

**UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK**

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**In re:** : **Chapter 11**  
: **Case No. 05-17930 (ALG)**  
**NORTHWEST AIRLINES CORPORATION, et al.,** : **Jointly Administered**  
**Debtors.** :  
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**SETTLEMENT AGREEMENT BETWEEN NORTHWEST  
AIRLINES, INC. AND THE AIR LINE PILOTS ASSOCIATION,  
INTERNATIONAL REGARDING BANKRUPTCY CLAIM NO. 9311**

THIS SETTLEMENT AGREEMENT (“Settlement Agreement”) is made as of this 28<sup>th</sup> day of March, 2008 by and between the Air Line Pilots Association, International (“ALPA”) and Northwest Airlines, Inc. (“NWA” and together with ALPA, the “Parties”).<sup>1</sup>

WHEREAS, on September 14, 2005 (the “Petition Date”), NWA and certain of its affiliated entities (collectively, the “Reorganized Debtors”)<sup>2</sup> filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”), under the jointly administered case number 05-17930 (the “Bankruptcy Case”);

WHEREAS, on September 15, 2005, in connection with the filing of the Bankruptcy Case, the Bankruptcy Court entered an order authorizing the Debtors to pay certain prepetition wages, compensation and employee benefits among other obligations in the ordinary course of business (the “First Day Wage Order”);

WHEREAS, on August 14, 2006, ALPA filed proof of claim number 9311 (“Claim No. 9311”) against NWA in an unliquidated amount, for not less than

<sup>1</sup> Capitalized terms used but not defined herein shall have the meaning ascribed to them in the Plan.

<sup>2</sup> In addition to NWA, the Reorganized Debtors consist of: Northwest Airlines Corporation (“NWA Corp.”), NWA Fuel Services Corporation, Northwest Aerospace Training Corp., MLT Inc., Compass Airlines, Inc. f/k/a Northwest Airlines Cargo, Inc., NWA Retail Sales Inc., Montana Enterprises, Inc., NW Red Baron LLC, Aircraft Foreign Sales, Inc., NWA Worldclub, Inc. and NWA Aircraft Finance, Inc. The preceding entities, together with Northwest Airlines Holdings Corporation and NWA Inc., were the debtors and debtors in possession (the “Debtors”) in these cases prior to May 31, 2007, the Effective Date of the Debtors’ Plan (as defined herein). On the Effective Date, Northwest Airlines Holdings Corporation merged into NWA Inc. and thereafter, NWA Inc. merged into NWA and went out of existence.

\$921,395,651.35, which asserted among other things, claims for prepetition employee pre-grievances, grievances, wages, benefits and other obligations. A portion of Claim No. 9311, which was unrelated to employee pre-grievances and grievances, was allowed as a General Unsecured Claim in the amount of \$888,000,000, pursuant to the restructured collective bargaining agreement between ALPA and NWA (the "Allowed ALPA Claim"). A remaining portion of Claim No. 9311, in an unliquidated amount, included claims for employee wages and benefits authorized to be paid in the ordinary course under the First Day Wage Order, but excluded employee grievances (the "Prepetition Ordinary Course Obligations"). The final portion of Claim No. 9311 (the "Disputed Claim") is estimated at no less than \$7,581,351.35 and relates to employee pre-grievances and grievances filed prepetition or portions of which sought backpay for the prepetition period, including both discharge pre-grievances and grievances (collectively, the "Prepetition Discharge Grievances"), and non-discharge pre-grievances and grievances (collectively, the "Prepetition Non-Discharge Grievances");

WHEREAS, on August 14, 2006, ALPA filed proof of claim number 9312 ("Claim No. 9312") against NWA Corp., asserting the same claims and damages as those asserted in Claim No. 9311. Subsequently, Claim No. 9312 was expunged as duplicative of Claim No. 9311;

WHEREAS, on February 15, 2007, the Debtors filed their First Amended Joint and Consolidated Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (as amended and supplemented, the "Plan");

WHEREAS, on May 18, 2007, the Bankruptcy Court entered its Findings of Fact, Conclusions of Law, and Order Under 11 U.S.C. § 1129(a) and (b) and Fed. R. Bankr. P. 3020 Confirming Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (the "Confirmation Order") and on May 31, 2007, the Effective Date of the Plan occurred;

