of 20 percent (20%) and Regional Jet (RJ) usage has increased almost 6 percentage points of market

share in the U.S. over the past year. The majority of regional partner airlines now operate on a "fee-per-departure" or "block hour" basis with a fixed operating margin, thus limiting risk during market downturns and guaranteeing operating profit.

Eclat Report Pinnacle Airlines Analysis—According to the report, Pinnacle Airlines operates only as Northwest AirlinK, a wholly owned subsidiary of NWAC and provides regional service on a fixed fee basis utilizing Saab 340 turboprops and Bombardier CRJ regional jets. The arrangement provides that 65 percent (65%) of the operational costs (fuel, maintenance, rentals, facilities, etc.) are passed through to Northwest for 100 percent (100%) reimbursement and 35 percent (35%) of costs are paid based on historical performance with a target operating margin of 13.0 percent (13.0%). Northwest has committed 95 regional jet aircraft financed by Bombardier, and the RJs currently on hand have doubled Pinnacle Airlines' size, seeing ASMs increase 68 percent (68%) in 2001 (vs. 2000) making it the second fastest growing regional airline. They operate 310 departures per day (12.4 percent (12.4%) of the Northwest system) and 15,000 seats per day (5.9 percent (5.9%) of the Northwest system).

Pinnacle Airlines generates revenue in two distinct manners for Northwest. The first and smaller revenue generation comes from transporting passengers to and from spoke markets to one of Northwest's three hubs. This local, one-segment flying generates approximately \$1.6 million in weekly revenue for Northwest, or 2 percent (2%) of Northwest's domestic total. More importantly, the carrier brings connecting passengers from the spoke markets to the hub to connect onto the Northwest route network creating over \$8 million in weekly revenue (8 percent (8%) of Northwest's domestic total) for Northwest. Combined, the regional carriers' value to the Northwest Domestic System is between \$520 million and \$540 million annually as the carrier exists today (Eclat Appendix 7).

The Eclat Report states that the current and immediate value of Pinnacle Airlines is virtually removed if Northwest Airlines ceased to exist, as there are limited opportunities for other major carrier relationships. Without Northwest, Pinnacle Airlines has physical and cash assets of \$121.6 million, \$5.2 million in cash, \$62.4 million in receivables and \$54 million in aircraft spares and other property and equipment. Pinnacle Airlines'

³ Provision is made for the Put Option to extend after the IPO date in the event that less than 100 percent (100%) of Pinnacle Stock is offered in connection with the IPO.

remaining intangible value would be dependent upon the other major network carriers' desire to add another hub to their network systems at Detroit, Memphis or Minneapolis. Currently, there are limited options for Pinnacle Airlines as all of the major networks have very strong ties with other regional operators.

Eclat Report Financial Review of Pinnacle Airlines and Stability of Northwest—According to the report, Pinnacle Airlines is currently in sound financial shape with a current operating margin of 13.2 percent (13.2%), a profit margin of 8.9 percent (8.9%) and a return on equity (ROE) of 29.1 percent (29.1%). The revenue growth for Pinnacle Airlines has been strong over the period of 1998–2001 at a compound average annual rate of 28.0 percent (28.0%). In the first 9 months of 2002, this growth actually accelerated to 61.4 percent (61.4%) in a year-over-year comparison.

The Eclat Report concludes that through 2005 (the amendable date for the contract with Northwest), there is no reason to suspect that the company will not continue such strong revenue growth. “Salaries, wages, and benefits” only accounted for 21.5 percent (21.5%) of costs (the average is mid-thirties). As the company currently is constructed (prior to the expected IPO), their long-term debt load is virtually non-existent and their liquidity is superb. Current financial conditions clearly indicate an ability to cover any short-term obligations. However, if the company were to go public, the balance sheet will be fundamentally altered by the assumption of a \$200 million note payable to Northwest. Such a note would raise the debt/equity ratio to 277 percent (277%) and would significantly limit Pinnacle Airlines' ability to borrow in the future and radically raise the cost of capital. Due to the guaranteed operating margin, however, even a note of this magnitude would not be difficult for the company to cover.

In order to estimate the value of a Pinnacle Airlines IPO, Eclat created a model based on the Three-Stage Free Cash Flow to Equity (FCFE) valuation technique.⁴ The result of the FCFE model is that the estimated value of a Pinnacle Airlines IPO is approximately \$221.6 million if Eclat assumes that the growth in the first phase is

⁴ This model is designed to value firms, like Pinnacle Airlines, 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.

approximately 14 percent (14%) and lasts for five years (Eclat Appendix 9–1).⁵ Eclat believes this growth assumption is conservative when compared to Pinnacle Airlines' recent growth, but is based on only the “guaranteed” portion (95 total RJIs) of their agreement with Northwest. The five-year term assumption was a result of the fact that Northwest is able to renegotiate in 2008. This Eclat model was adjusted by Eclat based on differing high growth revenue assumptions and the impact of such adjustments dramatically lowered the value of the IPO. The value of equity for Pinnacle Airlines, assuming a high growth period revenue growth rate of 11 percent (11%), would be \$147.7 million (Eclat Appendix 9–2). Assuming a high growth period revenue growth rate of 8 percent (8%), the value of equity for Pinnacle drops to \$81 million (Eclat Appendix 9–3).

According to Eclat, Northwest has emerged as, perhaps, the most stable airline in the industry with minimal low fare carrier exposure and with the smallest losses of any carrier. Northwest reported a net loss of \$46 million, with operating income of \$8 million in the third quarter of 2002. Northwest ended the quarter with over \$2.5 billion in cash and short-term receivables. Northwest is a global carrier with an alliance with KLM and its Amsterdam hub and a Northwest Tokyo Hub. The labor situation is stable with all of its unions currently under contract.

8. Reasons for Entering into the Exemption Transactions. The Applicant represents that, for several years leading

⁵ During the second stage, the growth assumption is 10 percent (10%) and a term of three years. The 10 percent (10%) is consistent with the industry's long-term revenue average, and the three-year term is based on the belief that such strong growth will last for a total of 8 years from 2003. In the third and final stage, the model assumes that growth will continue to commence at a constant rate of 5 percent (5%). This assumption brings the growth rate back in line with Pinnacle Airlines' growth in the years prior to their arrangement with Northwest. Other assumptions made in the model include Beta and Net Capital Expenditure growth. Pinnacle Airlines' Beta was based on a calculation off of industry average and is assumed to be .66 in the high growth period. According to Eclat, while this appears at first glance to be a very low figure, it is very much related to the terms of the fixed fee relationship with Northwest. According to the terms of the agreement, growth is virtually assured and therefore the company's stock is unlikely to fluctuate as wildly as the market in general. In the other two phases, the firm Beta is linked to the current industry average. The assumptions about net capital expenditure growth in all three phases are standard figures based on historical norms. When estimating the cost of equity for Pinnacle Airlines, a market risk premium of 5.3 percent (5.3%) was assumed. This number is based on the historical risk premium found between stocks and treasury bonds published by the Federal Reserve Bank (in the United States from 1962–2000).

up to 2001, Northwest had been among the most profitable of the nation's major airlines. The Applicant notes Northwest's financial performance in 1998 and 1999 was adversely affected by labor disruptions; however, Northwest's performance quickly recovered in 2000. However, the airline industry began to suffer a significant financial downturn in early 2001 that was substantially worsened by the events of September 11, 2001, which in combination, have disproportionately affected the airline industry. Northwest states that industry losses in 2001 totaled \$10 billion, of which Northwest's share was \$700 million.⁶ Northwest asserts that, because of the potential of a war with Iraq, which has dramatically increased fuel prices, as well as ongoing terrorism threats, the timing of an economic recovery for the airline industry is uncertain. Northwest concludes that to weather the current economic uncertainty, Northwest and other major airlines must maintain a high level of liquidity. The Applicant notes that Northwest is, by many measures, the best prepared among the industry to withstand this difficult period and expects to return to

⁶ These numbers are exclusive of federal funds received by the airlines as a result of the Air Transportation Safety and System Stabilization Act, Pub. L. No. 107–42 (September 21, 2001) (Airline Stabilization Act). In 2001, Northwest recognized \$461 million of grant income from the United States Government that was recorded as non-operating income. The events of September 11, 2001 had an immediate and severe impact on the U.S. airline industry's passenger traffic and yields. Immediately following these events, the Federal Aviation Administration (FAA) ordered all aircraft operating in the U.S. to be grounded, an order that remained in place for over 48 hours. Northwest Airlines was only able to operate a limited portion of its scheduled flights for several days after the grounding order was lifted as it repositioned displaced aircraft and crews. Passenger traffic and yields on both domestic and international flights declined significantly when flights were permitted to resume, and the number of tickets refunded was substantially above normal. Northwest has continued to experience significantly lower revenue and has incurred additional costs (e.g., higher security costs and insurance premiums) as compared to periods prior to September 11, 2001. In addition to increased rates, aviation insurers have also significantly reduced the maximum amount of insurance coverage available to commercial air carriers for liability to persons other than employees or passengers for claims resulting from acts of terrorism, war or similar events.

Under the Airline Stabilization Act, each air carrier is entitled to receive a maximum amount of compensation payments equal to the lesser of (i) its direct and incremental pretax losses attributed to the terrorist attacks for the period of September 11, 2001, to December 31, 2001, or (ii) its available seat mile and/or revenue ton mile allocation of the \$5 billion compensation available under the Airline Stabilization Act. Northwest Airlines received a total of \$410 million as of December 31, 2001, and was expected to receive a final \$51 million of additional funds under the Airline Stabilization Act in early 2002.

profitability when the economy recovers. The Applicant represents that preservation of liquidity is one of the keys to maintaining a strong financial position in light of the current economic uncertainty, and Northwest has maintained one of the strongest liquidity positions in the industry. Northwest already has taken many aggressive, proactive actions to reduce costs and preserve liquidity.

While the current environment creates significant challenges for Northwest and the other major airlines, the Applicant believes that these circumstances create opportunities for efficient regional carriers, including Pinnacle Airlines. Northwest represents that, although current market conditions are not favorable to an IPO of the Pinnacle Stock because valuations of commuter airlines have declined from their historical levels during the past six to eight months, Northwest anticipates that the Pinnacle Stock proposed to be contributed to the Plans will be sold through an IPO at a favorable price. The Applicant notes that market conditions are expected to improve within the next 30 months and that significant efforts have been undertaken by Northwest to prepare Pinnacle Airlines for public sale.

9. Northwest asserts that the relief requested in this Application offers significant potential benefits both to the Plans and to Northwest. The Plans will benefit by receiving the full value of the minimum funding contribution of Northwest, through the opportunity to invest in a strong regional airline, and through sharing in the anticipated premium that would attach to such stock in the event of an IPO. Furthermore, the Plans' investment in Pinnacle Stock will be subject to the protections of an independent fiduciary. The Plans will also benefit from Northwest's preservation of liquidity, ensuring that it remains in a strong financial position and maximizing its ability to contribute to the Plans in the future. Northwest represents that its decision to seek an exemption to contribute Pinnacle Stock creates no more risk to the Plans, and perhaps even less risk, than investing in publicly-traded NWAC stock, which constitutes qualifying employer securities within the meaning of ERISA section 407(d)(5) and would be exempt from the prohibitions of ERISA sections 406 and 407 by reason of the statutory exemption set forth in ERISA section 408(e). The Applicant concludes by noting that the exemption sought by Northwest is one part of Northwest's overall strategy to manage its financial liquidity during a time of extraordinary

financial challenges, while still meeting its long-term pension plan commitments. In this regard, Northwest notes that it is applying to the Internal Revenue Service for a waiver of its minimum funding contributions with respect to both the Contract Plan and the Salaried Plan for plan year 2003.

10. Northwest requests exemptive relief from certain of the prohibited transaction restrictions of sections 406 and 407 of the Act and section 4975 of the Code for the periodic contributions of Pinnacle Stock to the Plans in order to satisfy all or any portion of Northwest's minimum funding requirements for plan years 2002, 2003, or 2004 that are due in calendar years 2003 or 2004.

Northwest requests exemptive relief because of its belief that the contributions of Pinnacle Stock would not meet the requirements for the acquisition of "employer securities" under section 408(e) of the Act. In this regard, section 408(e) provides, in part, that sections 406 and 407 of the Act shall not apply to the acquisition or sale by a plan of "qualifying employer securities," as defined in section 407(d)(5) of the Act, if such acquisition or sale is for adequate consideration, no commission is charged, and, in the case of a plan other than an eligible individual account plan, such as a defined benefit plan, such acquisition does not exceed 10 percent (10%) of the fair market value of the assets of such plan. Under section 407(d)(5), stock is a "qualifying employer security," if such stock is issued by an employer of employees covered by the plan or by an affiliate of such employer. Section 407(d)(5) further provides that in the case of a plan other than an eligible individual account plan, such as a defined benefit plan, an employer security shall be considered a "qualifying employer security," only if such employer security satisfies the requirements of section 407(f)(1). Section 407(f)(1) provides that stock satisfies the requirements of this paragraph if no more than 25 percent (25%) of the aggregate issued and outstanding shares of stock of the same class is held by the plan and at least 50 percent (50%) of the aggregate amount of such shares is held by persons independent of the issuer.

In this regard, Northwest anticipates that, after all of the proposed in-kind contributions of Pinnacle Stock to the Plans, substantially more than 25 percent (25%) of all issued and outstanding shares of Pinnacle Stock would be held by the Plans. The Applicant expects that nearly 100 percent (100%) of the Pinnacle Stock

may ultimately be held by the Plans, with any remainder being held by Northwest. Thus, the requirement that 50 percent (50%) of the shares of Pinnacle Stock be held by persons independent of the issuer would not be met. Accordingly, the shares of Pinnacle Stock to be contributed to the Plans would not satisfy the requirements of sections 407(f)(1) of the Act and thus would not constitute "qualifying employer securities" within the meaning of section 407(d)(5) of the Act. If the shares of Pinnacle Stock do not constitute "qualifying employer securities," the exemptive relief under section 408(e) of the Act would not be available. For the same reasons, it is anticipated that section 408(e) would not exempt the Plans' acquisition and holding of the Put Option.

11. The Independent Fiduciary.⁷ Aon Fiduciary Counselors, Inc. (Fiduciary Counselors or Independent Fiduciary) has been retained as the Independent Fiduciary to represent the Plans' interests with respect to the proposed transactions. Fiduciary Counselors represents that it is qualified to serve as Independent Fiduciary on behalf of the Plans with respect to the proposed Exemption Transactions. Fiduciary Counselors acts primarily as an independent fiduciary for large pension plans. Prior to December 1999, Fiduciary Counselors operated as a business unit within Actuarial Sciences Associates, now Aon Consulting of New Jersey, Inc., a subsidiary of Aon Consulting, Inc. (Aon Consulting). In the past five years, Fiduciary Counselors has acted as independent fiduciary in transactions involving plan assets totaling more than \$4 billion.

In evaluating the proposed Exemption Transactions, Fiduciary Counselors notes that it will use the services of investment professionals at Aon

⁷ The Department notes that the Act's general standards of fiduciary conduct would apply to the transactions permitted by this proposed exemption, if granted. In this regard, section 404 of the Act requires, among other things, a fiduciary to discharge his duties respecting a plan solely in the interest of the plan's participants and beneficiaries and in a prudent manner. Accordingly, an independent plan fiduciary must act prudently with respect to: (1) The decision to enter into the transactions described herein; and (2) the negotiation of the terms of such a transaction, including, among other things, the specific terms by which the Plans will (A) acquire, hold, and sell the Pinnacle Stock and (B) acquire, hold and exercise the Put Option. The Department further emphasizes that it expects the independent plan fiduciary, prior to authorizing each acquisition of the Pinnacle Stock and any sale of such Stock, and prior to exercising the Put Option, to fully understand the benefits and risks associated with such transactions. In addition, the Department notes that such plan fiduciary must periodically monitor, and have the ability to so monitor, the Pinnacle Stock and the Put Option.