WHEREAS, pursuant to section 6.12 of the Plan, no fractional shares of New Common Stock or cash in lieu thereof will be distributed;

WHEREAS, ALPA has asserted that any distribution to an individual pilot on the Disputed Claim would be entitled to treatment as a Convenience Class Claim pursuant to section 4.7 of the Plan ("Convenience Class Treatment");

WHEREAS, pursuant to section 8.2 of the Plan and schedule 8.2 to the Plan, the restructured collective bargaining agreement between ALPA and NWA was assumed;

WHEREAS, the last day to file a claim in the Bankruptcy Case for administrative expenses under sections 330, 503(b), 507(a)(1) and 1114(e) of the Bankruptcy Code was July 30, 2007 (the "Administrative Expense Claim Bar Date");

WHEREAS, pursuant to section V.H.1 of the Debtors' disclosure statement with respect to the Plan, as amended, any claims accruing postpetition under an assumed collective bargaining agreement, whether ordinary course claims or grievances (the

“Postpetition Claims”), will go forward in the ordinary course of business and are not subject to the Administrative Expense Claim Bar Date;

WHEREAS, pursuant to section 8.9 of the Plan, all indemnification obligations of the Debtors in relation to, inter alia, past and current agents, trustees of employee benefit plans, and/or employees, as defined therein, shall not be discharged or impaired by confirmation of the Plan, and shall be deemed and treated as executory contracts assumed by the Debtors pursuant to the Plan and shall continue as obligations of the Reorganized Debtors (the “Indemnification Obligations”);

WHEREAS, on July 30, 2007, ALPA filed a motion pursuant to section 503(b) of the Bankruptcy Code (the “Section 503(b) Motion”) seeking payment of actual, necessary expenses and compensation for professional services in making a substantial contribution in the Bankruptcy Case related to negotiations and litigation regarding NWA’s proposals for modification of the ALPA collective bargaining agreement and NWA’s application to reject the ALPA collective bargaining agreement;

WHEREAS, on July 30, 2007, ALPA filed proof of claim number 12493 (“Claim No. 12493”) against NWA, in the amount of \$1,629,284.79, which asserts the administrative expenses sought in the Section 503(b) Motion;

WHEREAS, on November 28, 2007, the Bankruptcy Court issued an order granting the Section 503(b) Motion and authorizing and directing the Reorganized Debtors to pay ALPA a modified amount of \$1,629,284.79 for the professional fees and expenses sought in the Section 503(b) Motion (the “503(b) Obligation”);

WHEREAS, pursuant to section 7.7 of the Plan, the Debtors and the Reorganized Debtors are authorized to enter into this Settlement Agreement resolving the Disputed Claim and such resolution shall continue to be governed by the Bankruptcy Court’s Order Pursuant To Sections 502, 363 and 105 of the Bankruptcy Code and Rules 3007, 9019 and 2002 of the Bankruptcy Rules Establishing Procedures for (i) Omnibus Objections To Proofs of Claim and (ii) Compromising Disputed Proofs of Claim (the “Claims Resolution Order”);

WHEREAS, the Parties desire to enter into this Settlement Agreement to (i) resolve the Prepetition Non-Discharge Grievances, including but not limited to those pre-grievances and grievances listed and attached to Claim No. 9311 and any and all ALPA prepetition non-discharge pre-grievances and grievances and any damages and/or financial liability NWA has, may have, or will have incurred in connection with any non-discharge grievances filed after the Petition Date to the extent, and only to the extent, such pre-grievances or grievances allege any right to damages for the period prior to the Petition Date (all together, the “Non-Discharge Grievances”) and (ii) establish a basis for the ultimate resolution of the Prepetition Discharge Grievances as provided herein.