Investment Consulting, Inc. (AIC), an affiliated registered investment adviser under the Investment Advisers Act of 1940, to provide certain investment and financial advice in support of Fiduciary Counselors' determinations. AIC is the full service investment-consulting subsidiary of Aon Consulting, providing investment management consulting services to institutional tax-exempt funds. Aon Consulting has investment consulting operations in the United States, United Kingdom, Canada, Continental Europe, Australia and New Zealand. Worldwide, Aon Consulting has about 125 people in its investment consulting practice. AIC has offices in seven U.S. cities and a U.S. staff of about forty.

Neither Fiduciary Counselors nor AIC provides any other services to Northwest or its affiliates other than the independent fiduciary and related services they provide in connection with the proposed contribution of Pinnacle Stock to the Plans. An affiliate, Aon Risk Services of Minnesota, does provide insurance brokerage services to Northwest. However, the fees paid to Aon Risk Services of Minnesota and the fees paid to Fiduciary Counselors represent less than 1 percent (1%) of the revenue of Aon Corporation, one of the nation's largest risk management and benefits consulting companies, which is the ultimate parent company of Fiduciary Counselors, AIC, Aon Consulting and Aon Risk Services of Minnesota.

In connection with the November 5, 2002 Independent Fiduciary Agreement between Fiduciary Counselors and Northwest (the Agreement), Northwest has agreed to pay Fiduciary Counselors an annual fee that would cover both the independent fiduciary and investment management services to be provided by Fiduciary Counselors and the investment advisory services to be provided by AIC. The initial fee was remitted directly to Aon Consulting, a parent company of both Fiduciary Counselors and AIC. Aon Consulting internally allocated 25 percent (25%) of the fee to Fiduciary Counselors, which comprised less than 5 percent (5%) of Fiduciary Counselors' annual revenue, and 75 percent (75%) to AIC, which comprised less than 5 percent (5%) of AIC's revenue. So long as there is no change in control of Fiduciary Counselors or AIC, future payments will be allocated in a similar manner.

12. At the request of Northwest's management, Morgan Stanley & Co. Incorporated (Morgan Stanley) prepared a preliminary valuation study of Pinnacle Airlines, dated September 24, 2002, which Fiduciary Counselors may

take into account in determining the valuation of the Pinnacle Stock to be contributed to the Plans.⁸ Morgan Stanley, as part of its investment banking and advisory business, is continuously engaged in the valuation of businesses and securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate, estate and other purposes. In connection with its investment banking and advisory business, Morgan Stanley has represented a number of companies in the airlines industry. The Applicant represents that the Independent Fiduciary has unfettered discretion to choose the methodologies and the ultimate values of the Pinnacle Stock contributed to the plans and the related Put Option. The Independent Fiduciary is not required to use only the Morgan Stanley valuation.

13. Under the terms of the Agreement, Fiduciary Counselors makes all the decisions on behalf of the Master Trust and the Plans regarding the acceptance of the proposed in-kind contribution of Pinnacle Stock, determines (with the assistance of the qualified independent appraiser engaged by the Independent Fiduciary) the value of the Pinnacle Stock held by the Master Trust from time to time, and make such other decisions with regard to the Pinnacle Stock as are contemplated by the Exemption Application as it may be ultimately approved. In this regard, Fiduciary Counselors has retained Eclat Consulting to prepare a valuation of the Pinnacle Stock that will serve as the basis for Fiduciary Counselors' determination.

In making this determination to accept the securities, the Independent Fiduciary shall have discretion to negotiate the final terms and conditions of the contribution, including the registration, shareholder and put rights. The contributed Pinnacle Stock would be held as an "Investment Fund" within the Master Trust, under the management and control of the Independent Fiduciary as investment manager thereof, until such time as the Independent Fiduciary determines it is in the best interests of the Plans' participants and beneficiaries to dispose of such Pinnacle Stock.

The Independent Fiduciary shall thereafter, until all transactions

⁸ Morgan Stanley is listed in the Securities and Exchange Commission Form S-1 registration statement for the Pinnacle Stock IPO as one of the underwriters for the IPO of the Pinnacle Stock.

contemplated by the Exemption Application are concluded or it has been replaced by another independent fiduciary as hereinafter provided, continue to serve as Independent Fiduciary and continue to discharge the functions assigned to it as such in accordance with the provisions of the Exemption Application.

The Independent Fiduciary confirms that it is (and shall continue to be during the term of its engagement hereunder) an "investment adviser" within the meaning of the Investment Advisers Act of 1940, and further acknowledges that, with respect to its duties pursuant to the Agreement, it is a fiduciary as defined in section 3(21) of ERISA. The Independent Fiduciary shall act for the exclusive benefit and in the sole interest of the Plans and their participants and beneficiaries and with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

The Independent Fiduciary represents that, in evaluating the proposed Exemption Transactions, it has reviewed those documents that it deems relevant to the transactions including, but not limited to: (i) Copies of the current documents for the Plans and the Master Trust including all amendments thereto, as well as current summary plan descriptions and all other disclosures provided to participants and beneficiaries in the Plans regarding the Master Trust; (ii) copies of the Plans' most recent Form 5500 filings and all other financial and other information regarding the Plans reasonably requested by the Independent Fiduciary; (iii) copies of (or electronic access to) Northwest's most recent filings made with the Securities and Exchange Commission (SEC) as requested in order for the Independent Fiduciary to perform its obligations hereunder, including reasonable access to internal staff and outside professionals engaged by Northwest or the Plans regarding the Master Trust; and (iv) copies of (or electronic access to) Pinnacle Airlines' most recent filings made with the SEC as requested in order for the Independent Fiduciary to perform its obligations hereunder, including reasonable access to internal staff and outside professionals engaged by Pinnacle Airlines.

The Agreement states that, as compensation for the services to be rendered by the Independent Fiduciary and its affiliates in connection with the Agreement, Northwest shall pay to the

Independent Fiduciary an annual fee of \$250,000 for as long as Pinnacle Stock is owned by the Master Trust.

The Independent Fiduciary has engaged the law firm of Jones, Day, Reavis & Pogue to advise it and to serve as legal counsel. As previously noted, the Independent Fiduciary has engaged the services of Eclat to assist it in determining the value of the Pinnacle Stock at the time of the initial acquisition by the Plans.

The Agreement contemplates that either party may terminate such Agreement for any reason upon 60 days notice and that the Agreement may be terminated immediately for cause. In the event that a successor Independent Fiduciary is appointed, or there is a change in control of Fiduciary Counselors, the rights exercised by Fiduciary Counselors on behalf of the Plans in connection with the Term Sheet and the proposed Omnibus Agreement (see below) shall be exercised by the successor Independent Fiduciary (with the approval of the Department). The parties to the Agreement shall notify the Department within thirty (30) calendar days of any decision regarding the resignation, termination or change in control of the Independent Fiduciary.

14. The Term Sheet and the Proposed Omnibus Agreement. The Term Sheet (as provided to the Department on January 10, 2003) provides that Northwest and Fiduciary Counselors will enter into an Omnibus Agreement that governs the terms upon which Northwest may make periodic contributions of Pinnacle Stock to the Plans in order to satisfy all or any portion of Northwest's minimum funding requirements that are due in calendar years 2003 or 2004. Contributions may also be made during calendar years 2003 or 2004 with respect to a plan year for which there is no required minimum funding contribution, thus creating a credit balance with respect to the relevant plan. No contribution of Pinnacle Stock shall be made that would cause the total combined value of all employer securities or employer real property held by any plan, immediately after the contribution, to exceed 10 percent (10%) of the total assets of such plan.

The SEC Form S-1 registration statement for the IPO involving Pinnacle Airlines, Inc. describes a proposed share exchange. The Applicant represents that prior to the initial contribution, the following transactions will take place in the order indicated:

(a) Pinnacle Airlines, Inc. will distribute, as a dividend, a \$200 million

promissory note to NWA Inc., the sole shareholder of Pinnacle Airlines, Inc.

(b) NWA Inc. will transfer to Pinnacle Airlines Corp. all of the outstanding shares of Pinnacle Airlines, Inc. and in consideration thereof, Pinnacle Airlines Corp. will issue to NWA Inc. 15 million shares of common stock of Pinnacle Airlines Corp. and one share of Series A Preferred Stock of Pinnacle Airlines Corp.

(c) NWA Inc. will transfer the common stock of Pinnacle Airlines Corp. and the Series A Preferred Stock to Northwest as a contribution to the capital of Northwest.

As a result of these transactions, Pinnacle Airlines, Inc. will become a wholly owned subsidiary of Pinnacle Airlines Corp. and Pinnacle Airlines Corp. will be a wholly owned subsidiary of Northwest. The terms of the Series A Preferred Stock and the terms of the \$200 million note are set forth in exhibits to the SEC Form S-1 registration statement.

The Applicant represents that the holder of the Series A Preferred Stock has certain other voting rights in addition to the right to elect two members to the board of directors. An affirmative vote of NWA Inc. (the affiliate of Northwest which currently holds all of the shares of Pinnacle Airlines, Inc., including the Series A Preferred Stock) will be required in order for Pinnacle to:

- Enter into business combinations and change of control transactions with a third party;
- Sell or dispose of any capital stock of Pinnacle Airlines, Inc. or substantially all of the assets of Pinnacle Airlines Corp. or Pinnacle Airlines, Inc.;
- Effect reorganizations and restructuring transactions;
- Acquire airline assets that generate annual revenues of \$500 million or more;
- Increase the size of the board of directors;
- Agree to allow a major airline other than Northwest to appoint more than one director to Pinnacle Airlines' board;
- Amend Pinnacle Airlines' certificate of incorporation in a manner that would adversely affect the rights of the Series A preferred shareholder; or
- Enter into any definitive agreements relating to the foregoing matters.

The effect of this voting right will be to enable NWA Inc. to preclude Pinnacle Airlines from carrying out any of the foregoing proposals if NWA Inc. does not vote in favor of the proposal. Under the Term Sheet, Northwest has agreed not to exercise its rights under the Series A Preferred Stock to block an IPO or sale of Pinnacle Airlines if the

Independent Fiduciary, on behalf of the Plans, initiates such an IPO or a sale after an "Early Termination Event" (defined below). The Term Sheet material terms that will be reflected in the Omnibus Agreement between the Independent Fiduciary and Northwest are set forth below.

Request To Contribute Pinnacle Shares

Except with respect to the first such contribution, as to which Northwest and the Independent Fiduciary will agree on a shorter notice period, no later than 60 days before any date in calendar year 2003 or 2004 on which Northwest proposes to make a contribution of Pinnacle Stock to the Plans, Northwest shall provide written notice to the Independent Fiduciary of its proposal to make such contribution and shall indicate the dollar value of the Pinnacle Stock that it intends to contribute.

Valuation of Pinnacle Shares

The Term Sheet states that no later than 30 days prior to each date on which Northwest proposes to contribute Pinnacle Stock (or, with respect to the first such contribution, such earlier date as may be agreed), the Independent Fiduciary shall notify Northwest in writing (accompanied by a written valuation report) of the per share value that the Independent Fiduciary then preliminarily ascribes to the shares of Pinnacle Stock. In addition to determining the value of Pinnacle Stock at the time of a proposed contribution, the Independent Fiduciary shall provide to Northwest on an annual basis a 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.

On the relevant contribution date, subject to the Independent Fiduciary's review and approval, Northwest may contribute to one or more Plans shares of Pinnacle Stock based on the per share value ascribed to such shares by the Independent Fiduciary. The Independent Fiduciary and the Plans will have the rights associated with such shares as described below. As a condition to any such contribution by Northwest, the Independent Fiduciary must determine on behalf of the Plans that the acceptance of the contributed shares is prudent and in the interests of the Plans' participants and beneficiaries and otherwise consistent with the fiduciary standards of ERISA. In addition, the Independent Fiduciary shall monitor on an ongoing basis the prudence of the Plans' continued holding of Pinnacle Stock consistent with the fiduciary standards of ERISA,

subject to the determination from time to time by the appropriate fiduciary of the Plans (other than the Independent Fiduciary) that such investment will not impair the liquidity of the Plans such that the Plans would not be able to pay benefits and expenses when due. If such appropriate Plan fiduciary determines the liquidity of the Plans is impaired, such fiduciary shall direct the Independent Fiduciary to dispose of all or a portion of the Pinnacle Stock consistent with the terms of this agreement to the extent commercially reasonable.

All transactions involving the Plans in connection with the contribution of Pinnacle shares will be no less favorable to the Plans than arms' length transactions involving unrelated parties. No commissions, fees, costs, charges or other expenses will be borne by the Independent Fiduciary or the Plans in connection with any acquisition, holding or disposition of Pinnacle shares to or from the Plans, other than the underwriters' discount or other broker-dealer fees or commissions charged in any sale of such shares.

The Applicant represents that the valuation approach that the Independent Fiduciary takes into account when determining the value of Pinnacle Stock with respect to any specific transaction will be the method that the Independent Fiduciary determines to be in the best interests of the Plans' participants and beneficiaries.

The Independent Fiduciary's valuations will be used by the Master Trust Trustee for such Pinnacle Stock and by Northwest as plan administrator as the initial value of the Pinnacle Stock for Plan and Master Trust reporting purposes, and as the initial value to be used by each Plan's actuaries for valuation purposes. In addition to determining the fair market value of the Pinnacle Stock at the time it is contributed to the Plans, the Independent Fiduciary will thereafter determine the fair market value as of each March 31, June 30, September 30, and December 31; at any time the Pinnacle Stock is sold or exchanged by the Plans (e.g., for purposes of exercising its Put Option, as described below); and at such other times as the Independent Fiduciary determines to be in the interests of participants and beneficiaries in any of the Plans.

Northwest proposes that the contribution of Pinnacle Stock to the Master Trust be subject to a Put Option held by the Plans with respect to all of the Pinnacle Stock held by the Plans. The Put Option may be exercised on behalf of the Plans by the Independent Fiduciary, obligating Northwest (or an

affiliate) to purchase the Pinnacle Stock from the Plans at a price not less than the greater of its fair market value as of the exercise date (as determined by the Independent Fiduciary) or the value placed on the stock at the time of its contribution.

Voting Provisions

The Term Sheet provides that the shares of Pinnacle Stock contributed to the Plans will be identical to the shares retained by Northwest. With respect to the voting of such shares and related matters, the Omnibus Agreement will also provide as follows:

- The initial board of directors of Pinnacle Airlines will be comprised of six individuals, four of whom will be individuals previously identified by Northwest in the S-1 registration statement, one of whom shall be designated by Northwest and one of whom will be an individual designated by the Plans and reasonably acceptable to Northwest.
- For so long as the Plans hold at least 5 percent (5%) of such shares, the Plans will have the right to designate one nominee to Pinnacle Airlines' board of directors, and Northwest will vote the shares of Pinnacle Stock held by it in favor of such designee.

- The director designated by the Plans will have the right to serve on Pinnacle Airlines' audit committee to the extent permitted under applicable SEC and stock exchange requirements.

- At such time as the Plans hold more than 50 percent (50%) of such shares, and until the earlier of either (i) the Plans hold less than 25 percent (25%) of such shares or (ii) the Put Option has terminated as to all shares held by the Plans, the affirmative vote of the director designated by the Plans shall be required to approve the appointment of any new Chief Executive Officer of Pinnacle and compensation of any Chief Executive Officer. In addition, the appointment and compensation of any Chief Executive Officer shall be approved by a majority of the directors, excluding the director designated by Northwest.