NOW, THEREFORE, in accordance with the Claims Resolution Order and in consideration of the foregoing recitals, which are incorporated into this Settlement Agreement, and the covenants and conditions contained herein, and for other good and

valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

1. In full and final satisfaction of the Non-Discharge Grievances, the Disputed Claim is hereby liquidated and fixed (i) as an allowed General Unsecured Claim in the amount of \$4,954,902.06 (the "Allowed General Unsecured Grievance Claim"); and (ii) as an allowed administrative expense claim in the amount of \$1,000,000.00 (the "Allowed Administrative Grievance Claim," ((i) and (ii) together, the "Allowed Non-Discharge Grievance Claim")) and any amounts contained in Claim No. 9311 in excess of the sum of the Allowed Non-Discharge Grievance Claim and the Allowed ALPA Claim are disallowed in their entirety, subject to the provisions of this Settlement Agreement, including but not limited to the provisions in ¶3 and ¶5, infra. The Allowed Non-Discharge Grievance Claim is not subject to reconsideration under section 502 of the Bankruptcy Code or otherwise and is not subject to counterclaim, setoff or recoupment.
2. Claim No. 12493 is deemed satisfied and expunged from the claims register, subject to the provisions of this Settlement Agreement.
3. This Settlement Agreement shall have no effect on the Indemnification Obligations, the Postpetition Claims, the 503(b) Obligation, or any remaining Prepetition Ordinary Course Obligations that have not been paid in full, all of which survive this Settlement Agreement (all together, the "Preserved Claims").
4. All of the Prepetition Non-Discharge Grievances are deemed settled and resolved as provided for in the separate settlement agreements between the Parties, except that any monetary damages or financial remedies relating to such Prepetition Non-Discharge Grievances are deemed settled and resolved as provided herein.
5. ALPA will have the sole authority to determine the manner of distribution of the proceeds from the Allowed Non-Discharge Grievance Claim. Under no circumstances will ALPA be considered an agent of NWA or hold itself out to be an agent of NWA in connection with such distribution(s) and NWA shall have no liability with respect to any claims brought against either ALPA, NWA or any NWA employee regarding any distribution made by or at the direction of ALPA of the proceeds from the Allowed Non-Discharge Grievance Claim.
6. NWA will cause its Distribution Agent to make distributions on account of the Allowed Administrative Grievance Claim to individual pilots in amounts as designated by ALPA, net of all applicable tax withholdings and payroll taxes, within 11 days of the latest to occur of (i) the approval of this Settlement Agreement by a final order of the Bankruptcy Court that is not subject to an appeal or stay or (ii) the date ALPA provides an allocation schedule to NWA. Any reversion provisions of the Plan otherwise applicable will not become effective as to the distributions pursuant to this paragraph for eight months from the date of the distribution pursuant to this paragraph. NWA will cooperate in providing reasonably periodic updates to ALPA concerning individuals whose checks have not been cashed.

7. NWA will cooperate with ALPA in the sale of ALPA's Allowed General Unsecured Grievance Claim in the same general manner as NWA cooperated in the sale of the Allowed ALPA Claim, and NWA shall make a cash distribution of the net proceeds of the claim sale directly to individual pilots as designated by ALPA, net of all applicable income tax withholdings and payroll taxes, within 11 days of the latest to occur of (i) the approval of this Settlement Agreement by a final order of the Bankruptcy Court that is not subject to an appeal or stay or (ii) the date ALPA provides an allocation schedule to NWA. NWA will make a Catch-Up Distribution to any purchaser of the Allowed General Unsecured Grievance Claim on the later of (i) at least 11 days after the approval of this Settlement Agreement by a final order of the Bankruptcy Court that is not subject to an appeal or stay; or (ii) the first business day that is at least 11 days after NWA is notified of the identity of the purchaser. ALPA's financial advisor for this matter will determine the timing of any sale of ALPA's Allowed General Unsecured Claim. Any reversion provisions of the Plan otherwise applicable will not become effective as to the distributions pursuant to this paragraph for eight months from the date of the distribution pursuant to this paragraph. NWA will cooperate in providing reasonably periodic updates to ALPA concerning individuals whose checks have not been cashed.
  