- The Independent Fiduciary will direct the trustee of the Plans to vote shares of Pinnacle Stock held by the Plans in favor of the slate of director nominees proposed by Pinnacle's board of directors, except as the Plans and Northwest may otherwise agree.

- The Independent Fiduciary will direct the trustee of the Plans to vote shares of Pinnacle Stock held by the Plans in favor of any merger or other matter requiring stockholder approval as recommended by Pinnacle Airlines' board of directors, provided such

transaction or other action does not otherwise treat the shares held in the Plans differently than other shares of Pinnacle Stock.

Affiliate Transactions

The Term Sheet provides that any change to the Airline Services Agreement (ASA) between Pinnacle and Northwest as in effect at the time of the initial contribution, including any early termination of the ASA by Pinnacle Airlines, must be approved by a majority of Pinnacle Airlines' independent directors, which majority must include the director designated by the Plans. Any other transaction between Pinnacle Airlines and Northwest or one of its affiliates (other than immaterial transactions in the ordinary course of business) that is not pursuant to and in accordance with the ASA is subject to the following requirements:

- Each such transaction must be approved by a majority of the independent directors;
 - If the transaction is outside the ordinary course of business and involves more than \$2 million, or if the transaction is in the ordinary course of business and involves more than \$5 million, it must be approved by a majority of the independent directors and, at the request of the director designated by the Plans, a nationally recognized investment banking firm (which may include a "boutique" firm that specializes in airline related matters) must deliver a fairness opinion with respect to such transaction; and
 - If the transaction involves more than \$10 million, it must be approved by a majority of the independent directors, which majority must include the director designated by the Plans.

Transfer Restrictions and Early Termination Events

The Term Sheet provides that until July 1, 2006, or such earlier date on which Northwest (1) does not, by the latest date to which Northwest may before the closing, purchase, sell to the public in a registered public offering or sell to a third party the Pinnacle Stock held by the Plans as to which the Independent Fiduciary has exercised the Put Option (as described below) or (2) breaches the Omnibus Agreement (and such breach is not cured within 30 days thereafter) (collectively, an "Early Termination Event"), shares of Pinnacle Stock contributed to the Plans may not be transferred other than to Northwest or one of its designated affiliates in accordance with the Put Option described below. Such shares may, however, be transferred in the IPO, as

described below, or in a bona fide public offering in accordance with the registration rights described below. In no event may shares be transferred directly or indirectly in any manner that would result in Northwest being in violation of the "scope clause" under Northwest's collective bargaining agreement with its pilots.⁹

The July 1, 2006 sunset date, together with the inclusion of an Early Termination Event, are the product of negotiation between Northwest and Fiduciary Counselors and balance Northwest's interest in having a reasonable period of time during which to determine the most advantageous timing of an IPO and the Plans' interest in enhancing the liquidity of Pinnacle Stock.

In the event of a transfer of shares of Pinnacle Stock by the Plans, the Plans will exercise commercially reasonable efforts to maximize the amount realized for such shares, and to that end will follow customary procedures (including the retention, at Northwest's expense, of a nationally recognized investment banking firm) applicable to a transaction such as the sale of such shares.

In the event of a proposed transfer of shares of Pinnacle Stock by the Plans after July 1, 2006, absent an Early Termination Event, Northwest will have a right of first refusal. This means that, if the Plans receive a bona fide offer from a third party to purchase such shares, the Plans must first offer such shares to Northwest at the offered price. If after 30 days from such offer Northwest declines to purchase such shares at the offered price, the Plans will be free for 90 days to sell such shares to the third party who made the initial offer to purchase such shares at a price not less than the offered price. The Pinnacle Stock may not be sold at a price less than such offered price without re-offering such shares to Northwest and having these provisions apply again.

Initial Public Offering

According to the Term Sheet, it is contemplated that Pinnacle Airlines will undertake an IPO. Until July 1, 2006, or the earlier occurrence of an Early Termination Event, the IPO will

⁹The Applicant notes that in general terms, as relevant to Pinnacle Airlines, the pilot scope clause requires that all "revenue flying" performed by or for Northwest be performed by Northwest's pilots and generally prohibits Northwest from codesharing with another air carrier that operates aircraft with 60 or more seats or with another air carrier whose parent or subsidiary operates aircraft with 60 or more seats. The scope clause also requires that any regional jets operated by Pinnacle Airlines be operated at all times with the Northwest designator code.

be undertaken at the sole discretion of Northwest. After such date or the earlier occurrence of an Early Termination Event, either the Plans or Northwest may trigger the IPO. In the event of an IPO, the Plans will be required to sell shares of Pinnacle Stock held by the Plans in accordance with the following requirements:

- If at the time of the IPO the Plans own less than 50 percent (50%) of the outstanding Pinnacle Stock, the Plans will sell shares ratably with Northwest's sale of shares in the IPO. If the aggregate number of shares sought to be sold by Northwest and the Plans collectively exceeds the number of shares that the managing underwriter advises can be sold without having an adverse effect on the IPO, Northwest and the Plans will be cutback *pro rata*.

- If at the time of the IPO the Plans own 50 percent (50%) or more of the outstanding Pinnacle Stock, the Plans will sell, ratably with Northwest's sale of shares in the IPO, not less than such number of shares as is requested by the managing underwriter in the IPO in order to have an offering of optimal size (taking into account all the shares being sold). Beyond that, the Plans may sell additional shares at their discretion. However, if the aggregate number of shares sought to be sold by Northwest and the Plans collectively exceeds the number of shares that the managing underwriter advises can be sold without having an adverse effect on the IPO, Northwest and the Plans will be cutback *pro rata*.

- Any shares as to which the Put Option shall have already been exercised (but shall not yet have been purchased) must be included in the IPO if requested by Northwest.

The Independent Fiduciary may, on behalf of the Plans, engage an investment bank reasonably acceptable to Northwest to provide advice to the Plans in connection with any proposed IPO and subsequent disposition of Pinnacle Stock by the Plans, and Northwest will pay the reasonable fees and expenses in this regard. Northwest will consult with the Independent Fiduciary regarding any changes in the managing underwriter currently contemplated for the IPO.

Any sale of shares in a registered public offering will be subject to the requirements described below:

Northwest and the Plans will enter into a customary registration rights agreement covering the registration of all of the shares previously contributed to the Plans that are to be sold in the IPO or that are to be sold through a shelf registration or as otherwise contemplated by the Term Sheet. Such

registration rights agreement will provide that, in the case of an underwritten offering, the Plans will enter into a customary underwriting agreement as may be negotiated by Northwest with the managing underwriter(s), and the Plans will sell in accordance with such underwriting agreement the shares of Pinnacle Stock that are to be sold by the Plans, on the same economic terms that shares of Pinnacle Stock held by Northwest are sold. The Plans will receive the net proceeds from the sale of their shares in the IPO. If Pinnacle Airlines has not consummated the IPO by the earlier of July 1, 2006, or the date of the occurrence of an Early Termination Event, the Plans may exercise demand registration rights for an IPO.

The Plans will be entitled to retain all of the net proceeds from the sale, even if such net proceeds are in excess of the initial contribution value ascribed to the Pinnacle Stock being sold in the IPO. If such net proceeds are less than such initial contribution value, however, Northwest will be obligated, no later than the closing date of the IPO, to remit to the Plans immediately available funds representing the amount by which, with respect to the shares actually sold, such net proceeds are less than the initial contribution value.

If less than all of the shares of Pinnacle Stock held by the Plans are sold in the IPO, the Plans will have continuing registration rights to sell all or any portion of its remaining shares (subject to the same lock-up provisions that are imposed on Pinnacle Airlines). If there is an Early Termination Event or if at the time of the IPO such remaining shares are valued (based on the IPO price) at \$50 million or more, the Plans will have one demand registration right.