8. If for any reason ALPA is not able to sell its Allowed General Unsecured Grievance Claim and so notifies NWA in writing, NWA will make a Catch-Up Distribution on the Allowed General Unsecured Grievance Claim on the first business day that is the later of (i) at least 11 days after the approval of this Settlement Agreement by a final order of the Bankruptcy Court that is not subject to an appeal or stay; and (ii) the first business day that is at least 11 days after the date ALPA so notifies NWA in writing and provides NWA with a schedule that lists both the individual employees to receive distributions and the allocated amount of the Allowed General Unsecured Grievance Claim for each such employee. In such event, NWA will cause its transfer agent to promptly sell such shares on behalf of those individuals identified by ALPA to receive distributions under this Settlement Agreement, and pay the proceeds of such sale (net of all transaction costs) to such individual employees in accordance with the allocation instructions provided by ALPA, net of all applicable withholding amounts. Subsequent distributions, if any, on account of the Allowed General Unsecured Grievance Claim will be treated similarly, provided that such treatment is feasible in light of the amount of such subsequent distributions, with the Bankruptcy Court to resolve any disputes with respect thereto. Any reversion provisions of the Plan otherwise applicable will not become effective as to the distributions pursuant to this paragraph for eight months from the date of the distribution pursuant to this paragraph. NWA will cooperate in providing reasonably periodic updates to ALPA concerning individuals whose checks have not been cashed.
  
9. The only Prepetition Discharge Grievances that remain unresolved and may be pursued by ALPA are the seven grievances whose resolution is reviewed herein, and the Parties agree that there are no other remaining Prepetition Discharge

Grievances. Both Parties reserve all rights, arguments and defenses as to the merits of the following seven Prepetition Discharge Grievances and any potential remedies except as provided herein. The only potential remedies for the following seven grievances: (i) Terry Cope – NWA 2413-99; (ii) Rodney Mattmiller – NWA 2605-03; (iii) Michael Rysso – NWA 2611-03; (iv) Kenneth Carkeet – NWA 2295-98; (v) James Burke – NWA 2485-99; (vi) Timothy McCourt – NWA 2576-01; and (vii) Stan Granger – NWA 2603-02, are (i) reinstatement and/or (ii) back pay as follows: (a) if within six (6) weeks of the execution of this Settlement Agreement a grievance is submitted for arbitration calendaring the Parties will expedite and provide for an arbitration hearing on said case not later than September 2008, with oral argument in lieu of any briefs, and request a decision within two (2) weeks of completion of the arbitration hearing, with an option for an opinion to be issued thereafter, with any potential back pay limited to a General Unsecured Claim, with NWA reserving shares on account of such potential unsecured claims in the distribution reserve established by the Plan as follows: Cope (\$0); Mattmiller (\$0); Rysso (\$0); Carkeet (\$701,158.80); Burke (\$1,169,084); McCourt (\$472,101); Granger (\$488,088), pending resolution of arbitration; or (b) if a grievance under this paragraph is not submitted to arbitration prior to September 2008, the Reorganized Debtors may only object to any backpay or financial remedy for such grievance before the Bankruptcy Court, including but not limited to on the basis that such grievance has been abandoned. ALPA reserves all rights to respond to such objection(s) on any basis.

10. Except for (i) the Allowed Non-Discharge Grievance Claim; (ii) the Allowed ALPA Claim; (iii) the Preserved Claims; (iv) the resolution of the seven Prepetition Discharge Grievances (as provided herein); (v) the obligations under this Settlement Agreement; (vi) any precedent setting remedies agreed to in separate settlement agreements between the Parties, and (vii) the precedent and any ongoing obligation established by any prior settlement agreement, arbitration award, or court order (except to the extent they involve financial obligations for periods prior to the Petition Date); ALPA hereby releases all of the Debtors and Reorganized Debtors and each of their professionals, insurers and all other persons and entities insured by any policy of insurance issued to or at the request of any Debtor or Reorganized Debtor, and each of their respective officers, directors, employees, and agents and their respective executors, administrators, successors and assigns from any and all financial obligations, financial claims and financial demands of any kind, at law or in equity, whether liquidated, unliquidated, contingent, estimated, matured or unmatured, arising out of, by reason of, or relating in any way to the Non-Discharge Grievances and/or any other obligations, claims, interests or debts of any kind that ALPA has or had against any Debtor or Reorganized Debtor from the beginning of time through and including the date of this Settlement Agreement, arising out of, or by reason of, claims arising prior to September 14, 2005.
11. If in connection with the consensual resolution of another union's grievance claims the Reorganized Debtors agree to Convenience Class Treatment for any grievances asserted by such other union, where the total Convenience Class amount to be paid

on account of such union's grievances exceeds \$50,000, then the Parties will confer to determine what, if anything, need be done to ensure that the individual pilots receiving distributions in connection with this Settlement Agreement are treated economically equitably with the individuals in the other union who are receiving Convenience Class treatment. The Parties may effectuate any consensual agreement under this paragraph without further order of the Bankruptcy Court. The Bankruptcy Court will resolve any disputes with respect to this paragraph.

12. This Settlement Agreement contains the entire agreement by and between the Parties with respect to monetary damages and financial remedies in relation to the Non-Discharge Grievances and the manner of resolution of the Prepetition Discharge Grievances, and all prior understandings or agreements, if any, in relation to monetary damages and financial remedies for the Non-Discharge Grievances and the manner of resolution of the Prepetition Discharge Grievances are merged into this Settlement Agreement.
13. This Settlement Agreement shall be binding upon (i) all successors and assigns of each of the Parties to the Settlement Agreement and (ii) any transferee of Claim No. 9311 and/or Claim No. 12493.
14. Neither this Settlement Agreement, nor the settlement provided for herein, nor any statement made, action or position taken, or document prepared or executed in connection with the negotiation, execution or implementation of this Settlement Agreement and the settlement provided for herein shall be deemed to be, or construed as, an admission by any Party hereto of any liability, wrongdoing, act or matter or that any claim or defense has or lacks merit.
15. ALPA represents and warrants that (i) ALPA is the owner of the Disputed Claim, (ii) ALPA has not transferred the Disputed Claim and will not transfer the Disputed Claim unless the transfer is subject to this Settlement Agreement, and (iii) ALPA has full authority to settle the pre-grievances and grievances settled by this Settlement Agreement and to enter into this Settlement Agreement. Each Party represents, warrants and covenants to the other that: (i) it is duly organized, validly existing and in good standing under the laws of its incorporation or the laws relating to its organizational status; (ii) it has the requisite corporate or organizational power and authority to enter into and perform this Settlement Agreement and any other agreements and instruments executed and delivered in connection herewith, provided that, with respect to NWA, the foregoing is subject to compliance with applicable Bankruptcy Court orders, and (iii) this Settlement Agreement has been authorized by all necessary corporate or organizational action.
16. Each of the Parties agrees that any dispute with respect to this Settlement Agreement shall be resolved by the Bankruptcy Court or such other court as has jurisdiction of the Bankruptcy Case. This Settlement Agreement shall be construed and interpreted in accordance with the laws of the State of New York, without regard to the choice of law principles of the State of New York. For

purposes of construing this Settlement Agreement, none of the Parties shall be deemed to have been the drafter of the Settlement Agreement.

17. Facsimile copies of signatures on this Settlement Agreement are acceptable, and a facsimile copy of a signature on this Settlement Agreement is deemed an original.
18. This Settlement Agreement may only be changed, modified or otherwise altered in a writing executed by all the Parties to this Settlement Agreement. Oral modifications are not permitted.
19. This Settlement Agreement may be executed in counterparts, each of which is deemed an original, but when taken together constitute one and the same document.
20. This Settlement Agreement shall be binding on the Parties upon the approval of the Bankruptcy Court, which will be expeditiously sought by the Debtor (including, if the Debtor deems it appropriate, by stipulation signed by the Bankruptcy Court), and thereafter shall be in full force and effect, upon satisfaction of the requirements of the Claims Resolution Order.

IN WITNESS WHEREOF and in agreement herewith, the Parties have executed and delivered this Settlement Agreement as of the date first set forth above.

NORTHWEST AIRLINES, INC.

AIR LINE PILOTS ASSOCIATION,  
INTERNATIONAL

By: /s/ David R. Driscoll

By: /s/ Dave Stevens

Name: David R. Driscoll

Name: Dave Stevens

Title: Senior Labor Counsel -Flight

Title: NWA MEC CH

SO ORDERED:

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UNITED STATES BANKRUPTCY JUDGE