In the underwriting agreement, the indemnification obligation of the Plans will be limited to what a selling stockholder normally provides, namely, an obligation to indemnify in respect of information relating to itself and its holdings that is provided by the Plans to the underwriters expressly for inclusion in the registration statement. The Independent Fiduciary will cause the Plans to provide such information to the underwriters and otherwise to provide reasonable cooperation in order to facilitate the offering. Northwest will provide the Plans with the same indemnification and contribution it provides to the underwriters in the offering. In no event will the Plans be obligated to provide in such underwriting agreement representations and warranties beyond due authorization, good title, no conflicts and the like.

The Plans will also have unlimited "piggyback" registration rights in the event Pinnacle Airlines files a registration statement (other than on Form S-4 or S-8) covering shares of its common stock. Upon the request of Northwest or the Plans, Pinnacle Airlines will file a shelf registration statement (subject to customary lock-up provisions) covering all of the Pinnacle shares owned by the Plans, provided that Pinnacle Airlines is eligible to use Form S-3 at the time of such request.

Liquidity and Financial Information

The Term Sheet provides that beginning March 31, 2003, Northwest will provide as promptly as practicable after the end of each calendar quarter a notice to the Independent Fiduciary of its cash liquidity as of the end of such quarter. However, if the aggregate initial contribution value of Pinnacle Stock held by the Plans is equal to or less than \$225 million and if Northwest's liquidity at the end of any month is less than \$1.75 billion, it will provide such notice monthly until such time as its liquidity exceeds \$1.75 billion. If liquidity at any week end is less than \$1.5 billion, Northwest will provide the Independent Fiduciary with such reports on a weekly basis until liquidity increases to \$1.5 billion or more. If the aggregate initial contribution value of Pinnacle Stock held by the Plans is greater than \$225 million and if Northwest's liquidity at the end of any month is less than \$1.75 billion, it will provide such notice monthly until such time as its liquidity exceeds \$1.75 billion. If liquidity at any week end is less than \$1.6 billion, Northwest will provide the Independent Fiduciary with such reports on a weekly basis until liquidity increases to \$1.6 billion or more. Notwithstanding the above, the weekly reporting requirement described above shall not apply until the aggregate initial contribution value of Pinnacle Stock is greater than or equal to \$50 million.

Northwest shall provide to the Independent Fiduciary the information referred to in sections 6.1, 6.2, 6.7 and 6.11 of the \$1.125 billion Credit and Guarantee Agreement dated as of October 24, 2000, under which Northwest is the borrower (the Credit Agreement), and any other information required to be provided to the lenders, at the same time the information is provided to the lenders under the Credit Agreement, as the same may be amended from time to time (or similar information required to be provided to the lenders under any successor credit agreement). In addition, Northwest shall provide to the Independent Fiduciary

copies of any amendments to the Credit Agreement.

Put Option

According to the Term Sheet, the Plans will be granted a "Put Option" with respect to each share of Pinnacle Stock, which may be exercised by the Independent Fiduciary at any time and from time to 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 date of the notice of the election shall be the "exercise date." 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 as follows:

In the event the aggregate initial contribution value of Pinnacle Stock held by the Plans is equal to or less than \$225 million:

- If Northwest's liquidity is equal to or greater than \$1.75 billion, Northwest may defer the closing date for up to an additional 150 days;
- If Northwest's liquidity is equal to or greater than \$1.5 billion and less than \$1.75 billion, Northwest may defer the closing date for up to an additional 90 days;
- If Northwest's liquidity is equal to or greater than \$1.25 billion and less than \$1.5 billion, Northwest may defer the closing date for up to an additional 60 days.

In the event the aggregate initial contribution value of Pinnacle Stock held by the Plans is greater than \$225 million and equal to or less than \$325 million:

- If Northwest's liquidity is equal to or greater than \$1.75 billion, Northwest may defer the closing date for up to an additional 150 days;
- If Northwest's liquidity is equal to or greater than \$1.6 billion and less than \$1.75 billion, Northwest may defer the closing date for up to an additional 90 days;
- If Northwest's liquidity is equal to or greater than \$1.5 billion and less than \$1.6 billion, Northwest may defer the closing date for up to an additional 60 days.

In the event the aggregate initial contribution value of Pinnacle Stock held by the Plans is greater than \$325 million:

- If Northwest's liquidity is equal to or greater than \$1.75 billion, Northwest

may defer the closing date for up to an additional 120 days;

- If Northwest's liquidity is equal to or greater than \$1.6 billion and less than \$1.75 billion, Northwest may defer the closing date for up to an additional 60 days;
- If Northwest's liquidity is equal to or greater than \$1.5 billion and less than \$1.6 billion, Northwest may defer the closing date for up to an additional 30 days.

If during the period of any such deferral, Northwest's liquidity falls below the threshold for the applicable deferral period, such period shall be shortened to the lesser of (i) the remaining time in the original deferral period, or (ii) the applicable deferral period based on such lower level of liquidity. However, if before the end of such period Northwest's liquidity increases to a higher level, the longer deferral period will apply (subject to reduction if liquidity falls below the relevant threshold).

If at the time of such exercise shares of Pinnacle Stock are publicly traded and remain so traded, Northwest may defer the closing date, but the deferral periods based on the liquidity levels described above will be 120 days, 60 days and 30 days, respectively.

The closing date may be further deferred and deferred payments may be made by Northwest as agreed to by the Independent Fiduciary beyond these prescribed periods, through the posting (within 30 days following the exercise date) of collateral by Northwest in an amount and on terms satisfactory to the Independent Fiduciary.

Notwithstanding the foregoing, the closing date shall accelerate to the date on which Northwest's obligations under its revolving credit facility shall have accelerated.

Prior to the applicable closing date (which shall not be subject to further extension without the Independent Fiduciary's consent), Northwest may in its discretion arrange for the Pinnacle Stock as to which the Put Option has been exercised, instead of being sold to Northwest, to be sold to the public in an underwritten offering or to a third party selected by Northwest. The Plans will be entitled to retain all of the net proceeds from such underwritten offering or sale of the Pinnacle Stock belonging to the Plans to a third party, even if such net proceeds are in excess of the applicable "Put Price" (as defined below). If the net proceeds received by the Plans in such underwritten offering or sale to a third party are less than such Put Price, Northwest will be obligated, no later than the closing date of such offering or sale, to remit to the Plans

immediately available funds representing the amount by which such net proceeds are less than the Put Price. The Plans will at the request of Northwest enter into a customary agreement with respect to such sale. In no event will the Plans be obligated to provide representations and warranties beyond due authorization, good title, no conflicts and the like.

In an IPO that is not triggered by the exercise of the Put Option, if the Plans voluntarily choose to sell less than all of the shares of Pinnacle Stock held by the Plans, and if the net proceeds per share in such offering are equal to or greater than the "Floor Price" (as defined below), the Put Option will expire with respect to the shares retained in the Plans. In addition, if in such offering the net proceeds per share are less than the Floor Price, and the Plans voluntarily choose to sell less than all of the shares of Pinnacle Stock held by the Plans, Northwest's maximum put obligation with respect to the retained shares will be equal to the excess of the Floor Price over the net proceeds per share in such offering.

The Put Option will be suspended if all of the remaining shares of Pinnacle Stock held by the Plans have a "Market Value" (as defined below) not less than 110 percent (110%) of the Floor Price and such shares are "Freely Tradeable." Shares are Freely Tradeable while they are (i) eligible to be sold under Rule 144(k) or (ii) covered during such period by an effective shelf registration statement on Form S-3.

The Put Option will terminate when (i) the Pinnacle Stock held by the Plans is Freely Tradeable, (ii) more than 50 percent (50%) of the outstanding Pinnacle Stock is held by the public and (iii) one of the following applies: (A) If the Plans own less than 10 percent (10%) of the outstanding shares of Pinnacle Stock, the weighted average daily trading price of Pinnacle Stock is 110 percent (110%) of the Floor Price for any 30 trading days within a 60 consecutive trading day period; (B) if the Plans own equal to or greater than 10 percent (10%) and less than 25 percent (25%) of the outstanding shares of Pinnacle Stock, the weighted average daily trading price of Pinnacle Stock is 110 percent (110%) of the Floor Price for any 60 trading days within a 90 consecutive trading day period or (C) if the Plans own equal to or greater than 25 percent (25%) and less than 50 percent (50%) of the outstanding shares of Pinnacle Stock, the weighted average daily trading price of Pinnacle Stock is 110 percent (110%) of the Floor Price for any 90 trading days within a 120 consecutive trading day period. The

time periods are tolled for any black-out or lock-up period.

The "Put Price" as of a particular date will be the greater of (i) the "Floor Price," which is the initial contribution value ascribed to the Pinnacle Stock with respect to which the determination is being made or (ii) the "Market Value" (as described below) of such Pinnacle Stock as of the applicable exercise, closing or other relevant date, unless Northwest has arranged for a sale to the public in an underwritten offering in which case the Put Price will be the initial contribution value ascribed to the Pinnacle Stock as to which the Put Option has been exercised.

In any event, at a time prior to Pinnacle Stock being publicly traded, in connection with a sale to a third party by Northwest in response to the Independent Fiduciary's exercise of the Put Option, the Plans will receive the greater of (i) the initial contribution value, (ii) the fair market value as determined by the Independent Fiduciary at the time of the exercise of the Put Option, or (iii) the proceeds from the sale of Pinnacle Stock held by the Plans sold by Northwest to a third party.

The "Market Value" of the Pinnacle Stock will be (i) if the Pinnacle shares are not then traded on the NYSE or NASDAQ, the greater of the fair market value determined by the Independent Fiduciary on (I) the exercise date or (II) the closing date, (ii) if the Pinnacle shares are then traded on the NYSE or NASDAQ, the greater of (I) the average of the closing price for the Pinnacle shares over the ten trading days prior to the exercise date or (II) the closing price for the Pinnacle shares on the closing date.

Amount Credited to Funding Standard Account

Northwest will cause to be credited to the funding standard account of each Plan an amount equal to the value of the shares of Pinnacle Stock contributed to each Plan as determined by the Independent Fiduciary on the date of the contribution, regardless of the amount of Northwest's deduction for such contribution for federal income tax or any other purpose.

Modification of Draft of ASA

The draft of the ASA should be revised to provide that the acquisition or disposition of shares of Pinnacle Stock pursuant to the terms of the Omnibus Agreement does not constitute a Change of Control (as defined in the ASA).

The draft should also be revised to eliminate the unilateral right of

Northwest to terminate the ASA in the event of the bankruptcy of Northwest. The Applicant also notes that in a Chapter 11 proceeding, a debtor in possession can reject an executory contract (like the ASA). In such an event, the other party to the rejected contract (Pinnacle) would have an unsecured claim for contract damages arising from the rejection of the contract. The Applicant represents that the more likely result in the case of the ASA would be a renegotiation of the contract.

15. In summary, the Applicant represents that the proposed transactions meet the requirements set forth in section 408(a) of the Act since, among other things:

(a) An Independent Fiduciary will represent the Plans' interests for all purposes with respect to the Pinnacle Stock, and will determine, prior to entering into any of the transactions described herein, that each such transaction, including the contribution of the Pinnacle Stock, is in the interests of the Plans;

(c) The Independent Fiduciary will negotiate and approve the terms of any of the transactions between the Plans and Northwest that relate to the Pinnacle Stock;

(d) The Independent Fiduciary will manage the holding and disposition of the Pinnacle Stock and take whatever actions it deems necessary to protect the rights of the Plans with respect to the Pinnacle Stock;

(e) The terms of any transactions between the Plans and Northwest will be no less favorable to the Plans than terms negotiated at arm's-length under similar circumstances between unrelated third parties;

(f) An independent qualified appraiser selected by the Independent Fiduciary will determine the fair market value of the Pinnacle Stock contributed to each Plan as of the date of each such contribution;

(g) The terms of (1) the Put Option granted by Northwest; (2) any exercise of the Put Option by the Plans; and (3) any sale of the Pinnacle Stock by the Plans to Northwest other than through the exercise of the Put Option will be in accordance with the terms set forth in the Term Sheet and the proposed Omnibus Agreement;

(h) Immediately after each contribution, employer securities and employer real property, including the Pinnacle Stock, will represent no more than 10 percent (10%) of the value of each Plan's assets; and

(i) The Plans will not incur any fees, costs or other charges as a result of their

participation in any of the transactions described herein.

General Information

The attention of interested persons is directed to the following:

(1) The fact that a transaction is the subject of an exemption under section 408(a) of the Act and section 4975(c)(2) of the Code does not relieve a fiduciary or other party in interest or disqualified person from certain other provisions of the Act and the Code, including any prohibited transaction provisions to which the exemption does not apply and the general fiduciary responsibility provisions of section 404 of the Act, which require, among other things, that a fiduciary discharge his or her duties respecting the plan solely in the interest of the participants and beneficiaries of the plan and in a prudent fashion in accordance with section 404(a)(1)(B) of the Act; nor does it affect the requirements of section 401(a) of the Code that the plan operate for the exclusive benefit of the employees of the employer maintaining the plan and their beneficiaries;

(2) The proposed exemption, if granted, will not extend to transactions prohibited under section 406(b)(3) of the Act and section 4975(c)(1)(F) of the Code;

(3) Before an exemption may be granted under section 408(a) of the Act and section 4975(c)(2) of the Code, the Department must find that the exemption is administratively feasible, in the interest of the plan and of its participants and beneficiaries and protective of the rights of participants and beneficiaries of the plan;

(4) This proposed exemption, if granted, will be supplemental to, and not in derogation of, any other provisions of the Act and the Code, including statutory or administrative exemptions. Furthermore, the fact that a transaction is subject to an administrative or statutory exemption is not dispositive of whether the transaction is in fact a prohibited transaction; and

(5) This proposed exemption, if granted, is subject to the express condition that the facts and representations set forth in this notice accurately describe, where relevant, the material terms of the transactions to be consummated pursuant to such exemption.

Written Comments and Hearing Requests

All interested persons are invited to submit written comments or requests for a hearing on the pending exemption to the address above, within the time

frame set forth above, after the publication of this proposed exemption in the Federal Register. All comments will be made a part of the record. Comments received will be available for public inspection with the referenced applications at the address set forth above.

Notice to Interested Persons

Within fifteen (15) calendar days of publication of the Notice of Proposed Exemption (the Notice) in the **Federal Register**, Northwest shall provide notice to all participants of the Plans (including active employees, separated vested participants and retirees) by mailing first class a photocopy of the Notice, plus a copy of the supplemental statement (Supplemental Statement), as required, pursuant to 29 CFR 2570.43(b)(2). Northwest shall also provide the same notice by first class mailing to the representatives of the unions that represent employees of Northwest who currently participate in the Plans.

Proposed Exemption

Based on the facts and representations set forth in the application, the Department is considering granting an exemption under the authority of section 408(a) of the Act and section 4975(c)(2) of the Code and in accordance with the procedures set forth in 29 CFR Part 2570, Subpart B (55 FR 32836, 32847, August 10, 1990).

Section I. Covered Transactions

The restrictions of sections 406(a), 406(b)(1) and (b)(2), and 407(a) of the Act and the sanctions resulting from the application of section 4975(a) and (b) of the Code, by reason of section 4975(c)(1)(A) through (E) of the Code, shall not apply to:

(1) The transfer of the common shares of either Pinnacle Airlines, Inc. or Pinnacle Airlines Corp. (Pinnacle Stock) to the Northwest Airlines Pension Plan for Salaried Employees, the Northwest Airlines Pension Plan for Pilot Employees, and the Northwest Airlines Pension Plan for Contract Employees (the Plans) through the in-kind contribution(s) of such shares by Northwest Airlines, Inc. (Northwest), a party in interest with respect to such Plans;

(2) The holding of the Pinnacle Stock by the Plans;

(3) The sale of the Pinnacle Stock by the Plans to Northwest; and

(4) The acquisition, holding, and exercise by the Plans of a put option (the Put Option) granted by Northwest which permits the Plans to sell the Pinnacle Stock to Northwest.

Section II. Conditions

This exemption is conditioned upon adherence to the material facts and representations described herein and upon satisfaction of the following requirements:

(a) The Plans acquire the Pinnacle Stock through one or more contributions by Northwest during the calendar years 2003 and 2004;

(b) An independent qualified fiduciary (the Independent Fiduciary), acting on behalf of the Plans, represents the Plans' interests for all purposes with respect to the Pinnacle Stock, and determines, prior to entering into any of the transactions described herein, that each such transaction, including the contribution of the Pinnacle Stock, is in the interests of the Plans;

(c) The Independent Fiduciary negotiates and approves the terms of any of the transactions between the Plans and Northwest that relate to the Pinnacle Stock;

(d) The Independent Fiduciary manages the holding and disposition of the Pinnacle Stock and takes whatever actions it deems necessary to protect the rights of the Plans with respect to the Pinnacle Stock;

(e) The terms of any transactions between the Plans and Northwest are no less favorable to the Plans than terms negotiated at arm's-length under similar circumstances between unrelated third parties;

(f) An independent qualified appraiser selected by the Independent Fiduciary determines the fair market value of the Pinnacle Stock contributed to each Plan as of the date of each such contribution;

(g) The terms of (1) the Put Option granted by Northwest; (2) any exercise of the Put Option by the Plans; and (3) any sale of the Pinnacle Stock by the Plans to Northwest other than through the exercise of the Put Option will be in accordance with the terms set forth in the Term Sheet and the proposed Omnibus Agreement;

(h) Immediately after each contribution, employer securities and employer real property, including the Pinnacle Stock, will represent no more than 10 percent (10%) of the value of each Plan's assets. For purposes of this requirement, the term "employer real property" means real property leased to, and the term "employer securities" means securities issued by, an employer any of whose employees are covered by the Plans or by an affiliate of such employer; and

(i) The Plans incur no fees, costs or other charges as a result of their participation in any of the transactions described herein.

Section IV. Definitions

(a) The term "independent fiduciary" means a fiduciary who is: (1) Independent of and unrelated to Northwest and its affiliates, and (2) appointed to act on behalf of the Plans for all purposes related to, but not limited to, (A) the in-kind contribution of the Pinnacle Stock by Northwest to the Plans, (B) the holding of the Pinnacle Stock by the Plans; (C) the acquisition, holding, and exercise by the Plans of the Put Option, and (D) any sale of the Pinnacle Stock by the Plans. For purposes of this exemption, a fiduciary will not be deemed to be independent of and unrelated to Northwest if: (1) Such fiduciary directly or indirectly controls, is controlled by or is under common control with Northwest, (2) such fiduciary directly or indirectly receives any compensation or other consideration in connection with any transaction described in this exemption; except that an independent fiduciary may receive compensation for acting as an independent fiduciary from Northwest in connection with the transactions contemplated herein if the amount or payment of such compensation is not contingent upon or in any way affected by the independent fiduciary's ultimate decision, and (3) more than 5 percent (5%) of such fiduciary's gross income, for federal income tax purposes, in its prior tax year, will be paid by Northwest and its affiliates in the fiduciary's current tax year.

(b) The term "affiliate" means:

(1) Any person directly or indirectly through one or more intermediaries, controlling, controlled by, or under common control with the person;

(2) any officer, director, employee, relative, or partner in any such person; and

(3) any corporation or partnership of which such person is an officer, director, partner, or employee.

(c) The term "control" means the power to exercise a controlling influence over the management or policies of a person other than an individual.

Signed at Washington, DC, this 14th day of January 2003.

Ivan L. Strasfeld,

Director, Office of Exemption, Determinations, Pension and Welfare Benefits Administration, Department of Labor.

[FR Doc. 03-1187 Filed 1-16-03; 8:45 am]

BILLING CODE 4510-29-P

NATIONAL TELECOMMUNICATIONS SYSTEM**Office of Priority Telecommunications Customer Satisfaction Survey**

AGENCY: National Communications System (NCS).

ACTION: Proposed collection notice; comment request.

In compliance with section 3506 (c)(2)(A) of the Paperwork Reduction Act of 1995, the Office of Priority Telecommunications announces a public information collection and seeks public comment on the provisions thereof. Comments are invited on: (a) Whether the proposed collection of information is necessary for the proper performance of the functions of the Agency, including whether the information shall have practical utility; (b) the accuracy of the Agency's estimate of the burden of the proposed information collection; (c) ways to enhance the quality, utility, and clarity of the information to be collected; and (d) ways to minimize the burden of the information collection on respondents, including through the use of automated collection techniques or other forms of information technology.

DATES: Consideration will be given to all comments received by March 18, 2003.

ADDRESSES: Written comments and recommendations on the proposed information collection should be sent to the National Communications System, Office of Priority Telecommunications, 701 South Courthouse Road, ATTN: Deborah Bea, Arlington, VA 22204-2198.

FOR FURTHER INFORMATION CONTACT: To request more information on this proposed information collection or to obtain a copy of the proposal and associated collection instruments, please write to the above address, or call Deborah Bea (703) 607-4933.

Title: Office of Priority Telecommunications Customer Satisfaction Survey.

OMB Number: 0704-TBD.

Needs and Uses: The information collection requirement is necessary to understand customer needs and requirements.

Affected Public: Business or other for-profit, and Federal government.

Annual Burden Hours: 25.

Number of Respondents: 100.

Average Burden per Response: 15 minutes.

Frequency: Annually.

Peter M. Fonash,

Certifying Officer, National Communications System.

[FR Doc. 03-1140 Filed 1-16-03; 8:45 am]

BILLING CODE 5001-08-M

NATIONAL SCIENCE FOUNDATION**Advisory Committee for Mathematical and Physical Sciences****Notice of Meeting**

In accordance with the Federal Advisory Committee Act (Pub. L. 92-463, as amended), the National Science Foundation announces the following meeting.

Name: Committee of Visitors for the Division of Physics, Subcommittee of the Advisory Committee for Mathematical and Physical Sciences (66).

Date and Time: February 26-28, 2003; 8:30 a.m.—5 p.m.

Place: Room 375, NSF, 4201 Wilson Blvd., Arlington, VA 22230.

Type of Meeting: Part-open—(see Agenda, below).

Contact Person: Dr. Joseph L. Dehmer, Director, Division of the Physics, National Science Foundation, 4201 Wilson Blvd., Arlington, VA 22230, Room 1015.37. Telephone: (703) 292-7370.

Purpose of Meeting: To carry out Committee of Visitor (COV) review, including program evaluation, GPRA assessments and access to privileged materials.

Agenda: Closed: February 26-28, 2003, from 8:30-5 each day—To review the merit processes covering funding decisions made during the immediately preceding three fiscal years of the Division of Physics programs.

Open: February 27 from 10:30-11:30 to assess the results of NSF programs investments in the Division of Physics. This shall involve a discussion and review of results focused on NSF and grantee outputs and related outcomes achieved or realized during the preceding three fiscal years. These results may be based on NSF grants or other investments made in earlier years.

Reason for Closing: During the closed session, the COV will be reviewing proposal actions that will include privileged intellectual property and personal information that could harm individuals if they are disclosed. Such deliberations are exempt under 5 U.S.C. 552(b)(c)(4) and (6) of the Government in the Sunshine Act.

Dated: January 8, 2003.

Susanne Bolton,

Committee Management Officer.

[FR Doc. 03-1038 Filed 1-16-03; 8:45 am]

BILLING CODE 7555-01-M